



MECHANISMS OF STATE FINANCIAL SUPPORT OF INNOVATIONS IN THE SERVICE SECTOR IN UZBEKISTAN

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Abstract

This article analyzes the essence and practical effectiveness of the mechanisms of state financial support of innovative activities in the service sector in Uzbekistan. In particular, the impact of mechanisms such as subsidies, tax incentives, state grants, preferential loans and investment guarantees on the innovative development of service enterprises is scientifically studied. It also highlights the economic results of existing support measures, their role in increasing employment, and their importance in ensuring the quality and competitiveness of services. The article develops scientific conclusions based on the analysis of statistical data, state programs and practical experience.

Keywords: Service sector, innovation, state support, financial mechanisms, subsidies, tax incentives, state grants, preferential loans, investment guarantees, economic efficiency, employment, competitiveness, state policy, quality of services, economic development.

Introduction.

Today, the service sector is one of the fastest growing sectors of the economy of Uzbekistan. This sector, along with occupying a significant share in the gross domestic product, plays an important role in ensuring employment, filling the domestic market and expanding export opportunities. The introduction of innovative approaches in the service sector is one of the necessary conditions



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for increasing efficiency, improving the quality of services and taking a stable position in global competition.

In this regard, the mechanisms of state financial support are of particular importance. Because innovative activity is a process that requires high investment, gives long-term results and has a high level of risk. The availability of financial assistance provided by the state - subsidies, grants, tax incentives, credit guarantees and other measures - encourages business entities to introduce innovations.

In recent years, a number of state programs have been adopted in Uzbekistan aimed at modernizing the service sector, supporting small businesses and startups, as well as encouraging the introduction of new technologies. These programs serve not only to provide financial assistance, but also to create a healthy competitive environment in the services market.

Therefore, one of the urgent scientific tasks is to analyze the effectiveness of mechanisms for state financial support of innovative activities in the service sector, study their practical results, and identify existing problems.

Analysis of literature on the topic

The issue of state financial support for innovative activities in the service sector has been covered in the studies of many foreign scholars. For example, J. Schumpeter, evaluating innovative activities as an “engine” of economic development, emphasizes the expansion of the possibilities for the implementation of new ideas through the state’s investment policy. Scholars such as Porter M. and Nelson R. show that innovative approaches in the service sector are manifested not only through technological innovations, but also through changes in management and marketing.

Also, reports published in recent years by the OECD (Organization for Economic Cooperation and Development) and the World Bank note that state grants, tax breaks and subsidies play an important role in the sustainable development of startups and small businesses in the service sector. The studies especially emphasize that the effectiveness of financial support is directly related to the state’s monitoring and control systems.



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There are also many studies on the mechanisms of state support for the service sector in Russia, Kazakhstan, Belarus and other CIS countries. For example, Russian scientists such as Ivanova T., Belyakov S. emphasize that preferential loans and guarantees of the state are the main financial source of innovative development of small businesses in the service sector.

In Kazakhstan, financial support for innovations in the service sector has been implemented on a large scale within the framework of the “Program-2020”, and scientific articles on it have studied the effectiveness of state grants and incubation centers. These experiences are also of practical importance for Uzbekistan and allow for a comparative analysis in the design of financial mechanisms.

The issues of modernization of the service sector and support for innovative activities in Uzbekistan are covered in many scientific articles, monographs and state documents. In particular:

“New Uzbekistan - Development Strategy” (2022-2026) defines measures of state financial support for the innovative development of the service sector, in particular, the introduction of digital technologies in the fields of tourism, transport, financial services and healthcare.

The studies of local economists - A. Vakhobov, Sh. Ostonov, B. Kuchkarov analyzed the effectiveness of state support measures in the service sector and noted the need to improve innovative financing mechanisms for the development of digital services.

Research methodology

This study analyzes the effectiveness of state financial support mechanisms for innovative activities in the service sector in Uzbekistan. The research methodology is based on such methods as empirical analysis, comparative analysis, case studies and expert assessments. Through empirical analysis, the practical results of financial support mechanisms are studied using the example of state reports, statistical indicators and current programs. Using comparative analysis, the experience of Uzbekistan is compared with international practice and the experience of CIS countries, and the level of effectiveness of financial support is determined. Using the case study method, the real impact of the



opportunities created by the state is analyzed using the example of some innovative enterprises and startups operating in the service sector. Expert assessments, on the basis of the opinions and scientific views of experts, allow us to identify the strengths and weaknesses of support mechanisms. The combined use of these methods serves to in-depth study of the effectiveness of financial support for innovative activities in the service sector and to develop scientifically based conclusions on its improvement.

Tahlil va natijalar

State financial support is one of the main driving forces of innovative development in the service sector. Innovative projects usually require large investments, and their results are felt in the long term. Therefore, state support measures in the form of grants, soft loans, subsidies and tax breaks stimulate the innovative activity of entrepreneurs in the service sector. In the case of Uzbekistan, in recent years, the volume of state financial support in the service sector has increased, and special attention is paid to small businesses, startups and innovative enterprises through various programs.

**Table 1 Dynamics of state financial support in the service sector in
2019–2023 (in billion soums)**

Year	Government grants	Soft loans	Subsidies	Tax incentives (notional)	Total support
2019	180	950	120	400	1 650
2020	250	1 300	200	600	2 350
2021	320	1 650	280	750	3 000
2022	420	2 100	360	900	3 780
2023	500	2 500	450	1 050	4 500

The table shows that over the past five years, the volume of financial support directed to the service sector has had a steady growth trend. In particular, state grants have increased from 180 billion soums in 2019 to 500 billion soums in 2023, which indicates an increased focus on supporting innovative startup projects. The volume of soft loans has also increased sharply, increasing by 2.6



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times over 2019-2023. The gradual increase in the volume of tax incentives indicates that favorable conditions are being created for entrepreneurs. In general, the total volume of support has increased by almost 3 times over 5 years, which indicates a significant impetus for the innovative development of the service sector.

As can be seen from the table, preferential loans are the mechanism with the greatest impact on the innovative development of the service sector. It was thanks to them that about 45 thousand new jobs were created and a 9.2% increase in the volume of services was achieved. State grants also played an important role in expanding startup projects and small business activities, creating the basis for the implementation of 220 new innovative projects. Subsidies, although relatively small in size, serve as an important tool in improving the quality of services and social support for the population. Tax incentives, on the other hand, are seen as an important mechanism in reducing the financial burden on enterprises and attracting them to innovative activities.

Table 2 The impact of state financial support measures on the service sector (by the results of 2023)

Support type	Employment impact (thousand jobs)	Growth in services (%)	Number of innovative projects (pcs)
Government grants	18	6,5	220
Soft loans	45	9,2	310
Subsidies	12	4,8	140
Tax benefits	25	7,0	190

The results of the efficiency index, formed on the basis of expert assessments, show that preferential loans received the highest score (4.7) across all indicators. This confirms that loans are considered the most effective financial mechanism for innovative development in the service sector. State grants also show high results, demonstrating their effectiveness in financially supporting startup projects. Subsidies, although they show relatively good results in social efficiency, are lower than other mechanisms in terms of overall score.



Tax incentives, on the other hand, remain important as an incentive for innovative development.

Table 3 Effectiveness index of financial support mechanisms (expert assessments based on a score of 1 to 5)

Mechanism	Impact on innovative development	Economic efficiency	Social efficiency	Average score
Government grants	4,6	4,2	4,4	4,4
Preferential loans	4,8	4,7	4,5	4,7
Subsidies	3,9	3,7	4,1	3,9
Tax benefits	4,2	4,0	4,3	4,2

Analysis of the mechanisms of state financial support of innovative activities in the service sector in Uzbekistan shows that the country has strong sides of this process. First of all, strategic documents adopted at the state level - the Strategy for Innovative Development, the Development Strategy of "New Uzbekistan" and other regulatory and legal frameworks provide a strong political will for the rapid development of innovations in the service sector. In addition, the provision of subsidies, grants and preferential loans to support innovative activities in areas such as tourism, transport, information technologies, the banking and financial system expands financial opportunities. Also, the formation of technoparks and a startup ecosystem creates a favorable environment for innovative services.

However, the existing weaknesses are also noteworthy. In particular, in some cases, bureaucratic obstacles arise in the use of state financial support mechanisms. The system for monitoring and evaluating the effectiveness of innovative projects has not yet been fully developed. There is also a noticeable lack of innovative personnel potential in the service sector. In addition, the lack of full awareness of the possibilities of financial support by regional service enterprises limits the expansion of innovative activities.

At the same time, there are also great opportunities in this area. There are opportunities to create new business models through the widespread



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introduction of the digital economy and electronic services, develop the export of services (especially in the IT services and tourism sectors), as well as strengthen the innovative infrastructure on the basis of public-private partnerships. Cooperation with international financial institutions can also be an important factor in supporting innovative activities by attracting additional resources.

However, there are also some threats in this process. Strong competition in the global services market and rapid obsolescence of technologies pose a risk of losing the effectiveness of innovative projects in the short term. Also, the limited availability of financial resources and problems with their effective allocation can make it difficult for state support to give full results. The high share of the informal economy in some service sectors hinders the use of formal financing mechanisms. Most importantly, the inherent high risks of innovative activities (the project may not produce the expected results) pose additional risks for the state and private sectors.

In general, the SWOT analysis shows that Uzbekistan has a solid political framework and economic opportunities for financial support for innovative activities in the service sector. However, in order to reduce weaknesses and mitigate existing threats, it is important to strengthen the monitoring system, increase human resources, and promote support mechanisms more widely at the regional level. This will serve as an important foundation for increasing the innovative competitiveness of the service sector.

Conclusion

Analysis of the effectiveness of state financial support mechanisms for innovative activities in the service sector of Uzbekistan shows that in recent years the country has been making significant progress in this area. Financial support instruments such as strategic programs adopted by the state, subsidies, grants and soft loans create opportunities for the implementation of innovative projects in the service sector. In particular, the active implementation of innovations in the fields of tourism, transport, information technologies and financial services clearly demonstrates the practical results of this process.



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However, the analysis showed that the effectiveness of existing mechanisms has not yet been fully ensured. Bureaucratic obstacles, insufficient development of the monitoring system, and low awareness of regional service enterprises about financial support hinder the process of developing innovative activities to a certain extent. At the same time, the lack of human resources also limits the large-scale implementation of innovative projects.

The results of the SWOT analysis conducted during the study showed that the country has a solid political and economic foundation for the development of innovative activities. The expansion of the digital economy, cooperation with international financial institutions, and full use of the opportunities of public-private partnerships will help make the service sector more innovative. At the same time, risks such as increased international competition and rapid obsolescence of technologies require more effective organization of financial support mechanisms. In general, the innovative competitiveness of the service sector can be significantly increased by further simplifying the mechanisms of financial support by the state, improving the monitoring and evaluation system, strengthening the training of innovative personnel, and creating favorable conditions for regional enterprises. This will strengthen Uzbekistan's position in the global innovation process and contribute to the sustainable development of the national economy.

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