Enhancing the Role of Bank Loans in Service Provision Development

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Abstract: The article discribes the importance of development of the service sector, which is a leading sector of the economy, to increase employment, reduce poverty in the country, improve the socio-economic situation in the regions and the necessary economic measures to expand the market of services. Also, The issues of financing service projects on favorable terms and efficient use of resources allocated by the government were also considered. In addition, the analysis of statistical data related to the sector provides suggestions and conclusions on more effective organization of financing the sector through bank loans.

Keywords: credit, service, service industry, complex service, transh, global trend, gross domestic production, gross value added , lockdown, PMI service index.

In recent years, consistent measures have been implemented in our country to further increase the role of the service sector in the economy, to further support the service market through bank loans, and to increase the employment of the population in the sector.

Service as an economic category is not directly related to production and represents a set of relationships related to the satisfaction of material and immaterial needs of consumers by entities engaged in service activities, for a certain benefit or for free, and is considered one of the priority sectors of the economy.

The economic importance of service provision is explained by the fact that it provides employment to the population, increases the population's income, improves the standard of living, and does not require a lot of money and time to start activities in the field. Service provision is an integral part of community life, and the scope of the sector's activities is directly related to the population and living conditions, the location of the area, the level of economic well-being and other factors. As the society develops, the demand for services grows, that is, the demand of consumers changes depending on new types of services and their quality. This requires the development of the services market in society and the creation of necessary conditions for it.

According to the analyzes of the International Labor Organization, a 1% increase in the service industry reduces the number of poor people by 1.5%. Also, analysis shows that 70-80 percent of the employed population of developed countries, such as the USA, Great Britain, Canada, France, Germany, Italy and Japan, work in the service sector.

Therefore, necessary practical work is being done in order to develop services in our country, use existing opportunities in the field of services in the regions, create new jobs, provide quality services to the population, and finance the sector through bank loans. In particular, the Decision No. PQ-4752 of the President of the Republic of Uzbekistan dated June 16, 2020 "On measures to support the service sector" has gained great importance in the development of services in the country. According to this Decision, in order to ensure the rapid growth of the service sector in the regions, to further support entrepreneurship in this direction and to create new jobs for the population, a credit line equivalent to 100 million US dollars was allocated from the Recovery and Development Fund to commercial banks for the development of the service sector.

According to this Decision, loans are allocated under the following conditions:

- the credit line is granted to commercial banks for a period of 7 years, including a 3-year grace period, with an interest rate 4 percent lower than the main rate of the Central Bank of the Republic of Uzbekistan;
- loans by commercial banks to business entities in the service sector, especially household, educational, medical,
- up to 1 billion soums are allocated at the basic rate of the Central Bank for the establishment and equipment of enterprises operating in information and communication and other high-demand sectors (except for business entities in the financial and trade sectors);
- at least 20 percent of the credit line provided for in this Resolution will be allocated to women and young entrepreneurs;
- 67 activities (jobs and services) that self-employed persons can engage in according to the decision of the President of the Republic of Uzbekistan dated June 8, 2020 "On Measures to Simplify State Regulation of Entrepreneurial Activities and Self-Employment" No. PQ-4742 loans are allocated within the framework of the program "Each family is an entrepreneur".

This, in turn, plays an important role in the further development of services in the regions, the expansion of new types of services and the creation of new jobs.

In addition, this year, the Decision of the President of the Republic of Uzbekistan No. PQ-5113 "On measures for the rapid development of the service sector" has made its decision to increase the share of the service sector in the economy of our country, to fully utilize the available opportunities in the field of local services, to expand the types of services and to improve their quality. solving pending problems, further supporting business entities in this direction, and encouraging their ideas and initiatives.

According to this decision, in 2021 - 2023, the following are the main directions of development of the service sector in the Republic of Uzbekistan:

- turning the service sector into an important driver in ensuring economic growth and doubling the volume of services by 2023;
- providing ready-made business plans and projects to the population, organizing the provision of "complex services" that cover the stages from vocational training to starting an entrepreneurial activity;
- to increase the effectiveness of the activities of state bodies and organizations in this regard and to strengthen the responsibility of officials by introducing a system for assessing the development of the service sector in the republic;
- to eliminate excessive bureaucratic obstacles in the field of services, to expand the types of services based on the specific characteristics of each region, to expand the coverage of transport, financial, as well as banking, tourism and trade services in regions, especially in rural areas;
- to increase the capacity of existing educational and health services in all regions of the republic, to improve their quality, and to create favorable economic and infrastructural conditions for attracting the private sector.

In order to finance these directions, a credit line equivalent to 300 million US dollars will be opened from the Reconstruction and Development Fund to commercial banks for the development of the service sector, and the funds of the credit line in the amount of 150 million US dollars (tranche 1) will be allocated by July 1, 2021. The 2nd tranche of the credit line will be allocated according to the distribution approved by the Cabinet of Ministers based on the proposal of the Ministry of Economic Development and Poverty Alleviation based on the results of the evaluation of the effectiveness of the use of the 1st tranche. Credit line funds are provided to commercial banks for a period of 7 years, including a 3-year grace period, with an interest rate 4 percentage points lower than the main rate of the Central Bank. Loans by commercial banks for the implementation of projects in the field of services (with the exception of projects on the development of the financial sector and replenishment of working capital in the field of services) are allocated for a period of up to 5 years at the main rate of the Central Bank in the amount of up to 2 billion soums for one project.

At the same time, for the purpose of refinancing to JSC "Uzmilliybank" commercial banks, until the end of 2021, the funds of international financial institutions in the amount of 200 million US dollars will be attracted for the projects of establishing tourism, transport, medical, educational facilities and large shopping complexes in 28 large and medium-sized cities. defined. In addition, a project-analytical center will be established at Uzmilliybank JSC to provide project initiators with ready-made sample business projects, to provide them with "complex services" from vocational training to starting their own business. This, in turn, is of great importance in increasing the financial literacy of the population, in their initial understanding of business and starting it, in the self-employment of the population, in the development of the services market using the available opportunities in the regions. Also, determining the effectiveness of the use of resources allocated according to this Decision and introducing the rating of the development of the service sector are considered important in determining the priority directions of further development of the services market at the expense of credit funds in our country, as well as the problems and shortcomings in this direction. This, in turn, will increase the efficiency of the use of loans in the sector, as well as prevent the emergence of problem loans. In addition, this system serves as the main tool for financing new services in the regions, improving the quality of services, and financing necessary but underdeveloped services.

It is known that in the economy of developing countries, the industrial or agricultural sector takes a leading place, and the main share of the gross domestic product is created in these sectors. In developed countries, the service network takes the main place and makes up 70-80 percent of the gross domestic product. The state of the services market in the country was determined by the share of services in the GDP

The service market is one of the priority sectors that are currently developing, with a share of more than 35 percent in the economy of our country. Analytical data show that the gross value added created in the service sector has increased in line with the increase in the GDP. In particular, in 2020, the gross added value created in the provision of services amounted to 194.4 trillion soums, which was 36.3% of the gross domestic product.

The pandemic that began in the world economy in 2020 had a serious impact on the service market as well as on all sectors of the economy. In particular, according to the end of 2020, the gross added value in the sector decreased by 0.1% compared to the previous year (trade services by 1.7%, information and communication services by 15.7%, due to a 6.7% increase in transportation and storage costs and a 14.1% decrease in accommodation and food services) as a result of timely measures taken by our state, there was no sharp decline in the sector or complete reduction of sectors. In particular, in 2020, within the framework of entrepreneurship development programs, preferential credit resources of 1 trillion soums were allocated to the service sector. In addition, 35 trillion soums of aid was provided to support this sector by providing 24 types of tax breaks, subsidies and other preferences. At the same time, during the pandemic, 105,000 entrepreneurs in economic sectors were extended the repayment period of 21.5 trillion soums, and more than 25,000 entrepreneurs were given financial assistance of 8.4 trillion soums from the Entrepreneurship Development Fund. Also, in 2020, 500,000 citizens who were self-employed in the service industry were officially registered as a result of wide benefits. However, during the pandemic, there was a "lockdown" in the global service market, which caused the temporary closure of service networks, the termination of service organizations and the reduction of industry employees. This, in turn, led to a sharp decline in the country's service market.

During the pandemic, the most affected sector in the world services market is tourism and hotel business, air and land transport, and catering. Analysis shows that the global PMI service index (Purchasing Managers Index), which reflects economic activity in the world services market, was formed in April-May 2020 even lower than the lowest level during the Global Financial Crisis of 2008. This index is based on a survey and is an indicator of business activity in the service sector and is developed separately for the manufacturing and service sectors. During the pandemic, service industries without financial support have suffered serious losses and come to the brink of economic crisis, which has led to an increase in unemployment in the industry.

On the other hand, the pandemic caused further development of some service networks. In particular, in the period when the quarantine was introduced in our country, it led to the development of such services as remote online banking, online trade and delivery, distance education, self-employment in the service sector, and freelancing, and this also increased the level of digitalization of the economy.

Also, the high share of services in the gross domestic product in developed and developing countries is directly related to the size of the gross domestic product per capita. (Figure 3)

Analytical figures show that the increase in GDP per capita is associated with the development of the services market in the country. For example, in the countries of Azerbaijan, Belarus, Turkey, Kazakhstan, Russia, and China, the increase in GDP per capita over 4,000 US dollars, in turn, leads to a corresponding increase in the share of services in GDP. In particular, in our country in 2020, GDP per capita was 1,685.5 thousand US dollars, and the share of the services market in GDP was 36.3 percent. From this, it can be concluded that the increase in the income of the population and the high level of economic well-being will be the main factor for the consumers to use more services and the need for new types of services.

The results of the analysis show a significant increase of this indicator in our country over the years, that is, in 2016, it was 3,047 thousand soums, and in 2020, this indicator increased proportionally, increasing by 2.1 times compared to 2016, to 6,426,1 thousand soums. In particular, in 2020, the highest indicator of the volume of services per capita, i.e. 30,234,400 soums per capita, was recorded in the city of Tashkent. This shows the impact of the level of socio-economic development of the region on the services market. In particular, in connection with the implementation of the Decision No. PQ-5113 of the President of the Republic of Uzbekistan "On measures for the rapid development of the service sector", more than 415 thousand new jobs will be created in the city of Tashkent itself.

The main factor to consider when starting an activity in the service sector is to determine the demand for this service and estimate the life expectancy of the activity. Lack of demand for a service leads to downtime and untimely repayment of loans, while the longevity of the activity ensures that the investment in the service sector will be profitable over a long period of time. It also encourages financing of these industries by banks. In particular, in 2020, more than 70 percent of the value created in the provision of services corresponded to trade, transport and financial services, and a high weight of allocated loans was also concentrated in these directions. In particular, 100 mln. More than 1 trillion soums of concessional loans allocated to 3,160 projects at the expense of resources in the amount of US dollars are car servicing (138 billion soums for 484 projects), provision of medical services to the population (111 billion soums for 217 projects), transport services development (72 billion soums for 127 projects), establishment of hair salons and beauty salons (51 billion soums for 247 projects).

In addition, the preferential loans provided within the framework of the family business development program also contribute to the expansion of the service market.

In 2020, a total of 6.1 trillion was allocated to 215 thousand projects within the framework of family business development programs. 5 percent of preferential credit funds exceeding 324 billion soums correspond to the service network. Practical work on the further expansion of the service market will serve to further increase this indicator.

Also, the level of development of service delivery depends on the economic condition of these regions, and as of August 1, 2021, 64 percent of the total credit balance allocated to the sector, i.e. 37.6 trillion soums, belongs to the city of Tashkent. In other regions, this indicator is 1-4 percent, and it is necessary to further improve the socio-economic status of these regions and create a favorable environment for the service market.

Currently, service projects are financed by commercial banks from their own funds or financial resources allocated within the framework of programs. This, in turn, is important for the further development of the services market in our country, as well as for improving the quality of services in the regions and expanding the scope of activities. It is known that in recent years in our country, practical work related to the development of production in the regions, the increase of industrial enterprises, and the implementation of large investment projects have been carried out. At the same time, the attention to increasing the popularity of the service market, which is an important sector of the economy, has intensified in recent years. Service activities, unlike production activities, do not require large amounts of funds to purchase expensive equipment, production buildings, and transport vehicles, and it is the main industry in reducing poverty, providing employment, and increasing the income of the population in the country. We can see from foreign experiences that the development of the service industry has gone through certain stages. He demanded the creation of certain conditions for the development of the industry.

First, the main aspect of service delivery is the profitability of the industry. From the above analysis, we can see that the value created in the industry and the high share of allocated loans correspond to the contribution of branches of the industry with high profitability. Therefore, ensuring high profitability in all branches of service, in turn, serves as the main tool for expanding the industry.

Second, when does the consumer use the service? First of all, if the consumer has a need for services, i.e. medical, food, household, communication and other services that cannot be delayed, secondly, after the primary need is satisfied, he can use additional services, i.e. tourism and hotel, sports, educational services, depending on his income. This requires the introduction of new types of services that are necessary for the population to develop services.

Thirdly, the consumer has always chosen the best quality service in the service market. For this purpose, the organization of non-traditional services using new innovative technologies and systems will increase the popularity of services.

Fourthly, market development necessarily requires a competitive environment. Therefore, it is necessary to implement measures related to the development of the sector in order to create a competitive environment in the services market.

Based on the above, we will mention the following regarding the development of the market of services through bank loans:

- within the framework of the programs, to encourage crediting of service industries that are promising and have a short duration of activity and allow to create additional jobs;
- introduction of the evaluation of the effectiveness of the use of the resources provided within the framework of the programs in the respective banks;
- according to the results of the rating of the development of the service industry, determining the service industries that should be supported through bank credit;
- stimulation of financing of non-traditional and highly profitable types of services using new innovative technologies and systems in the field;

These directions, in turn, can serve as a means to increase the efficiency of the use of credit resources in the development of the services market through bank loans, as well as to identify service industries with low profitability and support them through bank loans, as well as to introduce new systems and types of quality services in the services market..

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