

Vol 4 Issue 8 Feb 2015

ISSN No :2231-5063

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International Multidisciplinary  
Research Journal

Golden Research  
Thoughts

Chief Editor  
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**RNI MAHMUL/2011/38595**

**ISSN No.2231-5063**

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## CREDITING OF SERVICE INDUSTRY IN DEVELOPING COUNTRIES: UZBEKISTAN'S EXPERIENCE

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**Abstract:**-At present many developing countries have been characterized as emerging economies which are rapidly growing. Such growth has been achieved on the basis of crediting of industries, including service industry. Crediting of service industry has a positive impact on both development of domestic market and increasing of foreign direct investments to national economy. Uzbekistan is one of the developing countries where crediting of service industry has been developed under the direct governmental support. Uzbekistan's experience on this issue is one of the best in Central Asian Region, and rapid growth of many SMEs delivering various services are the definite results of crediting policy in service industry.

**Keywords:** Service industry, crediting system, banking, insurance.

### INTRODUCTION

SME are critical for the economic and social development of emerging markets. They play a major role in creating jobs and generating income for low income people; they foster economic growth, social stability, and contribute to the development of a dynamic private sector. As such, access to financial services is vital in developing a vibrant SME sector in any economy. At present, in many emerging markets, including Uzbekistan, access to financial services for SMEs is rapidly being improved.

Uzbekistan as one of the Central Asian rapidly growing countries has regularly been increasing financial services system since becoming independent (1991). At present, this Central Asian country is doing its best to facilitate export policy in order to enter global market with high value added and competitive products. As the best and single way to reach such a goal, has been considered to attract more foreign direct investments to national economy. Obviously, development of modern service industry plays crucial role for increasing presence of FDI in national economy.

Uzbekistan is tending to develop and improve service industry which meets with the requirements of the world market and, consequently, foreign direct investors, by largely involving SME. But, SME is a sector demanding financial support instruments and tools, best and most popular of which is crediting. Nowadays, crediting of service industry in Uzbekistan is regulated by new rules which are referred to encourage service entrepreneurship in urban and rural areas of the country.

### (I) CONTEMPORARY TRENDS OF SERVICE INDUSTRY GROWTH

Over the recent decades many advanced countries have experiences continuous increase of services sector share in their economies. Studies demonstrate that various factors contribute to the change of economy structure from "industry-dominated to a services-dominated employment structure". Last decades made clear growing national strategies in many developing economies.

Economic literature suggests different theories explaining growth of employment in services sector. According to Baumol, keeping relative productivity differential between industry and service sectors determines

shift of larger portion of increasing workforce to service activities. Fuchs includes that a considerable proportion of the increase in service sector is conditioned by increase of labor market participation. The study of service sector is however still underexplored enough. "Despite the recent advances, services are still inadequately studied by researchers, underestimated by politicians and insufficiently exploited by many entrepreneurs. The traditional perception of services as unproductive still persists in the common mind of the present society".

What is clear that service sector development contributed overall economic development and sustain employment and economic growth. This sector covers broad range of services-banking, insurance, construction, telecommunications, tourism, transportation, etc.

Considering this, the rapid development of the services sector of Uzbekistan was determined by Government as one of the major priorities and important objectives of economic reform in recent years; the services sector was accepted as an important factor in promoting employment, income growth and the improved livelihoods of the population.

A special program has been adopted for taking practical steps in this dimension, creating a number of incentives and preferences in the service sector. The major in the development of service sector in Uzbekistan was the service industry development program for 2006-2010. This program was focused on creating and sustaining conditions for further intensive development of service industry, increase of this sector share in economy, employment and population income increase as well as domestic consumer market saturation with various modern quality services. During the period the legal institutions were developed to create modern, highly effective and competitive service industry in our country.

As analysis of service industry status and development in our country in comparison with the developed foreign countries shows the difference between levels of volumes of rendered services and types of services is small and trends to be developed. This situation can be seen in growth rates of paid services being rendered to the population in the Republic of Uzbekistan. As a result of consolidated measures, the service industry share in gross domestic product increased from 42.5% in 2007 to 49% in 2010. "Producing services tends to require relatively less natural capital and more human capital than producing agricultural or industrial goods. As a result demand has grown for more educated workers, prompting countries to invest more in education – an overall benefit to their people" (Soubbotina, 2000). Starting advantage to promote fast development of services sector was the availability of good level of basic education and workforce. Moreover the Government steadily has developing reforms in education sector that gave opportunity to further strengthening of structure and quality of education. National program of training specialists laid the foundation for reformation of the educational system in Uzbekistan; it conditioned formation of a new generation of experts with high professional and general culture distinguished for their creative and social activity.

The survey study of regions in Uzbekistan has shown that activities like transport, trade and catering services are developing very fast in all regions. However, other services, important for innovative economic growth and competitiveness of national economy, also should take a dynamic path development.

Rural areas stay far behind in development of service activities and this remains of the main challenges in boosting the overall service sector in the country. There are substantial differences in the level and quality of public services across regions of the country. It should be noted that the share of services provided to rural populations, despite growth, is still at a fairly low level. Therefore, one of the priority areas of the service sector growth policy is a significant improvement of service of the rural population. Government seeks to provide favorable environment using special tax and credit incentives to entrepreneurship operating in rural areas.

Another important challenge is keeping disproportion between demand and supply in qualified and innovative workforce needed for advanced service activities like telecommunications, engineering, insurance. International development experience shows that "...service industries have fallen behind in systematically nurturing human resources for the industries (through, for instance, secondary and tertiary education) and in developing curriculums for that purpose". From this approach, the improving of links among professional and higher education, in one side, and service businesses is considerably needed.

As in many other countries, in Uzbekistan the service-sector comprises wide range of activities. Therefore, the strategy of accelerated development of service sector requires adequate prioritizing and targeting policy. The government should further make improvements in this area. Grouping sector branches that are most income and growth generating, that while their growth could deliver synergy effect on other growth areas of overall economy. "The results show that the contribution of communications, business services, and financial services has in fact risen to the point where it contributes more to growth of GDP than manufacturing".

Information technologies open new opportunities for new service activities. Faster developing of communication and information services require further improving of local public management, decreasing bureaucracy and regulation costs for small and medium businesses.

Undoubtedly, continuous reforms made during last two decades provided starting shift in developing service branches such as banking, insurance, tourism, IT, etc. However, nowadays the focus should be made on finer tuning and coordination of intersectoral measures. Understanding linkages among different service sector segments becomes crucial for policy planning and coordination.

Modern market has increased innovation factor to keep balances growth and development for a nation. Then, the education and science institutions should stimulate and get deeper involved into innovative teaching and research environment.

Main objectives regarding renewal of priorities and targets in service sector of Uzbekistan are as follows:

- further improvement of legislation facilitating modern service development, competitive environment in service industry;
- service industry development on base of new service classification worked out in accordance with international practice and service accounting methodology perfection;
- priority development and strengthening of material-technical base of service enterprises in rural area, and first of all, in the sphere of agricultural production provision, water supply, machinery parks, veterinary services, residential housing and repair, public facilities;
- development of traditional and new prospective sectors of service industry including banking, financial, insurance, legal, consulting, leasing, etc.;
- widening tourism, formation of tourist services network all over the country;
- increasing competitiveness level of national enterprises services in international market and export services increase (at republican and regional level);
- training and retraining personnel for service industry (at republican and regional level).

Level of service industry development in the country is very important for increase of material and cultural level and population living standard. Service industry development, will allow save material, labor and financial resources, facilitate people spare time increase, improve creative sense of their work, reduce irrational expenses during spare time, and make life more comfortable for all social population layers.

For service industry of the Republic of Uzbekistan under market conditions the strategic objective is a provision of stable development of this branch without decrease of level of quality of services rendered to population. Creation of new service business entities and keeping the existing ones is very important because the competitive environment will be created at the service market.

To create affective market economy and well-deserved inclusion in the world economy, the country needs to have large-scale service industry with developed transport, communication, trade, finance-credit and insurance sector, complex of business services, education and public health sphere meeting modern requirements.

## (II) CREDITING SYSTEM IN SERVICE INDUSTRY

In the past 5 years, the service sector in Uzbekistan has emerged as a key source of value-added and new jobs. It grew by 13.3% a year between 2007 and 2011, well above the 8.7% rate of overall economic growth. Strong growth in services was underpinned by macroeconomic stability, anchored on trade and fiscal surpluses.

Government support has also been instrumental. From 2008 to 2011, the government provided incentives for commercial banks to increase lending to small and medium-sized enterprises, including those in the service sector. In addition, the government provided soft loans to newly established service companies in rural areas through a special microcredit bank that from 2007 to 2010 extended loans amounting to \$14 million for the purchase of capital goods. The government has also granted exemptions on profit and property taxes until 2014 to small businesses in finance and banking, to insurance firms, and to health and recreational centers.

Over the past 5 years, trade, financial services, and telecommunications were the main drivers of growth in the service sector, posting a combined 24% growth in 2011, supported mainly by strong domestic demand and domestic lending. In telecommunications, increasing foreign investment due to low penetration rates was the main growth factor. Between 2008 and 2011, the share of these three in service sector output increased from 31.2% to 35.9%.

Despite the impressive growth in services, a number of barriers and challenges to the sector's sustained growth remain. According to the most recent enterprise surveys, the most important regulatory barriers are (i) informal payments; (ii) excessive bureaucratic costs; (iii) tax burden; and (iv) foreign currency restrictions. The current foreign exchange restrictions in particular render cross border trade in services virtually non-existent. Lack of information on foreign markets, lack of internationalization, and tight government control of the cross-border trade in services are often cited by entrepreneurs as the main limiting factors for entry into cross border trade. Supporting this conclusion are the country rankings in the World Bank's 2012 Doing Business report. Uzbekistan is ranked 166 out of 183 economies in the ease of doing business category and lowest in the trading across borders category.

Simplifying and increasing the transparency of legal and regulatory policies will encourage increased private sector participation in the service sector. In addition, increased access to finance and foreign exchange would unleash underutilized potential in the cross border trade in services.

In the domestic service sector, tax exemptions and privileges should be extended not only to small business but to other groups as well. As small and medium-sized enterprises accounted for only 46% of service sector output in 2011, supporting more market participants with greater absorptive capacities is also important for sustained service

sector growth.

In financial services, competition between private banks and state banks should be promoted to enable access to credit at lower cost for private businesses, particularly micro loans for individual entrepreneurs. Greater efforts are needed in improving quality of services provided by state-owned enterprises, especially the rail and air transportation monopolies. This should be done through greater management accountability and performance orientation.

With its rich history and culture, Uzbekistan has enormous potential to develop tourism. Even though the country leads the region in the number of UNESCO-designated world heritage sites (there are four of them), tourism accounts for only 0.2% of the service sector output and has seen little growth over the past 5 years. Although tourism is almost fully private, it needs government support to realize its potential, including a comprehensive state-led development strategy that combines improved tourism infrastructure with incentive for private sector operators.

#### CONCLUSION:

Over the past decade, commercial banks have played a critical role in helping SME worldwide gain greater access to financing. Commercial banks work to increase access of SMEs to financial services in developing countries by providing funding for equity, loans, and mezzanine finance to financial intermediaries focusing on SME financing, and by building capacity of financial intermediaries and raising awareness on best SME banking practice. Commercial banks in Uzbekistan has been playing valuable role to facilitate crediting of service industry mostly affiliated with SMEs. At present time, state policy on increasing of entrepreneurial activities covers almost all entities which are involved in development of SMEs. Hereby, crediting system by commercial banks plays crucial role for developing and improving service industry. Thus, in result of credit system modernization, Uzbekistan has become one of best countries of having service entrepreneurship among Central Asian states.

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