

# FINANCE AND MONEY TURNOVER

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## POTENTIAL OF CREDIT AND INVESTMENT INSTRUMENTS FOR REGIONAL DEVELOPMENT IN THE CONTEXT OF DECENTRALIZATION ANNOTATION

**Bedrinets M. D.***National State Fiscal Service University of Ukraine,  
Ukraine, 08200, Irpin, Universytetska str., 31*

mira\_may@ukr.net

ORCID 0000-0002-0393-6635

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decentralization, regional economy, potential, instruments, credit, investment.

This article explores the potential of credit and investment instruments for the development of Ukrainian regions in the context of decentralization, and formulates recommendations for its improvement. Based on the analysis of statistical data, it was determined that the potential under study is characterized by relatively low indicators, and factors that negatively affect the potential use of these tools are identified. It was determined that from the point of view of macroeconomics, this potential increases with the economic development of the regions and the increasing need for credit resources. In terms of regional development, the potential of credit and investment instruments develops under the influence of the desire and abilities of regional authorities to create conditions in the region for attracting investments, as well as a focus on the development of regional lending institutions that can compete with foreign and large national banks for better lending conditions and the use of flexible ones. and attractive for borrowers loan - investment tools. These are the main advantages of mostly regional banks. All operations are carried out by small banks directly in the region, in a particular city or district, so stakeholders have the opportunity, if necessary, to obtain the necessary objective and timely information about the bank, and banks realistically and quickly assess the borrower, offer the most acceptable schemes and lending instruments. Thus, regional investment banks in the context of decentralization have the advantages that allow them to be qualitatively different from other commercial banks, and they have the potential to function by promoting the regional economy, increasing the potential of credit and investment instruments of regional development.

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## ПОТЕНЦІАЛ КРЕДИТНИХ ТА ІНВЕСТИЦІЙНИХ ІНСТРУМЕНТІВ РЕГІОНАЛЬНОГО РОЗВИТКУ В УМОВАХ ДЕЦЕНТРАЛІЗАЦІЇ

**Бедринець М. Д.***Університет державної фіскальної служби України  
Україна, 08200, м. Ірпінь, вул. Університетська, 31***Ключові слова:**

децентралізація, регіональна економіка, потенціал, інструменти, кредит, інвестиції.

У статті досліджено потенціал кредитних та інвестиційних інструментів розвитку регіонів України в умовах децентралізації, сформульовано рекомендації щодо його підвищення. На основі аналізу статистичних даних зазначено, що досліджуваний потенціал характеризується відносно низькими показниками; визначено фактори, що негативно впливають на потенційні можливості використання цих інструментів. Зазначено, що з точки зору макроекономіки цей потенціал підвищується в міру економічного розвитку регіонів, підвищення потреб у кредитних ресурсах. У плані регіонального розвитку потенціал кредитно-інвестиційних інструментів розвивається під впливом бажання і здібностей регіональних влад створювати в регіоні умови для залучення інвестицій, а також орієнтації на розвиток регіональних інститутів кредитування, здатних конкурувати з іноземними та великими національними банками з приводу кращих умов кредитування, використання гнучких і привабливих для позичальників кредитно-інвестиційних інструментів. Це головні переваги здебільшого регіональних банків. Усі операції малі банки здійснюють безпосередньо в регіоні, у конкретному місті чи районі, отже, у зацікавлених осіб є можливість у разі потреби отримати необхідну об'єктивну і своєчасну інформацію про банк, а в банків – реально і оперативно оцінити стан позичальника, запропонувати найбільш прийнятні схеми й інструменти кредитування. Отже, регіональні інвестиційні банки в умовах децентралізації мають переваги, які дозволяють їм якісно відрізнитися від інших комерційних банків. У них є потенціал, щоб функціонувати, сприяючи розвитку

регіональної економіки, підвищенню потенціалу кредитних та інвестиційних інструментів регіонального розвитку.

### Statement of the problem

Regionalization of economic processes, which has intensified in Ukraine in recent years, is of great importance for improving the efficiency of the regional economy, living standards and development of the regions as a complex socio-economic system that provides high quality of life, business and social development. Credit and investment are the main factors influencing the development of the regional economic system and capable of giving a primary impetus to economic growth. In a situation where financial investment opportunities in certain regions are limited and resources are often used irrationally, solving the problem of intensifying the investment process in the region depends largely on developing a complex financial strategy for regional development that enhances the potential of using credit and investment instruments of regional development.

In other words, following the paradigm of modern regionalism, the main components and functional dependencies in the process of developing the capacity of credit and investment instruments should be viewed in the light of opportunities to enhance the regional banking system.

It is vital to find and substantiate effective ways and tools, flexible forms and priority areas for regional banks to compete with large international and national credit institutions, providing loans that meet the needs and opportunities of regional development in a context of decentralization.

The above determines the relevance of the problem regarding the study of the potential of credit and investment instruments of regional development in the context of decentralization.

### Analysis of recent studies and publications

Problems of the role of bank lending in improving the efficiency of the investment process are devoted to the scientific works of O.D. Vovchak [3], L. Oleynikova [15], A. Cherep [15], O. Cherep [15], D. Krylov [15] and others. Features of the impact of credit on the development of the economy of the regions of Ukraine were considered in the works of S. A. Navrotsky [18], V. I. Vartsaby [17], O. B. Zhikhov [4], T. M. Kutsenko [4] and others.

However, most of the scientific works devoted to the study of credit issues at the regional level do not take into account the regional specificity of attracting and using credit resources, and do not investigate the potential possibilities of using credit and investment instruments in the current conditions of development of Ukrainian regions. The urgency and underdevelopment of this issue were the basis for this study.

### Objectives of the article

Objectives of the article is to develop proposals for assessing the potential of credit and investment instruments for regional development in a context of decentralization, as well as recommendations for enhancing it.

### The main material of the research

Nowadays, the development of public administration in Ukraine is characterized by a tendency towards decentralization of government. Since 2014, a large-scale decentralization reform has been ongoing in the country, resulting in the creation of more than 800 integrated territorial communities, covering a third of Ukraine's territory and receiving more financial resources, direct relations with the state budget, broader powers in attracting credit resources.

Thus, in the country, the task of deepening the processes of market transformation on the basis of increasing the efficiency of utilizing the potential of regions, increasing the effectiveness of administrative decisions, improving the work of state and local governments, is being implemented [11].

To ensure the necessary level of balanced socio-economic development of the regions of Ukraine, to increase the efficiency of the functioning of regional economic systems, it is necessary to apply different methods and mechanisms of support and development of the regional economy. This is especially true nowadays, in the context of the economic crisis, which is still the main feature of the socio-economic situation in the country. In this regard, it is important to consider and study the system of formation of credit and investment instruments for the development of regions of Ukraine.

Research of works of Ukrainian researchers [8; 14] suggests that scientists under the credit and investment instruments of development of the region understand the totality of financial obligations that are included in the structure of credit relations on the basis of methods of formation of credit resources and their use (investing) in order to achieve sustainable socio-economic regional development depending on constantly evolving needs.

Accordingly, we define the potential of credit and investment instruments of regional development as the set of all available opportunities to attract different forms of loans to the regional economy and invest them in perspective projects of regional development, taking into account the maximum efficiency of using the attracted financial resources in terms of the impact of lending on the development of the regional economy.

In the work of N.P. Polyak [10] the forms of credit instruments that are the basis of lending to the real economy at the regional level are identified (Fig. 1).

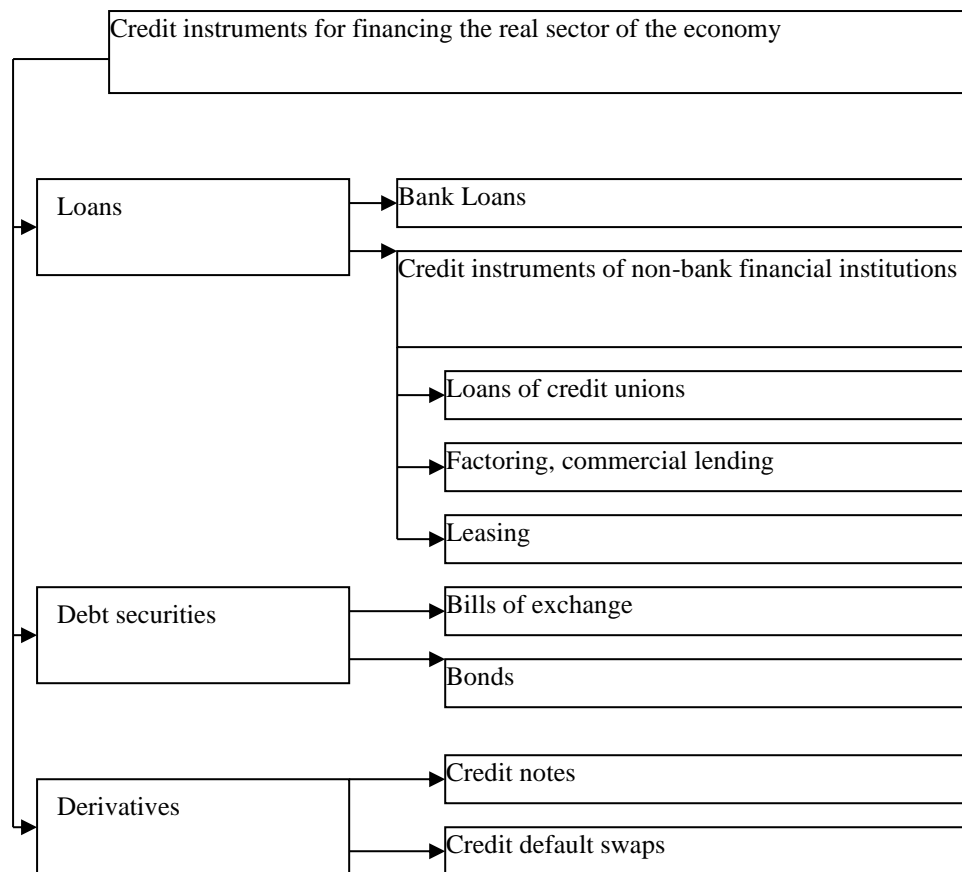


Fig. 1. Credit instruments for financing the real sector of the economy

Given the relative diversity of lending instruments of the regional economy, the process of developing various regional investment projects always raises the problem of choosing the most promising, potentially effective tool that a commercial bank can provide.

Undoubtedly, the expected financial result is one of the decisive factors in the process of choosing the optimal source of financing for the regional economy. When attracting debt capital, the ratio of the level of expected profit and possible losses should be as high as possible. Thus, it is of great importance to evaluate the potential of various credit instruments in terms of the economic efficiency of using a particular source of financing. The assessment of the economic efficiency of the selected source of financing consists of determining many indicators characterizing the region's economy, the investment project and financing instrument selected, as well as the type of economic situation in the region and the conditions of regional government.

In this regard, it should be noted that for the regions of our country, which are now able to actively access various lending instruments in the context of decentralization, the still urgent problem is the existence of numerous bureaucratic and administrative restrictions when choosing a lending option, in connection with which, in this activity, organizational factors should be taken into account in the first place.

These include having sufficient qualifications from regional management system managers in the field of financial management as well as relative ease of access to funding.

It is also necessary to take into account the current financial situation of the region, as discussed above, and

the state of the financial markets, while also analyzing the possibilities of alternative sources of credit.

With regard to formal factors, the following criteria are used: maximizing return on equity or minimizing costs associated with servicing a credit instrument.

According to foreign researchers, according to the first criterion, the most favorable characteristics are bonds and bank credit, which provide ample opportunities for attracting borrowed funds in the regional economy. The second criterion is preferred to issue shares and also a bank loan. According to the last criterion, the use of which can be recommended for regions that do not have significant financial resources, bank loans and access to derivative financial instruments for solving problems of regional economy development deserve attention [20, p. 22].

At the same time, it should be borne in mind that in the context of decentralization and significant differentiation of territories according to the level of economic development and life of the population, the issue of using debt capital as a factor in ensuring the development of regions becomes especially relevant. The heterogeneity of the regions of Ukraine in terms of securing credit resources (Table 1) is, firstly, a reflection of the different levels of activity of regional economies. Secondly, the variety of loan forms and the investment program for each region indicate that there is no "benchmark" for attracting and placing loans among regions of Ukraine. Thirdly, in the conditions of uneven development of regions, there is a need to correlate the volume of lending and investment activity, bearing in mind that the overwhelming majority of credit resources goes to meet the investment needs of the regions.

Table 1 – Lending volumes of the regional economy of Ukraine by region as of 06.2019 (UAH million) (according to data [9])

Regions	Total UAH million	In national currency UAH million	In foreign currency (UAH million equivalent)
<b>Total</b>	<b>1 022 606</b>	<b>607 238</b>	<b>415 368</b>
Vinnitsia oblast	7 783	6 695	1 088
Volyn oblast	6 949	4 440	2 509
Dnipropetrovsk oblast	230 382	203 677	26 705
Donetsk oblast	15 693	9 473	6 220
Zhytomyr oblast	6 443	4 939	1 504
Zakarpattia oblast	6 000	3 256	2 744
Zaporizhzhia oblast	26 980	12 067	14 913
Ivano-Frankivsk oblast	6 714	4 680	2 034
Kyiv and Kyiv oblast	527 917	236 268	291 648
Kirovohrad oblast	6 579	5 664	915
Luhansk oblast	5 191	4 679	512
Lviv oblast	25 739	15 406	10 333
Mykolaiv oblast	16 511	6 437	10 074
Odesa oblast	33 343	20 709	12 634
Poltava oblast	10 990	9 193	1 797
Rivne oblast	4 935	3 575	1 359
Sumy oblast	7 769	5 667	2 102
Ternopil oblast	5 241	4 175	1 066
Kharkiv oblast	39 244	23 762	15 482
Kherson oblast	7 177	5 339	1 838
Khmelnyskyi oblast	7 377	5 164	2 212
Cherkasy oblast	10 165	5 819	4 346
Chernivtsi oblast	3 123	2 359	764
Chernihiv oblast	4 364	3 794	571

As we can see in Ukraine, there are significant differences in the volume of attracting credit resources on a regional basis. The analysis of the data concerning the granting of credits shows that among the regions of Ukraine the largest number of loans was issued in the city of Kyiv and Kyiv region - more than UAH 527 million or 32% of the total. Among the leaders in terms of credit financing is also the Dnepropetrovsk region, other regions of Ukraine are far behind the leaders in terms of attracting credit resources. At the same time, the most expensive hryvnia loans are issued in Lviv, Ivano-Frankivsk and Zakarpattia regions, and the cheapest in Kharkiv, Donetsk and Lugansk. For the currency overdraft, the lowest rate is in Zhytomyr, the highest is in the Ivano-Frankivsk region [7].

Based on the above data, it is possible to group all regions by level of attraction of credit resources into three groups: regions-leaders in attracting credits; regions with average rates of borrowing; regions-outsiders.

We calculate the interval [13], which allows to limit the groups of regions from the studied indicator: (527 917.0 (maximal volumes of attracting credits) - 3123.0 (minimum volumes of attracting credits) / 3 groups = UAH 174931.3 million.

Then the regions-outsiders, that is, regions with relatively low rates of borrowing, can be attributed to regions whose lending volumes are in the numerical segment from UAH 3 123.0 million. up to UAH 178054.3 million; lending volumes of regions with average rates of attracting loans will be in the numerical segment from UAH 178054.4 million. up to UAH 352985.6 million; regions-leaders in attracting loans have an indicator of lending, which lies on a numerical segment from UAH 352 985.7 million. to UAH 527 917.0 million

In the table, all regions of Ukraine are grouped according to the level of attracting loans (Table 2).

Table 2 – Grouping of regions of Ukraine by the level of attraction of credit resources

I. Regions-leaders in terms of attracting credit resources		
№	Region	million UAH.
1.	Kyiv and Kyiv oblast'	527 917
II. Regions with average rates of attracting credit resources		
№	Region	million UAH.
1.	Dnipropetrovsk oblast	230 382
III. Region with relatively low rates of attracting credit resources		
№	Region	million UAH.
1.	Vinnitsia oblast	7 783
2.	Volyn oblast	6 949
3.	Donetsk oblast	15 693
4.	Zhytomyr oblast	6 443
5.	Zakarpattia oblast	6 000
6.	Zaporizhzhia oblast	26 980
7.	Ivano-Frankivsk oblast	6 714
8.	Kyiv oblast	6 579
9.	Kirovohrad oblast	5 191
10.	Luhansk oblast	25 739
11.	Lviv oblast	16 511
12.	Mykolaiv oblast	33 343
13.	Odesa oblast	10 990
14.	Poltava oblast	4 935
15.	Rivne oblast	7 769
16.	Sumy oblast	5 241
17.	Ternopil oblast	39 244
18.	Kharkiv oblast	7 177
19.	Kherson oblast	7 377
20.	Khmelnitskyi oblast	10 165
21.	Cherkasy oblast	3 123
22.	Chernivtsi oblast	4 364
	Total	264307

Thus, we can say that nowadays only two regions of Ukraine are allocated by the volume of attracting loans, with the vast majority of regions of Ukraine being in the group, which accumulates only 25.8% of total lending.

At the same time, when comparing the volumes of attracting loans with the investment activity of the regions, it can be noted that in the presence of high investment activity of individual regions, the volumes of attracting loans are low (Table 3).

Table 3 – Grouping of regions of Ukraine by the level of investment activity and volumes of attracting loans (according to [12])

№	Region	Volume of attracting loans	Investment activity
1	Kyiv and Kyiv oblast'	High	Average
2	Dnipropetrovsk oblast	Average	High
3	Vinnitsia oblast	Low	Average
4	Volyn oblast	Low	Average
5	Donetsk oblast	Low	Average
6	Zhytomyr oblast	Low	Average
7	Zakarpattia oblast	Low	Average
8	Zaporizhzhia oblast	Low	Average
9	Ivano-Frankivsk oblast	Low	Average
10	Kirovohrad oblast	Low	Average
11	Luhansk oblast	Low	Average
12	Lviv oblast	Low	Average
13	Mykolaiv oblast	Low	Low
14	Odesa oblast	Low	High
15	Poltava oblast	Low	High
16	Rivne oblast	Low	Average
17	Sumy oblast	Low	Low
18	Ternopil oblast	Low	Low
19	Kharkiv oblast	Low	High
20	Kherson oblast	Low	Average

Continuation of Table 3

21	Khmelnyskyi oblast	Low	Low
22	Cherkasy oblast	Low	Average
23	Chernivtsi oblast	Low	Low
24	Chernihiv oblast	Low	Average

As we can see, lending volumes are weakly correlated with the investment activity of the regions. The correlation coefficient [13] is:

$$\eta = \frac{\sqrt{(24-19)}}{\sqrt{(24-5)}} = 0,51$$

The result shows that the potential of credit instruments is not used effectively in terms of influencing the investment activity of the regional economy. The low efficiency of the used credit-investment instruments is certainly connected with the general economic situation in the country, with a limited number of truly large-scale investment projects, as well as with the limited ability of the regions to service loans.

However, in our opinion, the problems lie not only with the financial and economic factors, but there are a number of other factors that reduce the potential of credit and investment instruments of regional development in the context of decentralization.

In particular, it is necessary to note the absence in the regions of investment banks capable of providing favorable lending conditions, offering flexible conditions that meet the needs of the regional investor.

It is also noteworthy that, as a rule, regional economic leaders finance their limited investment needs at their own expense, for example, "ArcelorMittalKryviyRih" PJSC, having received a net profit of UAH 66.19 billion in 2017 invested UAH 9 billion in the development of production without resorting to credit resources [2].

Another problem is that Ukrainian banks are losing money to foreign banks in terms of the attractiveness of their loans. There is a high attractiveness of foreign investment for the regions, which is determined by more favorable lending conditions. At present, Ukrainian banking institutions provide loans with high interest rates. In addition, there is also the problem of payback periods - usually either very small or vice versa - too large. The solution to these problems is to obtain a loan from foreign banks, which offer the same loan for a period of 15-20 years at 3-5% per annum. Even countries that have problems with their economic situation, such as Greece, offer loans at a maximum of 10% [19].

In this regard, regions are quite reasonably drawn to foreign sources of credit. For example, a \$400 million investment was raised by "Ukrtelecom" from China, which is investing this money in developing ADSL Internet access. These investments are localized in Kyiv, Kharkiv, Odessa, Zaporizhzhia, Lviv and Dnipro [6].

Bunge, an American investor, has invested more than \$ 200 million in the construction of a production of the port in Nikolaev, and the American company Looktery, which has invested more than \$ 150 million in 2016, has acquired Ukrainian startup Looktery, - an application for processing various images.

Thus, Western investors are paying attention to the country's risky IT sector, despite the fact that Ukrainian banks consider this area of lending to be very risky [6].

In addition, the attractiveness of national credit and investment instruments to Ukrainian regions reduces the ability to obtain loans from the European Bank for Reconstruction and Development, which provides regions with much more favorable financing conditions for investment projects that national banking institutions cannot provide. That is why in 2016 an Additional Agreement was signed between the Government of Ukraine and the European Commission to the Financing Agreement for the Sectoral Policy Support Program - Support for Ukraine's Regional Policy [1].

In total, during the period of cooperation with Ukraine in all areas of cooperation, the Bank approved 380 projects for a total amount of EUR 11,822 billion. Ukrainian regions are actively using the European Bank for Reconstruction and Development's credit facility in many areas that are vital to the development of the regional economy. For example, in 2019, Zhytomyr signed an agreement with the European Bank for Reconstruction and Development for the purchase of 50 trolleybuses.

The European Bank for Reconstruction and Development also finances a project to extend the third subway line in Kharkiv, which provides funding for the European Bank for Reconstruction and Development for EUR 150 million and the European Investment Bank for EUR 154.5 million [16].

In pursuit of its statutory objectives, the EBRD is most actively developing and contributing to the introduction of modern debt and financial instruments to continuously enhance the effectiveness of cooperation, offering forms of credit currently rarely used by Ukrainian banks, such as credit lines, syndicated lending and issuance assistance. [5].

Thus, nowadays regions of Ukraine, in most cases, solve their problems in the field of investment support of regional development, resorting to the services of foreign lenders, which speaks about the low potential of credit and investment instruments used by Ukrainian banks, the low attractiveness of cooperation between regions and the national banking system.

It should be said that in the conditions of decentralization we can expect further increase of cooperation between regional authorities, leaders of regional economies with foreign credit institutions. We see in this a certain danger related to the fact that regions of our country may become financially dependent on foreign credit institutions, which should be considered already in the context of the problem of national security of Ukraine. In addition, enhancing such cooperation can cause serious damage to the national banking system, further reducing the potential of credit and investment instruments used in regional financing practices.

In this context, the question arises: how in the present time, in the conditions of decentralization, to increase the

potential of credit and investment instruments of regional development?

In our opinion, it is possible to solve this problem if to create in the regions of Ukraine a network of investment banks that focus on the needs of the regions, use flexible lending instruments, and offer better financing conditions by reducing the level of "commercialization", reducing the interest rate on loans.

The founders of such banks should be local governments, large regional financial and economic structures of regions interested in accelerated regional development.

Speaking about the possibility of solving the problem under study, we note that in the scientific literature [4, 17] there is a view that having a wide network of branches of large banks in the country is an absolute benefit, since it should facilitate the free flow of capital into the regional economy. However, this situation should not be unequivocally positive.

First, for all constituents of the financial system of the regions (credit, settlement, savings) getting into strategic dependence on a small number of large (including state-owned) banks is fraught with great systemic risks.

Secondly, the current situation, which is characterized by "financial starvation" in many regions, shows that it is clearly not enough to service, for example, a small business by the established network of commercial banks in terms of cooperation with the business sector.

Third, as an argument that the regional banking system is developing most effectively by increasing the number of large bank affiliates, they often point to a potentially broader range of potential services than the functionality of regional banks. At the same time, regional banks in Ukraine clearly have their competitive advantages. This is primarily related to proximity to the consumer, as well as a greater desire on the part of banks and local administrations to increase the pace of development of the banking system.

It should also be noted that, based on the specifics of the activity, the competitiveness of regional investment banks in the field is quite high.

The main reasons why regional businesses and authorities prefer to cooperate with local banks are accessibility, a factor of trust, the ability to monitor and assess the integrity of their reputation. The advantages of regional investment banks, such as flexibility and speed of decision making, allow regional banks to serve their clients more effectively.

These are the main advantages of mostly regional banks. All the operations of small banks are carried out directly in the region, in a particular city or region, so that interested persons have the opportunity to obtain the necessary objective and timely information about the bank, if necessary, and to provide banks with real and prompt assessment of the status of the borrower, to offer the most acceptable schemes and lending tools.

Thus, in a decentralized environment, regional investment banks have the advantages that allow them to be qualitatively different from other commercial banks, and they have the potential to function, contributing to the development of the regional economy, enhancing the capacity of credit and investment instruments of regional development.

### Conclusions

To summarize this article, let us draw attention to the fact that the potential of credit and investment instruments of regional development under decentralization conditions has both a macro and a mesoeconomic dimension.

From the point of view of the macroeconomics, this potential increases as the economic development of the regions, increasing the need for credit resources.

In terms of regional development, the potential of credit and investment instruments develops under the influence of the desire and ability of regional authorities to create in the region conditions for attracting investments, as well as to focus on the development of regional lending institutions, able to compete with foreign and large national banks for better lending conditions, use of flexible lending conditions and credit-investment instruments that are attractive to borrowers.

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