

Article

# Formation of an Institutional Mechanism for the Effective Development of the Service Sector in the Context of the Digital Economy

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**Abstract:** Abstract This paper specifically focusses on the institutional mechanism that facilitates the efficient growth of the service sector within the framework of the digital economy. In order to make effective management decisions regarding the development of the service sector in the context of the digital economy of our country, it is crucial to use the territorial approach method to assess its development. This paper presents a proposal and recommendations for implementing complex approaches to the development of the service sector in the environments of the digital economy in the regions

Keywords: Information technology, services, economic activities, institutional mechanisms, e-Government, market services.

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## Introduction

The global research on the growth and effectiveness of the service sector in the digital economy focusses on establishing a link between the services sector and the well-being of the population and the progress of regions. This is achieved by ensuring the agility of the sector through the digitisation of service processes, hence enhancing the quality of services. Scientific study in areas such as broadening the geographical scope of services, diversifying the range of services in the digital economy, and giving priority to the industry is more crucial in the framework of current research.

Significant emphasis is placed on enhancing the organisational and economic processes involved in the growth of the service sector within the digital economy of modern Uzbekistan. The new Uzbekistan development plan for 2022-2026 outlines the objectives of tripling the service capacity within the next 5 years by localising and expanding services, and generating a total of 3.5 million new employment opportunities in this sector.<sup>1</sup> Hence, it is recommended to intensify the study in areas such as broadening the range of services offered in the Republic using digital and innovative technologies, validating the criteria for organising "digital services," enhancing the system of indicators for evaluating service consumer behaviour, creating specialised clusters, and formulating forecast parameters for service areas.

The advancement of the service sector holds enormous socio-economic importance and significantly contributes to the enhancement of economic growth, employment, and the overall quality of life for the population. The existing legislation in Uzbekistan stipulates the specific directions of development and official assistance for the service industry. Nevertheless, the existing state support mechanism for the growth of this region is inadequate. By 2022, its contribution to GDP amounted to 42.2%.

<sup>1</sup> Decree of the president of the Republic of Uzbekistan "on the development strategy of new Uzbekistan for 2022-2026" dated January 28, 2022 PF-60- [www.lex.uz](http://www.lex.uz).

The services industry also constitutes a significant portion of the workforce in economically advanced nations. Currently, the services sector employs 38% of the whole workforce in Uzbekistan's economy.<sup>2</sup> Evidently, the significance of the service sector in our country's economy is still inadequate. Such observation highlights the necessity of establishing a proficient institutional framework to facilitate the growth of the industry.

In the vocabulary of Russian scientist V.I. Dal, the notion of service is defined as: assistance, privilege, support, indulgence, satisfaction of desire. Nevertheless, the interpretations provided in these dictionaries fail to completely convey the fundamental nature of the notion of "Service".

Scientist S.I. from Russia. The Ojegov edit of the grammatical Dictionary of the Russian language proposed that "services" ought to be understood as "hate, an act of profit, assistance to others."

Prominent American economist F.Kotler further emphasised in his book "Fundamentals of Marketing" that services are a means to fulfil one's own self-interest in the process of selling an object, with the aim of obtaining a specific benefit. He posited that in the realm of production, services may or may not rely on tangible commodities. Shiray W.I: "Service is the work performed by an individual or a whole society, when considered independently, to fulfil a specific need, resulting in a tangible and intended benefit."

#### **Methodology of research.**

This research study employs several methodologies including the logical approach of cognitive theory, induction and deduction, comparative and factor analysis, time and space analysis, comparison, and mono research methodology. This research endeavour employed several methodologies including the logical approach of cognitive theory, induction and deduction, comparative and factor analysis, time and space analysis, comparison, and monographic visualisation.

#### **Analysis and findings.**

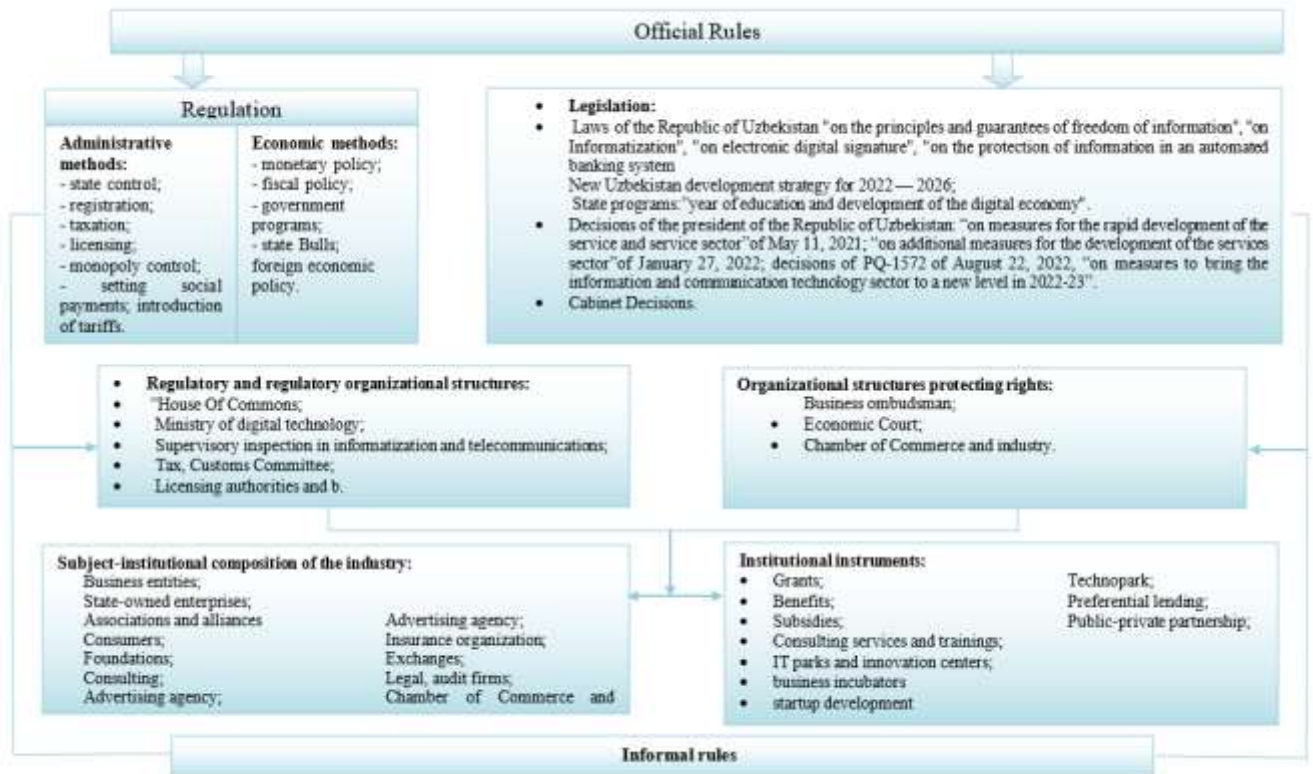
The institutional framework for the advancement of the service industry comprises a collection of institutions, legislation, principles, and criteria essential for guaranteeing the long-lasting and efficient growth of the sector. Each of these functions has a distinct purpose in guaranteeing the long-term and effective growth of the sector.

Given institutional theoretical techniques, it is feasible to ascertain the institutional mechanism underlying the growth of the service sector. In the context of the service sector, the institutional mechanism refers to the collective methods of support and regulation that facilitate the efficient operation of this sector, based on both its legal and informal regulations. The coverage was determined based on the graphic representation employed.

#### **Evaluation and findings**

The institutional framework for the advancement of the service industry comprises a collection of institutions, legislation, principles, and criteria essential for guaranteeing the long-lasting and efficient growth of the sector. Each of these functions has a distinct purpose in guaranteeing the long-term and effective growth of the sector. Given institutional theoretical techniques, it is feasible to ascertain the institutional mechanism underlying the growth of the service sector. In the context of the service sector, the institutional mechanism refers to the collective methods of support and regulation that facilitate the efficient operation of this sector, based on both its legal and informal regulations. According to its wording, it encompasses Constituting, administrative, economic, and legal standards, regulatory, controlling, rights-protecting, and supporting frameworks (Figure 1).

<sup>2</sup>O'zbekiston Respublikasi Statistika Agentligi ma'lumotlari asosida muallif hisob-kitobi



Source: developed by the author

**Figure 1 illustrates the institutional mechanism crucial for the efficient growth of the service sector within the framework of the digital economy.**

The components of this system (Figure 1) operationalise the concept of collaboration, interconnection, and mutual influence, enabling the formulation and execution of precise parameters and strategies for the advancement of the service industry. Therefore, the aims and objectives of the efficient growth of the service industry and the fundamental principles of the institutional framework for the development of the services sector in the Republic of Uzbekistan in 2021-2023 are derived from the following. Within<sup>3</sup> this:

1. The priority areas for the growth of the services sector are determined based on the population size and density of the territories of the Republic, geographical location, specialisation, and level of infrastructure availability. All districts and cities have undergone comprehensive renovations in accordance with urban planning initiatives in 2021-2022. This includes modernising external lighting, irrigation, and drainage systems, constructing pedestrian and bicycle lanes, and transforming crowded streets into commercial, service, beach, and entertainment areas. These efforts have established the essential infrastructure to progressively enhance the proportion of digital services. In districts with a population of less than 300,000, the industry and services sector is developing at a high pace in districts with a population of less than 300,000, in districts with a high growth rate — priority to the establishment of trade, hotel, catering and logistics services, as well as maintenance and entertainment facilities, development of tourism services based on high — altitude, mountain, mountain, recreational tourism potential districts-highways, electricity and drinking water supply and other infrastructure improvements and ready-made projects, development of international highways and railways in the border regions and the territory of — specialization in trade, tourism, logistics and roadside services, development of modern agro-tourism in districts with high agricultural share, medium and large cities and districts with a population of more than 300 thousand-development of modern market services, education, medicine, art, tourism, hotel and catering and transport services, as well as in Tashkent, Samarkand and Namangan — the tasks are set to increase high-income services, especially large commercial and entertainment service facilities, to establish specialized clusters in the regions where educational and medical institutions are located.

<sup>3</sup> Decree of the president of the Republic of Uzbekistan No. 104 "on additional measures for the development of the services sector" dated January 27, 2022

2. The social tax rate for economic entities engaged in retail and catering, hotel (accommodation) services, passenger and cargo transportation in motor transport, vehicle repair and maintenance, computer services, household appliance repair, agro and veterinary services and services in entertainment venues was established at 1 percent from April 1, 2022 to January 1, 2025. From January 1, 2022 to January 1, 2027, commercial entities will be eligible for a 90 percent decrease in the rates of land tax and property tax for legal entities operating hotels (by means of placement) and trading complexes with an area over 5 thousand square meters, which includes land plots the businesses occupy. For newly constructed objects, including the land they occupy, this benefit will be applicable until January 1, 2027 for a duration of 5 years from the commissioning month. It allows the deduction of the value of buildings in the calculation of profit tax for two years as depreciation costs. Starting from April 1, 2022, the turnover tax rate for business entities offering services as tour operators and turagents will be 1%. The tax on the property of legal entities in these regions and the land plot they occupy, as well as the land tax amounts from legal entities, will be the same 1% of the calculated amount. Furthermore, by January 1, 2024, it is imperative to uphold the current property tax and land tax rates for individuals. This will be achieved by reclassifying residential facilities situated along the streets of Inter-Neighborhood trade and service by individuals as non-residential objects, based on the services specified in subparagraph "A" of this paragraph. Additionally, the excise tax rate on cellular services will be modified. Effective from April 1, 2022, antenna-machta metal structures, structures attached to them, and their integral components, together with the plots of land occupied by them, are exempted from the property tax and land tax imposed on legal companies in rural regions.

3. From February 1, 2022 to January 1, 2025, in accordance with Appendix 2, the customs duty exemption of goods imported into the territory of the Republic of Uzbekistan and technological equipment, materials, software and spare parts imported according to the established list, which are not produced in the Republic of Uzbekistan as part of projects for the introduction of telecommunication infrastructure by telecommunication operators and providers, when calculating property taxes, antenna-Macht metal structures installed on plots of land, as well as structures installed on them and integral to them (drawers, surrounding walls, load-bearing devices, lightning protection systems, grounding devices, signal-lighting systems, guard signaling and video surveillance systems) are considered real estate, and since April 1, 2022, it is also established that users of the radio frequency spectrum are allowed to use the radio frequency spectrum together based on the relevant permits of the radio frequency authorities, as well as the amount of monthly deductions made by its residents to the Directorate of software products and Information Technology Technology, when the annual volume of information technology services exported by them exceeds US \$ 10

4. Pursuant to the presidential decree PQ-5113 issued by the President of the Republic of Uzbekistan on May 11, 2021, mobile trading facilities on trade and entertainment streets are being sold to commercial entities through electronic online auctions. All business entities are permitted to operate 24/7 and must adhere strictly to the regulations.

5. Commencing on July 1, 2022, as per Annex 1 of this resolution, the execution of project proposals formulated based on the master plans of the regions for the establishment of tourist facilities in districts and cities, together with the process for introducing technical tasks for the advancement of master plans of the regions to electronic online auction with the requisite infrastructure,

6. In order to formulate comprehensive plans for the territories outlined in paragraph 5 of this decision and to fund the construction of essential infrastructure for land plots, the Ministry of Economy and Finance has allocated a budget of up to 200 billion soums in 2023. This budget is contingent upon the specific local municipalities returning the funds from the state budget.

7. It is widely acknowledged that the efforts made by higher education and medical institutions to optimise the utilisation of buildings and land areas for the delivery of services to the private sector are inadequate. The text delineates the framework of the Commission responsible for assessing the extent to which land areas, buildings, and structures of social organisations are effectively utilised, as well as its assigned responsibilities. This involves the comprehensive examination of the extent to which land areas, buildings, and structures of higher education and medical institutions are being effectively utilised. The study aims to detect any unoccupied or inefficiently used buildings and structures, as well as vacant land areas, within their respective territories. Furthermore, the study suggests that the creation of comprehensive plans for underutilised or unoccupied significant social infrastructure, in alignment with these plans, the sale of underutilised or unoccupied buildings and

land parcels through auctions, or the adoption of strategies to establish new forms of educational and medical services in collaboration with the private sector.

8. The objective is to establish the essential prerequisites for the arrangement of service facilities, which include releasing infrastructure-supported plots for electronic-online auction, formulating project proposals for the installation of service facilities on the first and basement levels of multi-apartment buildings, and insuring their financing. The initiative implemented strategies to convert the main streets of districts and cities into dedicated shopping and entertainment streets focused on trade, entertainment, gastronomy, tourism, and art. It also aimed to develop service facilities in the newly formed Uzbekistan massif and convert inter-neighborhood streets into commercial and service centres.

9. The 2022 program for the development of family entrepreneurship will allocate 500 billion of the funds to projects in the service sector. These projects predominantly include family guest houses that satisfy the criteria set by the Cabinet of Ministers (up to 50 million soums), hostels (up to 1 billion soums), a complex of fire camps (up to 300 million soums), autocampings (up to 3 billion soums), and the organisation of townships (up to 600 million soums) and tent camps (up to 60 million soums), as well as the financing of their repair projects.

### **Conclusions and suggestions.**

The use of sophisticated strategies for the advancement of the service sector in the context of a digital economy in our country seems to yield the following outcomes:

The utilisation of Informational Technologies enhances the efficiency of services. In order to accomplish this, automation, active utilisation of digital platforms, and mobile applications are employed.

By actively utilising social media and internet marketing in service, client interactions are enhanced.

- By identifying the needs and desires of customers, the offer of services suitable for them will increase;
- obtaining feedback from customers and using it to improve the quality of services;
- organising regular training courses to enhance the professional level of personnel in the service sector;
- implementing effective methods of investing in human capital to improve the attitude of employees to work and stimulate them;
- establishing a strong marketing system to recognise the brand of services;
- offering innovative and unique services to differentiate it from competitors;
- prioritising the quality of services and increasing the requirements for compliance with international standards;
- conducting regular analysis and - Remote services are developed through efficient and rapid logistics;
- Mobile service options are provided and customer-friendly conditions are established;
- Compliance with national and international laws and procedures, as well as the legality of services, are guaranteed;
- Operational procedures in the service sector are simplified and made easier;
- The geographical reach of services expands through collaboration with various organisations and companies;
- The dissemination of information about services to the population is expanded through special events and advertisements.

Attaining such socio-economic efficiency enables the industry to be optimally developed in terms of client base, service volume, and scale, so influencing the steady economic prosperity.

To summarise, the institutional framework for the advancement of the service industry encompasses relevant organisations, legislation and regulations, regulatory instruments and procedures, standards, and supporting structures. The optimal operation of this system necessitates collaboration and unity among the public, commercial sector, research institutes, and public organisations in several aspects. We posit that with the establishment of appropriate institutional procedures, it is feasible to proficiently cultivate the service sector and attain enduring growth.

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