

**REPUBLIC OF AZERBAIJAN**

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**ABSTRACT**

of the dissertation submitted for the degree of Doctor of Philosophy

**PROSPECTS FOR THE DEVELOPMENT OF SERVICE  
SECTORS IN THE LIBERATED TERRITORIES OF THE  
REPUBLIC OF AZERBAIJAN**

Speciality: 5312.01 - “Sectoral Economics”  
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**Applicant: Javid Mukhtar Abdullayev**

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The dissertation was carried out at the department of “Economics of the Service Sector” of the Institute of Economics of the Ministry of Science and Education of the Republic of Azerbaijan.

Scientific Supervisor : Doctor of Philosophy in Economics,  
Associate Professor  
**Mahir Hamza Zeynalov**

Official Opponents: Doctor of Economic Sciences,  
Associate Professor  
**Allahyar Niyazi Muradov**

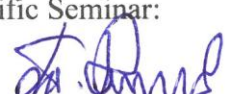
Doctor of Philosophy in Economics,  
Associate Professor  
**Ismayil Elman Ismayilov**

Doctor of Philosophy in Economics,  
Associate professor  
**Alasgar Mehdi Aliyev**

Dissertation Council FD.1.10 of the Supreme Attestation Commission under the President of the Republic of Azerbaijan operating under the Institute of Economics

Chairman of the  
Dissertation Council:  Doctor of Economic Sciences, Professor  
**Nazim Muzaffarli (Imanov)**

Scientific Secretary of  
the Dissertation Council:  Doctor of Philosophy in Economics  
**Sevda Mammad Seyidova**

Chairman of the  
Scientific Seminar:  Doctor of Economic Sciences,  
Professor  
**Tabriz Nasib Aliyev**



## GENERAL CHARACTERISTICS OF THE RESEARCH

**Relevance and degree of elaboration of the topic.** In recent years, the Azerbaijani economy has entered a new stage of development, characterized both by the deepening of institutional reforms and by the more rational mobilization of the economic potential of the regions. The most significant and real “field laboratory” for this process is represented by the territories liberated from occupation. In these areas, economic recovery is not carried out according to traditional sequential steps but along parallel lines: security measures and demining, urban planning and restoration of the housing stock, organization of social infrastructure, establishment of energy and digital networks, formation of a business environment, and promotion of tourism flows are implemented simultaneously.

In this context, the service sector emerges as a distinct and particularly relevant subject of study. Economic activity in the liberated territories begins most immediately with the provision of daily services. Decisions regarding resettlement, creation of employment opportunities, formation of markets, and attraction of tourists are primarily determined by the accessibility, quality, and stability of services. State programs and normative frameworks are aligned with this approach. For instance, the First State Program on the Great Return targets socio-economic rehabilitation not merely in terms of construction volume, but also in terms of restoring housing and organizing services. Similarly, Azerbaijan’s 2030 national priorities focus on sustainable regional development, the establishment of a competitive economic structure, and the adoption of innovation-oriented approaches.

The relevance of the service sector in the territories liberated from occupation extends beyond social convenience. Services perform multiple economic functions simultaneously. First, they are a prerequisite for the continuity of resettlement. Second, services constitute a key factor in assessing investment risk. For investors, the importance lies not only in the construction of facilities but also in the management of their operational phase, provision of personnel, supply chains, and customer flow. Third, services constitute the

production mechanism of tourism. Tourism is not limited to natural or cultural heritage; it constitutes a network of logistics, information, catering, accommodation, security, and event management services that transform these resources into marketable offerings.

The territories liberated from occupation provide particularly favorable opportunities for the application of digital and innovative solutions in governance, as they are spaces being “built from scratch.” The implementation of smart city and smart village concepts, green energy zone approaches, digital management, and proactive public services constitutes not merely technical innovations, but an institutional framework that determines the long-term productivity and quality of service sectors. Accordingly, this dissertation examines the development of services in terms of how the service ecosystem is established, the mechanisms through which it expands, and the relevant performance indicators.

Regarding the degree of elaboration of the topic, conceptual approaches related to post-conflict recovery and regional development are present in the local academic literature. Approaches concerning the conceptual foundations of the restoration of Azerbaijan’s post-conflict territories, reintegration and governance mechanisms, economic potential, and comparative advantages have been explored by various authors. The general economic framework and strategic perspective of rehabilitation processes in Karabakh and Eastern Zangazur have also been addressed in separate publications.

Nevertheless, without diminishing the significance of existing studies, it should be noted that the development of the service sector in the territories liberated from occupation is often treated either as a supplementary component of the general recovery process or overshadowed by tourism and infrastructure issues. There remains a need for a more systematic approach to the classification of service sectors as an integrated system, the selection of development indicators, and the assessment of their relationship with the business environment and tourism flows based on economic and statistical evidence.

Even during the period when our territories were under occupation—in 2010—Professors Nazim Muzafferli and Eldar

Ismayilov envisioned plans for the future restoration of Karabakh and carried out the first theoretical studies in this field. Moreover, the organization and promotion of service sectors in Azerbaijan's territories liberated from occupation, the collaboration between private and public sectors, the comprehensive development of post-conflict regions, the study and application of international best practices in this area, and the implementation of IV Industrial Revolution in the region have been investigated by Azerbaijani scholars and researchers, including N. Muzafferli, T. N. Aliyev, A. M. Asadov, A. Musayev, A. Muradov, F. Ganbarov, M. H. Zeynalov, B. Ahmadov, A. Muradov, A. X. Nuriyev, E. Ismayilov, A. Huseynli, Q. Manafov, among others, as well as foreign researchers such as T. H. Van, D. M. Quan, N. D. Phong, F. Filipov, F. Vanda, C. Oya, B. Monreal, A. N. Spartak, I. V. Abakumova, E. N. Ryadinskaya, V. M. Katachkov, and others. These studies have provided important recommendations for addressing the challenges identified in the field.

**Research aim and objectives.** The main aim of the study is to assess the development prospects of service sectors in the territories liberated from occupation, to identify the key determinants influencing the formation of the service ecosystem, and to develop theoretical, methodological, and practical recommendations for accelerating this process. To achieve this aim, the dissertation sets forth the following objectives, addressed in a logical sequence:

- Generalization of theoretical approaches regarding the nature, classification, and functions of service sectors within the economic system, and analysis of conceptual perspectives on the restoration of services in post-conflict territories
- Evaluation of the restoration and reconstruction processes in the territories liberated from occupation from the perspective of service sectors, and explanation of the connection of services with socio-economic rehabilitation mechanisms;
- Analysis of the current state of service sector activities and the formation of the business environment based on statistical and factual materials;
- Identification of development priorities of service sectors, investment attraction factors, and major obstacles affecting

resettlement decisions based on the results of surveys conducted among entrepreneurs and residents;

- Econometric assessment of the impact of social infrastructure and strategic project restoration on perceived effectiveness using linear regression models constructed from survey results;

- Evaluation of the determinants explaining tourism flows in the Karabakh economic region based on annual time-series data, and alignment of the findings with service sector policies;

- Analysis of the opportunities for implementing new types and forms of services in the region within the context of the IV Industrial Revolution, and establishment of a practical framework for progressive promotion mechanisms;

**Research Methods.** The dissertation employs comparative analysis, systematic approach, statistical grouping, content analysis, and sociological research methods. In the empirical part, survey data were processed, descriptive statistics of indicators were calculated, and linear regression models were constructed using SPSS. Additionally, econometric evaluations were performed on annual time-series data using multivariate and log-transformed specifications.

**Research Object.** The object of the study is the service sectors being formed and developed in the territories of the Republic of Azerbaijan liberated from occupation.

**Research Subject.** The subject of the research is the socio-economic mechanisms, incentive tools, institutional framework, and the process of forming the service ecosystem that determine the organization and development of service sectors in the territories liberated from occupation.

**Theoretical and methodological basis.** The theoretical and methodological foundation of the study is constituted by the legislative acts of the Republic of Azerbaijan, the Azerbaijan 2030 National Priorities, the First State Program on the Great Return, normative documents regarding the entrepreneurial environment and incentive mechanisms, state statistical reports, and scientific works by both local and foreign scholars on post-conflict restoration and regional development.

**Key provisions submitted for defense.**The following propositions of the research findings are submitted for defense:

1. The development of service sectors in the territories liberated from occupation should be considered as an economic system that evolves in parallel with the restoration and reconstruction processes, population resettlement, business activity, and tourism flows. When evaluating the system, it is necessary to assess services based on accessibility and quality indicators;

2. The state's coordinating role in the development of the service sector should remain leading during the transitional phase; however, in the sustainability phase, result-oriented incentive tools, institutional rules facilitating private sector market entry, and digital governance mechanisms should ensure the expansion of market mechanisms. This, in turn, will create a foundation for the implementation of new service types and the improvement of service quality;

3. Survey results conducted within the framework of the research indicate the presence of public support for the parallel development of service and industrial activities. This approach demonstrates that service sectors should not be limited solely to tourism, but also require the simultaneous organization of daily trade, catering, transport, communal, and public services, thereby enabling diversification of the service sphere;

4. Linear regression models constructed from survey data confirm the statistical relationship between elements such as smart city projects, alternative energy initiatives, and air transport infrastructure with the effectiveness of the restoration process, and highlight the necessity of aligning service strategies with digital and sustainable infrastructure;

5. Econometric analysis based on official statistical indicators demonstrates a positive relationship between state investments and the increase in overnight stays at hotels and hotel-type establishments, while indicating that the effect on the number of entrepreneurial entities engaged in catering activities materializes more gradually. According to the Model Summary table,  $R = 0.623$ ,

which reflects a positive and moderately strong correlation between investments and the number of overnight stays in hotels;

6. The application of digital technologies and IV Industrial Revolution tools facilitates the emergence of new forms of services in the region and determines the priority of data-driven decision-making, electronic service platforms, and standardization mechanisms in service management;

7. To accelerate the development of service sectors, it is necessary to implement result-oriented programming, define a minimum service package, establish public–private partnerships and franchise mechanisms, and ensure comprehensive implementation of staff training and quality control tools

**Scientific novelty of the study.**The scientific novelty of the research are characterized by the following:

- The conceptual framework for the development of service sectors in the territories liberated from occupation has been substantiated as a unified economic system in interaction with population resettlement, business activity, and tourism flows;

- The phased logic of service sector formation in post-conflict territories has been developed, and the economic and social impact channels of the initial service package have been systematized;

- Based on surveys conducted among entrepreneurs and residents, the development priorities of service sectors, investment attraction factors, and major obstacles affecting resettlement decisions have been empirically identified;

- Linear regression models constructed from survey data have been used to statistically evaluate the impact of social infrastructure, transport, and alternative energy projects on the perceived effectiveness of the restoration process;

- Econometric assessment has been performed on official statistical indicators to determine the dependence between investment volumes, tourism flows, and the dynamics of service entities in the territories liberated from occupation;

- An implementation framework of innovative and institutional incentive mechanisms suitable for the region has been developed to revive the service sector;

- The economic and organizational outcomes of integrating digital governance and IV Industrial Revolution tools into service sectors have been systematized, and directions for their implementation have been identified.

### **Theoretical and practical significance of the research.**

Theoretical and Practical Significance of the Research. The theoretical results of the study expand the economic rationale for the restoration of service sectors in post-conflict territories and provide a methodological framework for explaining service activities not only through their consumption function but also as a fundamental mechanism of reintegration and economic revitalization. The practical results can be applied in the development of service strategies for the territories liberated from occupation, the standardization of a minimum service package, the promotion of investors and attraction of the private sector, the management of the tourism portfolio, as well as in the establishment of digital governance and service quality control mechanisms.

**Approbation and application.** The theoretical and methodological provisions of the dissertation, as well as its key findings and proposals, have been presented at the following national and international scientific conferences. The presented results have been published in the form of conference theses and proceedings, and relevant certificates were awarded for participation in these conferences:

- The Republican Scientific Conference “Modern Problems and Prospects of Economic Management” dedicated to the 100th anniversary of the birth of National Leader Heydar Aliyev (Baku, Azerbaijan State Oil and Industry University, November 23–24, 2023);

- The International Scientific Conference “Current Issues of Modern Natural and Economic Sciences” dedicated to the 100th anniversary of the birth of National Leader Heydar Aliyev (Ganja, Ganja State University, May 5–6, 2023);

- The II International Scientific Conference “Sustainable Development Strategy: Global Trends, National Experiences and New Goals” dedicated to the 100th anniversary of the birth of the

National Leader of the Azerbaijani people Heydar Aliyev (Mingachevir, Mingachevir State University, December 08–09, 2023);

- The International Scientific Conference “Interstate Economic Relations: Modern Challenges and Prospects” dedicated to the 100th anniversary of the National Leader Heydar Aliyev (Sumgayit, Sumgayit State University, May 25–26, 2023);

- The international conference “Smart Environment and Green Technologies”, held in English and published by Springer and indexed in Scopus (Baku, Odlar Yurdu University, April 12–13, 2024);

- The X All-Russian Scientific and Practical Conference of students, doctoral candidates and young researchers “Current Aspects of the Modernization of the Russian Economy”, held in Russian (Saint Petersburg, SPBSEU ETU “LETI”, December 25, 2023).

In accordance with the topic of the scientific work, 14 articles and theses with a total volume of 5 printed pages have been published in scientific journals and conference materials recommended by the Supreme Attestation Commission, 2 of which were published abroad (one of them in a journal indexed in a high-level international database).

**The total volume of the dissertation with the indication of the volume of its structural sections.** The dissertation consists of an introduction, three chapters, 10 subchapters, a conclusion, and a list of used literature. Its total volume is 281387 characters. Including: the title page and table of contents 1551 characters, the introduction

14340 characters, Chapter I 80920 characters, Chapter II 84408 characters, Chapter III 49087 characters, the list of used literature 14423 characters. Excluding tables, figures, diagrams, and the list of used literature, the volume of the dissertation is 244729 characters.

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## MAIN CONTENT OF THE RESEARCH

In the introduction of the dissertation, the relevance and degree of elaboration of the topic are substantiated; the object and subject of the research, its aim and objectives, the methods used, the main provisions submitted for defense, scientific novelty, theoretical and practical significance, approbation and implementation, the organization where the work was carried out, its structure, and total volume are presented.

In the first chapter of the dissertation, titled **“Theoretical and Methodological Foundations of Organizing Service Sectors in the Liberated Territories”** the essence, content, types, and role of service sectors in the economic system, the phased structure of post-conflict restoration policy, institutional mechanisms for organizing services, as well as international experience in service sector development are systematically studied.

Considering the multifaceted nature of the research, the established approaches in economic theory regarding service sectors, their interaction with the tangible production sphere, the intangibility of services, the simultaneity of production and consumption, and the differentiation of quality criteria are first synthesized. It has been determined that in the modern context, services act not only as a consumption sphere but also as an important sector ensuring the operation of production, logistics, and investment flows. In particular, organizing services in accordance with modern standards is essential in post-conflict territories: on the one hand, for ensuring social adaptation, and on the other hand, for forming economic activity.

The reconstruction of service sectors increases their role in the economy, creates new jobs, and raises the standard of living. These renewed sectors contribute to the country’s overall economic strength and accelerate its socio-economic development by offering better and more efficient services that meet diverse human needs, thereby supporting economic growth<sup>1</sup>.

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<sup>1</sup>Zeynalov M.H. “Development of Entrepreneurship in the Service Sector: Problems and Prospects.” p. 136. Baku: "AVROPA", 2015, 208 pp.

The revitalization of living standards in the liberated territories must ensure 10 main areas of activity:

1. Provision of necessary conditions for the population's residence and livelihood.
2. Systematic resettlement of the population and reconstruction of cities and villages.
3. Identification and assessment of potential economic opportunities to support economic development.
4. Efficient utilization of existing economic potential and expansion of export opportunities.
5. Determination of sources and mechanisms of financial support.
6. Efficient use of the region's natural resources and integration of these resources into international markets.
7. Purposeful allocation of land plots, preservation of reserve land funds, and development of entrepreneurship in agriculture.
8. Strengthening cooperation with domestic and foreign entrepreneurs.
9. Implementation of necessary measures to develop the tourism sector.
10. Establishment and development of educational and scientific research institutions.

These plans, under the leadership of Supreme Commander Ilham Aliyev, are directed towards priority measures, particularly the demining of the liberated territories and the creation of the most essential living conditions. These organizational measures play a significant role in the revitalization and development of the region<sup>2</sup>.

Post-conflict recovery policy has a phased character. During the transition period, coordination, planning, and mobilization of resources primarily fall under the responsibility of the state. In the subsequent phase, market stability is determined by legal and organizational mechanisms that facilitate the entry of the private

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<sup>2</sup> Nuriyev A.X. "Problems of Formation and Improvement of the Country's Regional Structure (History and Modernity)." Baku: Savad, 2021, 376 pp.

sector. From this perspective, the development of service sectors in the liberated territories should be assessed not by the increase in the number of facilities, but by the organizational form of services, their standardization, and the effectiveness of management mechanisms.

It is posited that the development of service sectors in the liberated territories is not a mere technical addition to social reintegration, but constitutes its structural foundation. The sustainability of resettlement is ensured not only through the construction of housing stock but also through the establishment of a service network that maintains the continuity of daily life. Delays in service provision directly affect the decision-making behavior of the population, particularly regarding choices for permanent relocation. From this perspective, the organization of service sectors must be established as a parallel and synchronized mechanism. Otherwise, even if physical infrastructure exists, economic circulation and social stability will not develop at the same pace.

In the second chapter of the dissertation, entitled “**Analysis of the Current State of Service Sector Development in the Liberated Territories**” the dynamics of service sector formation in the region were analyzed based on long-term statistical data, official reports, and the results of sociological studies. First, the socio-economic indicators of the restoration and reconstruction process were summarized, and the phased commissioning of infrastructure and the dynamics of resettlement for 2020–2025 were assessed in the context of service sector development

The expansion of entrepreneurship in the service sector contributes not only to better fulfillment of the population’s needs but also to increased employment. Therefore, the service market in the liberated territories should be evaluated not solely as a tourism-oriented sector, but as an integrated network encompassing daily trade, communication, finance, transportation, and social services.<sup>3</sup> [33]. The sustained consumption of services often begins with the initial experience. Customer satisfaction at the first interaction

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<sup>3</sup> Zeynalov M.H. “Development of Entrepreneurship in the Service Sector: Problems and Perspectives.” Baku: AVROPA, 2015, 208 pp.

increases the likelihood of repeat usage, while the prompt resolution of complaints reduces reputational risk; therefore, quality management and customer relationship processes must be established as distinct functions within service enterprises. In the liberated territories, the expansion of services requires the prior development of a skilled workforce. Enhancing educational levels, updating professional competencies, and fostering the ability to work with technology directly influence both the speed and quality of service delivery<sup>4</sup>.

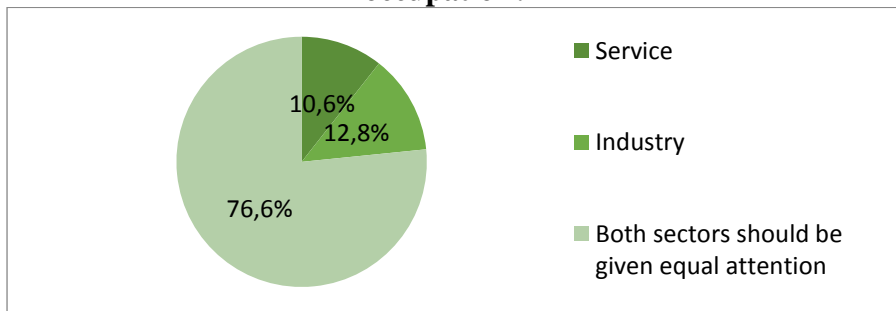
Within the context of this study on the development prospects of service sectors in the liberated territories, a survey was conducted among entrepreneurs. A total of 47 entrepreneurs participated in the survey. The results indicated that the parallel development of the service and production sectors is essential for achieving sustainable economic revitalization. Specifically, 76.6% of respondents considered this approach to be preferable. The tourism sector was identified as the most promising service area, with 74.5% of respondents selecting it, highlighting tourism's leading role in shaping the regional service ecosystem. Regarding job creation, 51.1% of respondents emphasized the importance of joint cooperation between the public and private sectors.

The results of the citizen survey indicated that resettlement decisions are shaped by socio-economic factors. Specifically, 36.9% of respondents identified the established lifestyle patterns in the current living environment as the main obstacle delaying return. This finding demonstrates that resettlement is not limited to physical infrastructure but depends on the availability of a functioning daily service network. In response to the question regarding investor attraction, 37.6% of respondents highlighted a favorable business environment and incentive mechanisms as the primary factors.

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<sup>4</sup> İbrahimov İ. Directions of Development for Regions and Liberated Territories (Monograph). Baku: Kooperasiya Publishing, 2022.

**Figure 1. Which sector should receive the most attention for the rapid economic revitalization of the territories liberated from occupation?**



**Source:** Author's survey data.

The figure above presents the results of a survey on which sector should receive greater attention for the economic revival of the liberated territories. Based on the responses of the participants, the results are as follows:

1. Service sector (10.6%): 10.6% of respondents believe that greater attention should be paid to the development of the service sector for a rapid economic recovery.

2. Industrial sector (12.8%): 12.8% of respondents consider it necessary to prioritize the development of the industrial sector.

3. Equal development of both sectors (76.6%): The majority of participants (76.6%) consider it important to give equal attention to the development of both the service and industrial sectors.

In subsection 2.4 of the second chapter, linear regression models were constructed based on a monthly database formed from official statistical indicators. The purpose of the analysis was to statistically evaluate the impact of state investments on two main indicators of the service sector in the liberated regions – the number of overnight stays in hotels and hotel-type facilities, and the number of entrepreneurial entities engaged in catering activities. The data were organized based on the annual official statistics of the Ministry of Finance and the State Statistical Committee and then adjusted to a monthly level according to a methodological procedure to increase the statistical power of the analysis.

The results of the linear regression model constructed for the dependent variable **number\_of\_overnight\_stays** indicate that the model is statistically significant overall. According to the **Model Summary** table,  $R=0.623$ , which reflects a positive and moderately strong relationship between **investment mln** and the number of overnight stays. The  $R^2=0.388$  value shows that 38.8% of the variation in overnight stays is explained by the investment variable. The **Adjusted R Square = 0.370** confirms that the explanatory power of the model remains acceptable when accounting for the number of observations used. The **ANOVA** table reports  $F=21.576$  and  $Sig.=0.000$ , indicating that the model is statistically reliable overall and that the effect of investment is not due to chance.

The coefficient analysis demonstrates that **investment mln** has a positive and statistically significant effect on **number\_of\_overnight\_stays** ( $B=9.269$ ;  $Beta=0.623$ ;  $p=0.000$ ). This result indicates that an increase in government investment is accompanied by an expansion in tourism activity in the region. Based on the interpretation of the unstandardized coefficient, a 1 million AZN increase in investment is associated with an average increase of approximately 9 overnight stays per month. This relationship can be economically justified by the improvement of infrastructure, road and transportation networks, utilities, and the overall service environment, which stimulate tourism flows

The estimated model equation is as follows:

$$\text{number\_of\_overnight\_stays} = a + 9,269 \cdot \text{invest\_mln} + \varepsilon$$

where  $a$  represents the constant term, and  $\varepsilon$  denotes the random residuals.

Using the same methodology, the second model was constructed with **number\_of\_catering\_entities** as the dependent variable. However, the results indicate that the effect of investment on the number of catering entities is not statistically significant ( $R=0.216$ ;  $R^2=0.046$ ;  $F=1.658$ ;  $p=0.207$ ). Although the

coefficient is positive, it is not significant at the 5% significance level. This result suggests that while an increase in investment elicits a more immediate response in tourism indicators, the growth in the number of catering entities is largely conditioned by factors such as population settlement dynamics, household income levels, and market demand formation.

Thus, the constructed models reveal the structural characteristics of the mechanism through which investment affects the service sector. The tourism indicator acts as a more sensitive variable to investment growth, whereas the number of catering entities develops with a lag and through indirect channels. This finding demonstrates the phased nature of service sector development: in the initial stage, infrastructure and tourism flows expand, while in the subsequent stage, the diversification of the private sector and the increase in the number of service entities occur.

The third chapter of the dissertation, titled “Main Directions of the Development of Service Sectors in Azerbaijan’s Liberated Territories,” presents the potential benefits of applying the experiences of countries implementing the “Fourth Industrial Revolution” model in service sectors to the region, the possibilities for implementing progressive incentive mechanisms for service sector development, and the primary directions for utilizing new types and forms of services in the liberated territories.

Based on our research, and considering the positive impact of state investments on tourism flows, the alignment of service strategies with infrastructure projects, the phased implementation of a minimum service package, and the diversification of the tourism portfolio have been identified as key priorities. Simultaneously, to accelerate the growth of catering and other service entities, it is essential to introduce institutional incentive mechanisms, simplify digital registration and permitting procedures, enhance workforce training, and strengthen the business environment.

Overall, the integration of innovations into various aspects of economic activity plays a crucial role in accelerating development, promoting competitiveness, and supporting sustainable growth in modern service-oriented economies. The implementation of these

strategies can facilitate the creation of a sustainable development mechanism for the service sector and enable the use of socio-economic innovations to ensure sectoral growth and efficiency. Solutions for attracting resources to foster innovative development in the service sector must align with economic realities and contribute to improving the well-being of the population.

Public-private partnerships are therefore considered one of the most viable approaches to achieving this objective. The integration of multiple domains of service innovation is crucial for generating synergistic effects in economic development and for enhancing the quality of life of the population.

It is essential that an organizational and managerial environment, alongside a service innovation activity system that provides the necessary infrastructure for innovative growth, be developed. Given the social significance and inherent complexity of the service sector, such a system requires active state regulation of innovative development. This regulation should not only establish clear objectives but also create incentives and mechanisms that encourage both the population and skilled workforce to develop, implement, and effectively utilize innovations<sup>5</sup>.

It is essential for the government to promote and facilitate innovation efforts to introduce new products to the market and to foster comprehensive innovation-driven growth. Such incentives aim to facilitate the expansion of organizations engaged in innovative activities and infrastructure, while simultaneously creating a conducive environment for the establishment and operation of the service market. The service economy is supported by states through mechanisms encompassing fiscal, monetary, tax, and customs measures.

In developed countries, incentive instruments include financial support, tax exemptions, and contract-based funding for scientific research.

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<sup>5</sup> Katochkov V.M. “Innovative Directions in Service Sector Development as a Factor of Economic Growth.” *Issues of Innovative Economy*, 2014, 4(1), pp. 14–20.

### 1. Legal and Infrastructure support

- By establishing supportive legal frameworks and developing appropriate infrastructure, the government can foster a conducive environment for innovation in the service sector. This approach also entails the provision of incentives aimed at encouraging enterprises to generate innovations and to implement socially significant projects and programs that create value for both the business community and society.

### 2. Preservation of activities:

- Service sector enterprises can enhance their commercial potential and economic performance by diversifying their activities. This may involve expanding the range of services offered, entering new markets, or developing innovative service delivery models.

### 3. Integration with other economic

- Horizontal integration within the service sector and collaboration and integration with other sectors of the economy (vertical integration) can lead to enhanced efficiency. For instance, cooperation between service providers and technology companies may foster the development of innovative solutions that benefit both parties.

### 4. Formation of innovation clusters :

- The establishment of innovation clusters can stimulate collaboration and knowledge exchange among service sector enterprises. These clusters may consist of a network of businesses, research institutions, and government bodies working together to develop and implement innovative solutions.

**Figure 1. Main strategies to enhance the socio-economic efficiency of the service sector through innovative development. Developed by the author based on data<sup>6</sup>**

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<sup>6</sup> Katochkov V.M. “Innovative Directions in Service Sector Development as a Factor of Economic Growth.” Issues of Innovative Economy, 2014, 4(1), pp. 14–20.

Special attention is given to the activities of small and medium-sized enterprises as well as researchers generating scientific results. While governments of different countries employ various strategies to promote innovation, direct funding remains a widely adopted approach in many nations, including the United Kingdom, Germany, Denmark, India, China, Norway, the United States, France, and Sweden. Subsidies, loans, and advances encompass all forms of direct financing capable of covering up to fifty percent of expenses related to the development of the service market. Such financing can be provided on preferential terms, including interest-free or deferred payment arrangements.

It is well recognized that the regions of Azerbaijan liberated from occupation possess significant tourism potential. Public-private partnerships in the tourism sector can foster intensive development in this area.

Any service sector established in the liberated territories must meet innovative requirements. This will both increase the interest of foreign investors in the region and ensure that the established companies are more successful and profitable. One of the most successful steps taken in this area in Azerbaijan is undoubtedly the “ASAN Service” model. These centers, as an example of innovation in the public service sector, should also be established in the liberated territories. Overall, state support plays an important role in the development of the service sector.

### **Results.**

The conducted research shows that the development of the service sector in the liberated territories of the Republic of Azerbaijan is one of the main directions for the region's economic revival. The restoration of infrastructure, improvement of the investment environment, application of digital technologies, and development of human capital can ensure the rapid and sustainable development of service sectors in these areas.

In the dissertation, the development of service sectors in the liberated territories has been studied as one of the central elements of the regional economic model. It has been determined that economic

circulation is not formed solely through capital investments; it is also closely linked to the functional state of the service network. Investment may enter the region, but if the service infrastructure does not function, that investment does not transform into a market mechanism. The theoretical framework has shown that post-conflict economic transformation is not built solely on a resource-oriented model. The key issue is the establishment of management capacity, institutional stability, and mechanisms for interaction between economic actors.

Based on the conducted theoretical and empirical analyses, the following conclusions have been drawn:

1. The development of service sectors in the liberated territories is not a stage to be initiated after the reconstruction process; rather, it should be established in parallel as an integral element of the economic system. It has been determined that without a functional service network, the pace of resettlement slows down, entrepreneurial initiatives are delayed, and the risk of capital inflows increases.

2. In the post-conflict phase, the state performs the initial organizational and financing functions; however, long-term economic stability depends on the free and predictable operation of the private sector within an institutional framework. The impact of services is determined more by the efficiency of management mechanisms than by the number of facilities.

3. The entrepreneur survey indicated that economic revival cannot rely on a single sector. 76.6% of respondents favored the parallel development of both industrial and service sectors. Tourism, selected as a priority by 74.5% of respondents, was confirmed as the leading sector that stimulates other service directions in the region.

4. Regarding job creation, 51.1% of respondents considered the joint activity of the public and private sectors to be more appropriate. This result highlights the influence of risk distribution and a stable institutional environment on market behavior.

5. The citizen survey demonstrated that resettlement decisions are closely linked to the accessibility of social services. 36.9% of respondents associated delays in relocation with adaptation to the

existing living environment, emphasizing that functional daily service infrastructure is a key condition for economic activity.

6. A positive correlation has been identified between strategic infrastructure projects and the perceived effectiveness of the reconstruction process. The expansion of smart city initiatives has been accompanied by an increase in reconstruction efficiency indicators. The growth of alternative energy projects has led to positive changes in reconstruction assessments, while the commissioning of airports has expanded transport connectivity, thereby stimulating economic activity.

7. Analysis of the relationship between state investment and the number of overnight stays indicates that as the volume of investment increases, the number of overnight stays also rises. Calculations show that a 1 million manat increase in state investment results, on average, in a 9.269-unit increase in overnight stays. Changes in overnight stays are 38.8% explained by the volume of investment. This demonstrates that state capital allocation has a direct and measurable impact on accommodation availability and tourism activity.

8. No statistically significant direct increase has been observed between state investment and the number of catering entities. This indicates that the expansion of the catering sector depends not only on state investment but also on population inflows, purchasing power, and entrepreneurial initiatives.

9. A risk of multicollinearity among explanatory variables has been identified, implying that economic decisions should be formed based on a joint assessment of multiple parallel factors rather than a single indicator.

10. Within the context of the Fourth Industrial Revolution, the development of the service sector should be based on digital management, data-driven control mechanisms, and standardized service quality. Competitive advantage depends not on the number of facilities but on the quality and sustainability of service delivery.

The results of the study indicate that the development of the service sector is not solely an issue of economic growth but also a critical factor for ensuring sustainable resettlement.

## Proposals

Based on the results of the research, it is considered appropriate to implement measures in the following directions:

- A separate strategic program document should be prepared for the development of service sectors, and its implementation mechanism should be based on clearly measurable indicators. A minimum service package standard should be determined for each settlement, and this package should be implemented in stages.

- To accelerate the transition effect of state investments on the service sector, the state's coordination, regulatory, and incentive mechanisms should be strengthened.

- Opportunities for private sector participation in alternative energy and transport projects should be increased. The formation of regional service clusters should be encouraged.

- Ecotourism, rural tourism, and health tourism projects should be developed in the liberated territories. Tourism routes should be established, and access to the international tourism market should be ensured. Investment in hotels, restaurants, and recreational services should also be encouraged. Ancillary service sectors that support the growth of tourism activity should be expanded gradually.

- Legal and institutional guarantees for investors should be strengthened, and investment promotion programs should be expanded to attract foreign and domestic investments in the service sector.

- The favorable geographical location of the liberated territories allows for the creation of regional logistics centers. For this purpose, logistics parks and trade centers should be established, interregional trade links expanded, and transit services developed.

- The preparation of qualified personnel is essential for the development of the service sector. Vocational training centers in tourism, logistics, and service areas should be established, training programs organized to increase local employment, and university–business collaboration strengthened.

- The application of digital economy elements in the reconstruction process of the liberated territories is of particular importance. In particular, the establishment of e-service platforms,

the expansion of broadband internet and digital services, the development of smart city and smart village projects, and the enhancement of digital logistics and e-commerce services should be ensured.

- To promote business development in the service sector, it is essential to increase access to favorable financial resources, expand tax incentives and subsidy programs, provide concessional loans for startups and small businesses, and strengthen public–private partnership mechanisms.

**The main provisions of the dissertation, the obtained results, and the recommendations have been reflected by the author in the following published articles and theses:**

1. C.M. Abdullayev. Post-conflict recovery and reconstruction of the service sector: international experience // “Qədim Diyar”(Ancient Land) International Scientific Journal. Baku, 2023 // Vol. 5, No. 12, pp. 53–58.

2. C.M. Abdullayev. Prospects for the development of tourism and agriculture in the liberated territories // International Scientific Conference “Current Issues in Natural and Economic Sciences”. Baku, 2023. Part VI, pp. 61–63.

3. C.M. Abdullayev. The Fourth Industrial Revolution in the liberated territories of Azerbaijan // Republican Scientific Conference on “Current Problems and Prospects of Economic Management”, jointly organized by Azerbaijan State University of Oil and Industry (ADNSU) and the Institute of Economics of the Ministry of Education. Baku, 2023, pp. 74–77.

4. C.M. Abdullayev. Green energy potential of the liberated territories // International Scientific Conference “Interstate Economic Relations: Current Challenges and Prospects”. Baku, 2023, No. 5, pp. 293–294.

5. C.M. Abdullayev. Organization and reconstruction of the transport service in the territories freed from occupation // II International Scientific Conference “Sustainable Development Strategy: Global Trends, National Experience and New Goals”. Baku, 2023, pp. 86–88.

6. C.M. Abdullayev, M.H. Zeynalov. Directions of economic restructuring in the liberated regions of Azerbaijan // All-Russian Scientific and Practical Conference of Students, Postgraduates and Young Researchers “Actual Aspects of Modernization of the Russian Economy”. 2023, pp. 412–418.

7. C.M. Abdullayev. Formation of a favorable business environment in the service sector in the liberated territories // Scientific Journal “Economic Growth and Public Welfare”. Baku, 2024, No. 1, pp. 70–80.

8. C.M. Abdullayev. Comparative analysis of service sector practices in countries applying the “Fourth Industrial Revolution” model // Scientific Journal “Innovative Economy and Management”. Baku, 2024, No. 1, pp. 101–108.

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11. C.M. Abdullayev, I.I. Gahramanov, A.D. Abdullayev. Eco-Smart Tourism: Bridging the Gap Between High-Tech Solutions and Sustainable Hotel Management Practices // International Conference on Smart Environment and Green Technologies – ICSEGT2024, Vol. 1, 2024, pp. 253–259.

12. C.M. Abdullayev. Use of international experience in applying innovations for the revival of the service sector in the liberated territories of Azerbaijan // III International Scientific-Practical Conference “International Transport-Logistics Corridors: Development Impulses from Zangilan”. Baku, 2024, pp. 332–335.

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14. C.M. Abdullayev. Reshaping the service economy: The Karabakh model // Journal of Economics and Management of Construction. Baku, 2025, Vol. 4, No. 33, pp. 240–246.

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Address: AZ1143, Baku city, H. Javid Ave., 115

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