

## **ISSUES OF DEVELOPMENT OF THE SERVICE SECTOR IN RURAL AREAS**

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**Abstract:** The service sector plays a crucial role in modern economic development, contributing significantly to employment, income generation, and overall growth. However, its expansion in rural areas faces numerous challenges. This paper examines the key issues affecting the development of the service sector in rural regions, including poor infrastructure, lack of financial access, shortage of skilled manpower, limited awareness, and inadequate policy support. It also highlights the importance of the service sector in improving living standards, supporting agricultural productivity, and promoting rural–urban integration. The study suggests strategic interventions such as infrastructure improvement, financial inclusion, skill development, technological adoption, and public-private partnerships as pathways to strengthen rural service economies. Strengthening this sector is essential for achieving inclusive and balanced national development.

**Keywords:** service sector, rural development, infrastructure, financial inclusion, skill development, rural economy, employment generation, digitalization, policy support, inclusive growth.

### **Introduction.**

The service sector, also known as the tertiary sector, has emerged as a key driver of economic growth and social transformation in both developed and developing countries. It encompasses a wide range of activities such as trade, transport, communication, education, health care, banking, tourism, and public administration. In recent decades, the service sector has become the largest contributor to national income in many economies, surpassing agriculture and industry in its share of GDP and employment generation.

Despite this progress, the development of the service sector in rural areas remains limited. Rural regions, which are home to a large portion of the population – especially in developing countries—continue to depend heavily on agriculture for livelihoods. The underdevelopment of the service sector in these areas has resulted in unequal economic growth, regional disparities, and persistent poverty.

A well-developed rural service sector is essential for creating employment opportunities, improving living standards, and enhancing agricultural productivity. Services such as transport, communication, financial institutions, education, and health care not only support agricultural and industrial activities but also contribute to human development and social welfare. However, several structural and institutional barriers—such as poor infrastructure, lack of skilled manpower, inadequate policy support, and weak financial systems—have constrained the growth of this vital sector in rural regions.

This paper examines the major issues hindering the development of the service sector in rural areas and explores possible strategies for its improvement. Understanding these challenges

is crucial for policymakers, development planners, and local communities striving to achieve inclusive and sustainable rural development.

### **Main Part.**

The service sector plays a vital role in rural transformation by diversifying the economic base beyond agriculture and creating new livelihood opportunities. Its growth contributes to the overall socio-economic development of rural communities in several ways:

➤ The service sector provides alternative employment opportunities, especially for the youth and women who may not have access to agricultural land. Services such as retail trade, education, health care, tourism, and transport can absorb surplus rural labor, reducing migration to urban areas and alleviating rural poverty.

➤ Many rural services directly support agricultural development. Services like transportation, warehousing, market information systems, insurance, and agricultural extension services improve productivity, reduce post-harvest losses, and enhance farmers' incomes.

➤ Education and health care are critical components of the service sector that contribute to the improvement of human capital. Access to quality schools, vocational training, and medical facilities enhances the skills and productivity of the rural workforce, preparing them for diverse employment opportunities.

➤ Banking, microfinance, and cooperative services enable rural people to access credit and savings facilities. This financial inclusion encourages entrepreneurship, investment in small businesses, and self-employment, which collectively drive rural economic growth.

➤ The expansion of the service sector in rural regions helps integrate local economies with national and global markets. Improved communication, transport, and digital services facilitate trade, knowledge exchange, and social interaction, thereby reducing rural isolation and promoting balanced regional development.

Despite its potential, the growth of the service sector in rural areas faces numerous challenges that hinder its effective development and contribution to the economy.

Inadequate physical infrastructure—such as roads, electricity, and internet connectivity—is one of the major obstacles. Without reliable infrastructure, transportation costs increase, access to markets becomes difficult, and modern services like banking, e-commerce, and telemedicine cannot function effectively.

Financial institutions often hesitate to expand operations in rural areas due to low profitability, high risks, and lack of collateral among rural populations. As a result, many small entrepreneurs and service providers struggle to secure the capital necessary to start or expand their businesses.

Rural areas often face a lack of skilled and trained professionals. The shortage of teachers, doctors, technicians, and IT specialists hampers the quality and availability of essential services. Moreover, inadequate vocational and technical training facilities further widen the skill gap.

Due to low income levels and limited awareness, rural consumers may not demand certain services such as insurance, digital banking, or tourism-related activities. This limited market discourages both public and private investment in rural service industries.

Government policies often prioritize agriculture and industrial development over the service sector. The absence of targeted programs, subsidies, and incentives for rural service

development limits its expansion. Furthermore, poor coordination between various government departments and agencies leads to inefficiencies.

Digital technology has revolutionized service delivery globally, but rural areas continue to lag behind due to poor connectivity and low digital literacy. This technological gap prevents rural communities from benefiting from modern services such as e-learning, online banking, and telemedicine.

Continuous migration of the rural youth to urban centers in search of better opportunities has left behind an aging population. This demographic imbalance reduces the availability of an active workforce and limits innovation and entrepreneurship in rural areas.

The analysis of the rural service sector reveals that its development is closely linked with overall economic diversification, infrastructure availability, and human capital formation. The performance of this sector varies significantly between regions depending on government policies, local resources, and access to markets.

The growth of the service sector in rural areas is highly uneven. Regions located near urban centers or along major transportation routes tend to experience faster service-sector development due to better infrastructure and market access. In contrast, remote and underdeveloped rural areas remain deprived of basic services such as education, healthcare, and financial facilities. This uneven distribution has led to widening regional disparities in income and living standards.

Most rural service activities remain traditional and low-income generating. Examples include small retail shops, local transport, repair works, and informal financial services. Modern and high-value services-such as IT-enabled services, tourism, logistics, and professional consultancy-are almost absent in most rural regions. This dependence on low-productivity services limits rural income growth.

Empirical evidence and development studies indicate a strong correlation between infrastructure development and the expansion of rural services. Villages with better road networks, power supply, and digital connectivity have witnessed a rise in educational institutions, health centers, and banking services. Conversely, areas with poor infrastructure face stagnation in service-based activities.

Regions with higher literacy rates and skill-development programs have shown better performance in service-sector employment. Trained individuals are more likely to start small businesses or secure jobs in education, healthcare, and communication sectors. Thus, human resource development is a key determinant of rural service growth.

The analysis also highlights that policy frameworks for rural development often emphasize agriculture while giving less attention to the service economy. Lack of coordination between rural development departments, financial institutions, and private investors further restricts innovation and investment in the service sector.

Based on the analysis, several important results and trends can be observed:

**1. Low Contribution to Rural Income:**

The service sector's contribution to rural GDP remains significantly lower compared to urban areas. In many developing countries, rural services account for less than 25–30% of local economic output.

**2. High Employment Potential, Low Productivity:**

While the service sector employs a large portion of the rural workforce, productivity and wages remain low due to informal operations and limited technology use.

**3. Positive Correlation Between Infrastructure and Growth:**

Areas that have benefited from rural road construction, electrification, and internet expansion have experienced notable improvement in services such as banking, education, and telecommunication.

**4. Emergence of Digital and Social Services:**

In some progressive rural areas, digital initiatives like e-banking, online education, and telemedicine have started to expand. These results indicate a shift toward modernization when adequate support systems are provided.

**5. Persistent Gender and Regional Inequalities:**

Women remain underrepresented in service-related jobs due to social constraints and lack of training opportunities. Similarly, remote villages continue to lag behind in service development compared to peri-urban regions.

**6. Need for Integrated Rural Development Policies:**

The results underscore the importance of adopting integrated rural development strategies that link infrastructure, skill training, and digital inclusion to boost the service economy.

**Conclusion.**

The service sector has immense potential to transform rural economies by creating employment opportunities, improving living standards, and supporting agricultural and industrial development. However, its growth in rural areas remains constrained by numerous challenges such as poor infrastructure, limited financial access, shortage of skilled manpower, inadequate policy support, and a persistent digital divide. These issues have resulted in uneven development and have widened the economic gap between rural and urban regions.

The analysis reveals that the expansion of the service sector is closely linked with improvements in infrastructure, human capital, and institutional support. Villages with better connectivity, education, and access to financial services exhibit stronger service-based economic activities. Therefore, rural development strategies must move beyond the traditional focus on agriculture and incorporate the promotion of modern service industries such as education, health, information technology, transport, tourism, and finance.

For sustainable progress, an integrated approach is essential. This includes investment in rural infrastructure, digital inclusion, skill development programs, financial literacy campaigns, and the encouragement of entrepreneurship through microfinance and cooperative models. Furthermore, collaboration between government agencies, private investors, and local communities can ensure effective policy implementation and equitable access to services.

In conclusion, strengthening the service sector in rural areas is not merely an economic necessity but also a social imperative. By addressing existing challenges and harnessing new opportunities, the service sector can become a powerful driver of inclusive and balanced rural development—contributing to national growth, reducing poverty, and improving the overall quality of life for rural populations.

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