



THE IMPACT OF GOVERNMENT SUPPORT ON THE INNOVATION ACTIVITIES OF SMALL AND MEDIUM-SIZED ENTERPRISES

Raxmatjonova Azizaxon

Visiting Practitioner at Westminster International University in Tashkent,
Uzbekistan

ABSTRACT

This thesis examines how government support influences innovation in small and medium-sized enterprises. It considers financial assistance, tax incentives, advisory services, innovation infrastructure, public procurement, and cooperation with research institutions. A qualitative review and comparative analysis of international reports and academic studies were used. The findings show that effective public support can reduce innovation risks, improve access to technology and knowledge, and accelerate the commercialization of new products and processes. Its impact, however, depends on transparent selection, accessible procedures, institutional coordination, managerial competence, and systematic evaluation. Fragmented programmes, excessive bureaucracy, and poorly targeted subsidies may weaken results. The study concludes that government intervention is most effective when finance is combined with skills development, networking, digital infrastructure, and market-oriented measures.

KEYWORDS: Small and medium-sized enterprises, government support, innovation, public policy, finance, infrastructure, competitiveness.

INTRODUCTION

Small and medium-sized enterprises contribute to employment, competition, regional development, and economic diversification. Their flexibility supports rapid responses to market change, yet innovation is often restricted by limited finance, weak research capacity, skill shortages, and uncertain commercial returns. Many SMEs also lack collateral and internal research departments.

Government intervention seeks to correct these market failures through grants, subsidized loans, tax incentives, innovation vouchers, incubators, consulting services, and procurement programmes. The purpose is to assess their influence on SME innovation and identify when public assistance creates sustainable results rather than dependency.

The study applies qualitative content analysis and a comparative review of research and institutional reports. Sources on SME finance, technological development, and innovation policy were compared by support type, expected outcome, and implementation conditions.

Innovation activity included new or significantly improved products, processes, organizational practices, marketing methods, and digital solutions. Government support was examined through access to finance, knowledge, infrastructure, and markets. This framework covered direct financial effects and indirect effects from learning and cooperation.

The analysis indicates that financial support can stimulate innovation by reducing the cost and risk of experimentation, equipment renewal, product development, and market entry. Grants

are especially useful for early-stage projects without predictable revenue, while preferential loans and guarantees can finance later commercialization. Tax incentives may encourage established firms to increase research expenditure, although they are less useful for young enterprises that have not generated taxable profit.

Public support also promotes innovation through knowledge transfer. SMEs often lack expertise in technology assessment, intellectual property, technical standards, and digital transformation. Innovation vouchers, advisory programmes, university partnerships, and technology extension services give firms access to specialized knowledge at lower cost. It also helps managers align technology choices with customer needs.

Incubators, accelerators, laboratories, technology parks, and digital innovation hubs provide facilities and professional networks. They also connect entrepreneurs with researchers, investors, suppliers, and mentors, strengthening collaboration and shortening the path from idea to market.

Public procurement can create demand for innovative products. A small enterprise may possess a promising solution but lack a first major customer. Procurement procedures allowing pilot projects, functional specifications, and proportionate qualification requirements can provide an initial market. By contrast, complex documentation and excessive financial conditions may exclude innovative SMEs despite formally open competition.

Support is not automatically effective. Programmes with unclear objectives may distribute resources without generating additional innovation. Fragmented initiatives raise application costs, while politically influenced selection can preserve inefficient firms. Effective intervention therefore requires transparent criteria, competent assessment, reasonable reporting obligations, and indicators measuring innovation created because of the programme.

Government support affects innovation through resource provision and capability development. Finance addresses liquidity constraints, whereas training, infrastructure, and networking improve the firm's ability to use resources productively. Funding alone cannot compensate for weak management, limited technological understanding, or poor market knowledge. Integrated support is therefore more likely to produce durable outcomes than isolated subsidies.

Its effect varies by firm age, sector, location, and technological maturity. Start-ups may benefit from grants, mentoring, and laboratories, while established SMEs may need guarantees, export assistance, or modernization incentives. Enterprises in peripheral regions often require digital connectivity and regional advisory institutions in addition to finance. Uniform programmes may overlook barriers faced by particular groups.

Public assistance should stimulate additional private investment rather than replace it. Temporary support should enable otherwise delayed projects while beneficiaries develop independent financing and market capacity. Evaluation should determine whether support increases innovation expenditure, new products, productivity, exports, or employment beyond the results likely to occur without intervention.

Government support can strengthen SME innovation by lowering financial barriers, expanding expertise, developing infrastructure, and creating market opportunities. Its effectiveness depends more on programme quality than on expenditure volume. Transparent selection, coordination, accessible procedures, differentiated instruments, and outcome-based evaluation are essential. The strongest approach combines finance with knowledge transfer,

networking, digital infrastructure, and demand-oriented measures. Under these conditions, SMEs can convert ideas into viable innovations and support productivity, competitiveness, and sustainable development.

References

1. OECD. SMEs, Entrepreneurship and Innovation. — Paris : OECD Publishing, 2010. — 228 p. — DOI: 10.1787/9789264080355-en.
2. OECD. The Digital Transformation of SMEs. — Paris : OECD Publishing, 2021. — 276 p. — DOI: 10.1787/bdb9256a-en.
3. OECD. OECD SME and Entrepreneurship Outlook 2023. — Paris : OECD Publishing, 2023. — 228 p. — DOI: 10.1787/342b8564-en.
4. Doh S., Kim B. Government Support for SME Innovations in the Regional Industries: The Case of Government Financial Support Program in South Korea // Research Policy. — 2014. — Vol. 43, No. 9. — P. 1557–1569. — DOI: 10.1016/j.respol.2014.05.001.
5. Wei J., Liu Y. Government Support and Firm Innovation Performance: Empirical Analysis of 343 Innovative Enterprises in China // Chinese Management Studies. — 2015. — Vol. 9, No. 1. — P. 38–55.
6. European Commission. Study on the Effectiveness of Public Innovation Support for SMEs in Europe: Final Report. — Luxembourg : Publications Office of the European Union, 2021.