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ASSESSMENT OF THE REGION'S INVESTMENT ENVIRONMENT AND POLICY INSTRUMENTS FOR THE IMPLEMENTATION OF ITS INVESTMENT POTENTIAL IN WARTIME

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Abstract. The *subject* of the study is the processes of formation and implementation of regional investment policy in wartime. *Methodology.* The following methods of economic analysis were used in the study: analysis and synthesis (to ensure a systematic approach when characterising the investment environment of the region), statistical analysis and calculation (when analysing the volume, dynamics and structure, factors and functional features of the formation of the investment environment of the regional economy), strategic management (to determine the strategic goal, objectives, mechanisms, instruments and expected results of the regional investment policy in wartime). The *article is aimed* at characterising the state of the investment environment of the region and substantiating the instruments for realisation of the investment potential of the region in wartime (on the example of Lviv Oblast of Ukraine). The *results* of the study enabled the identification of the strengths and weaknesses, as well as the opportunities and threats, of the region's investment environment in terms of components such as production and resources, institutional and legal, security, infrastructure and macroeconomic. In particular, the article finds that the production and resource, safety and macroeconomic components of the region's investment environment are at a relatively high level. Instead, the institutional, legal and infrastructural components are characterised by greater problems (and thus a negative impact on the intensification and improvement of the structural characteristics of investment activity). *Conclusion.* The Lviv Oblast has been shown to exhibit several distinguishing features when compared to other regions of Ukraine. These include a relatively large domestic market and a high level of development in the real sector, including financial and credit, and investment infrastructure, transport, logistics, and trade systems, construction, education, scientific and ICT potential, and a large population. The region's strategic location has also contributed to the influx of substantial capital investment, which has been allocated to the regional economy, particularly to real sector industries, productive sectors, and areas with a high level of added value. This indicates that the region's investment development is at a relatively high level. At the same time, the following shortcomings and weaknesses remain in the region's investment development: the presence of systemic deficiencies in the region's investment climate; small volumes of investment (per unit of resources) and limited rates of their increase; low investment activity in the real sector of the economy with high added value; low investment in intangible assets in industries that form human and innovative potential; critically low volumes of foreign investment, especially direct investment; limited public, intermunicipal and cross-border investment; underdeveloped system of risk financing of investment in innovation; underdeveloped stock market and small role of bank lending. It is substantiated that effective instruments of regional investment policy in the context of critical instability are: military risk insurance and diversification; use of concession agreements; private and public investments in the defence industry and critical infrastructure industries/sectors (energy, transport and logistics, medicine and pharmaceuticals, natural resources); support for innovative and technological startups in the areas of security, the real economy and infrastructure; stimulation of investments in human resources; support for investments in business projects of demobilised

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persons, war veterans and other combatants; encouragement of investments in the development of export potential to maintain the country's financial security.

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JEL Classification: E22, G21, G23, G24, G28, H54, R11

1. Introduction

The investment policy is a part of the general economic policy of the State/regional authorities and local self-gover nment, in a generalised form, aimed at meeting public and business needs for financial and other resources, means and technologies necessary for the implementation of important social and economic investment projects. Therefore, in order to achieve this goal, the public authorities organise and carry out the following tasks: on the one hand, the creation of a favourable investment environment that does not hinder, but, on the contrary, stimulates and increases the demand for capital investments; on the other hand, the development of the financial system of the regions, the investment sector, its infrastructure, entities and elements that develop the supply of investment resources.

However, this is only the so-called resultant part of the objective of state investment policy, while in the course of its implementation a much wider list of functions and tasks of regulation is realised. For instance, the following issues are to be considered: the influence on the processes of renewal and increase in fixed capital, its redistribution between different sectors of the economy, types of economic activity, stages of social reproduction, the intensification of innovation and technological development in regions or sectoral economic systems, an increase in production capacities and the streamlining of production and economic processes, and the strengthening of the potential of social responsibility of economic agents.

Consequently, an effective investment policy enables the formation of capital as a primary factor of production in the optimal amount and with sufficient availability. Furthermore, it facilitates the attainment of numerous systemic macroeconomic effects, encompassing structural changes and institutional reforms, during the processes of accumulation, distribution, and rational and efficient utilisation.

The results of the analysis of the investment environment have a high methodological and applied value, as they allow the direct identification of the causes of the state, dynamics and structural characteristics of investment processes. Thus, the volume and dynamics of investments and investment activity are determined, on the one hand, by the financial and economic capabilities of business entities, the resource potential of representatives of the investment sector and the country's financial and credit system, the income and already formed savings of the population (supply of investment resources), and, on the other hand, by the availability of ambitious projects that are interesting from the point of view of business and capital investment, as well as promising in terms of acceptable payback periods and high investment efficiency, return on invested capital and the possibility of its rapid and high-quality reinvestment (demand for investment resources).

At the same time, investment market conditions are mediated by the infrastructure (designed to coordinate the processes of preparing investment projects and developing investment proposals, accumulating and attracting funds, their distribution, use, implementation of measures, insurance and return of resources) and institutional (focused on the protection and security of property and assets, regulation and stability of the rules of the game, independence and efficiency of the judiciary, free competition and market environment, democratisation of society, absence of systemic deviations and imbalances in the functioning and development of the socio-economic and socio-political systems, etc.) environment.

The issues highlighted in this study underscore the critical importance of characterising the investment environment of the region and identifying policy instruments to realise its investment potential.

2. Methodological Provisions in the Field of Analysis of the Investment Environment of the Region and Regional Policy of its Formation

The relevant potential and capacity of the investment policy is determined by the budgetary possibilities, in particular the forecast amounts of financing of investment activity. According to this approach, the investment policy is not actually distinguished as a separate main direction of the country's regional development policy, serving only as a separate component of economic regulation and characterising the state's attitude to investment activity, the rules and principles of its implementation. At the same time, this approach is shared by some scholars, such as (Borsh, Gerasimova, 2007; Sheverdina, 2012).

However, in the majority of modern publications on the formation and implementation of investment policy, scientists clearly interpret it as an independent area of economic policy implemented by the government and local authorities, with a clearly defined goal, strategic objectives, tasks, principles, methods, mechanisms and tools for implementation, and the results of such a policy, which go far beyond the attraction and use of capital for state, business and social investment projects, and which allow investment policy to be properly elevated to the rank of a systemic and comprehensive framework that affects national, regional and business economic interests and affects all phases of economic reproduction and spheres of society. The dissemination of such concepts is evident in the scholarly contributions of Koyuda, Lepeiko, Koyuda, Hrynyova (2008) and Sokurenko, Krishan (2010).

Another approach to the essential interpretation of the investment policy can be characterized as structural. This approach is defined by a meticulously organised array of mechanisms, tools and means employed by the state, lower-level authorities and governments to effect changes (improvements) to the fundamental structural relationships within the economic system (Kravtsiv, Melnyk, Antonov, 2011).

A number of researchers have proposed a security approach to the essential characteristics of the investment policy. For instance, D. Nikitenko concludes that the country's investment policy should be understood as a system of actions and measures organised and implemented by state authorities to intensify investment activity, accelerate and improve investment processes. This, in turn, has a positive impact on the investment climate and the institutional environment of business activity in general (Nikitenko, 2018).

M. Kondrashova (2008) also emphasises the importance of the investment policy in initiating structural changes in the economic system, as well as in scaling up reproduction processes.

According to A. Zagorodnii, investment policy concerns macroeconomic decisions on the sources of formation and directions of use of investments for their rational distribution and efficient use in the economy as a whole and in its various sectors in particular, the elimination of spatial, structural and other imbalances in the functioning and development of the economic system, the equalisation of growth rates and trends in the spheres of material production and the social system (Zagorodnii, Vozniuk, 2007).

According to S. Chistov et al. investment policy is a set of state measures (institutional and legal, institutional and organisational, economic, administrative, social, political, informational, etc.) that have a systemic impact on activation and rationalisation of investment processes of business entities and the economy as a whole (Chistov, Nikiforov, Kutsenko, 2000).

It is a set of measures organised and implemented by the state at different levels of economic management (central, regional, sectoral and microeconomic) to increase investment by improving the investment and business climate, creating new incentives for economic agents and investors of various types. This is stated in the search results (Nechiporuk, 2012).

Developing such ideas, O. Gonta also establishes favourable incentive conditions for business in terms of efficient management and formation of investment capital, attraction and rational use of domestic and foreign investment in the strategic goal of investment policy implemented by the state in the economy, its sectors, types of economic activity and regions. According to scientists, the state carries out a number of relevant measures for this purpose (Gonta, Dubina, Pilevich, 2013).

As demonstrated in the works of P. Sokurenko and O. Krishan (2010), there are comparable guidelines concerning the function of investment as a primary catalyst in the process of social reproduction and the realisation of sustainable socio-economic development. These processes are contingent upon the conditions and environment of investment.

On the other hand, the authors can also contrast a significant number of studies in which social development, modernisation of social infrastructure and improvement of the quality of life of the population are defined by scientists as the main objectives/criteria for the efficiency of investment activity. For example, L. Hrytsenko (2012), revealing the essential features of investment policy, argues that it is a set of measures planned and implemented by government bodies to increase, on the one hand, the volume of production and, on the other hand, to create a social environment with a high level of quality of life, social services, their integration and modern progressive social standards.

It can be added that the idea of investing in the smart infrastructure of cities and territories, which can significantly improve the quality of life of the population by digitising most spheres of public life and administrative, social and other services, clearly fits into this context. These are the results of the research of A. Oleshko et al. (2022), Ya. Zhalilo and D. Oliynyk (2021), etc.

V. Pshenychna (2011) conceptualises the investment policy as a multifaceted mechanism encompassing institutional, legal and economic dimensions. The policy's instruments are designed to engender a series of economic and social outcomes, characterised by their self-reinforcing nature and scalability.

It can thus be concluded, based on the aforementioned generalisation, that the investment policy constitutes a component of the economic policy of the state. This component comprises a system of methods, forms, mechanisms, and measures of influence (regulation) on the volume and structure of investment, and the course of investment processes to meet its purpose, goals, and objectives.

3. Identification of Elements of the Investment Environment and its Decomposition

This approach to the vision of the investment environment in the region facilitates discussion of the so-called investment environment, within which the differential features of such concepts as investment environment, investment climate, and investment attractiveness both function and crystallise (Figure 1).

Consequently, the aforementioned findings provide a robust foundation for determining a high level of theoretical, methodological, and applied significance of the study of the characteristics of the region's investment environment. Moreover, in the case of the regions of Ukraine, the significance of the results is determined by the differentiation in the characteristics of the environment before and during the full-scale war, which clearly indicates both the reasons for the sharp deterioration of the investment climate and, consequently, of activity, and the ways and even potential means of regional policy to improve and significantly modernise the environment for foreign direct and domestic capital and other instruments, which are crucial from the point of view of structural reform of the regional socio-economic system, improving its quality and increasing social and productive capacity.

4. Analysis of the Regional Investment Environment on the Example of Lviv Oblast

Speaking about the investment environment, the authors should first characterise its production and resource component, i.e., the existence of a system of production (supply, provision) of investment activity with necessary resources, including financial, tangible and intangible, natural and human. For example, the Lviv Oblast has significant natural resources and minerals. The region is rich in land resources. The availability of natural and other resources and a developed economy, including industry, agriculture, construction, trade, and other basic economic activities, are favourable features of the region's investment environment. At the same

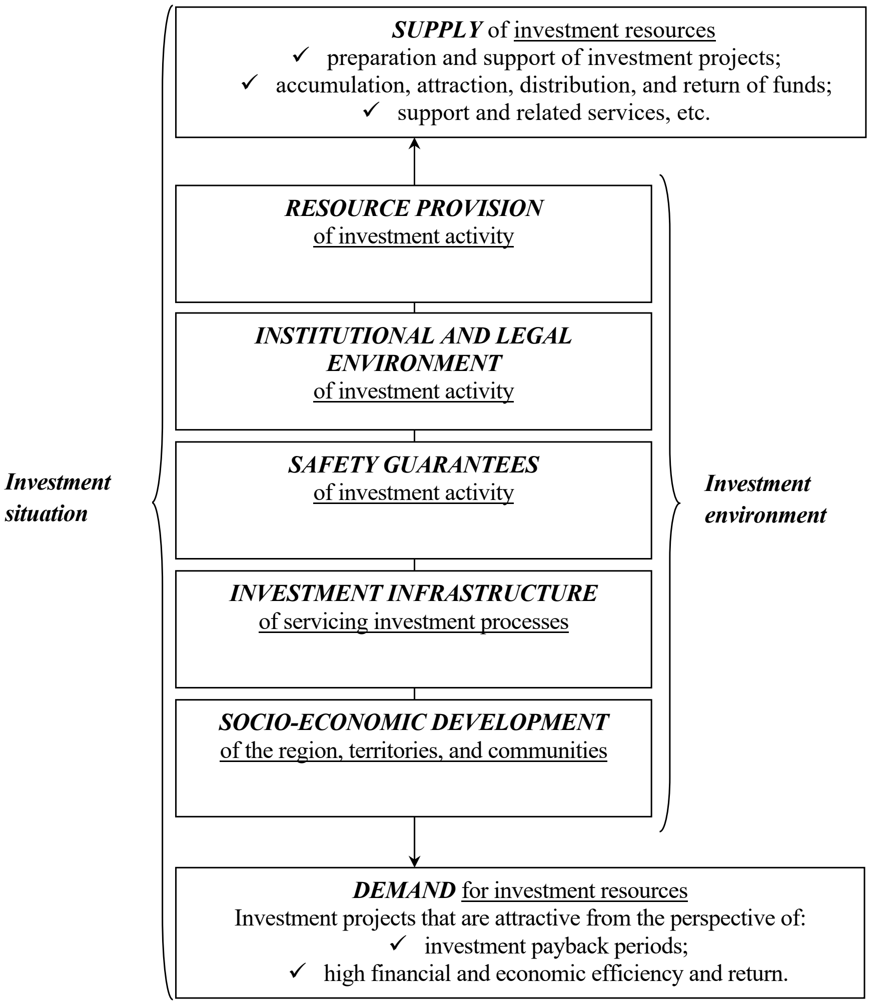

Figure 1. Elements of the investment situation and its decomposition; place and components of the investment environment (conceptual vision)

Source: authors' development

time, the region remains in the rear of the full-scale war and has not suffered significant losses from military operations, so it remains attractive for investment in this regard.

The Lviv region also has a high potential in terms of a large number of business entities and a correspondingly developed business climate. As of 01.01.2023, 77.5 thousand legal entities and more than 130 thousand individual entrepreneurs (hereinafter referred to as IEs) were registered here, which is about 5.5% of the total number in Ukraine. At the same time, the region is characterised by positive dynamics in terms of an increase in the share of enterprises compared to the national average.

The existing production and resource potential as a component of the investment environment of the Lviv Oblast is also evidenced by good values of the leading indicators of socio-economic development of the region within Ukraine (Figure 2).

For example, the share of housing starts in the Lviv Oblast was 10.6%, which placed the region third in the country for this indicator. The region played a significant role in the production of construction products (7.2% of the national value), export of services (6.7%), number of employed population (6.6%), retail sales (6.2%), number of current population and its income (6.0%).

In general, the Lviv Oblast demonstrated high rankings in the majority of the analysed aspects of potential, occupying positions from fourth to seventh out of the regions of the country. However, in terms of agricultural production, the region's ranking was 17th out of 20, with a share of 3.6% of the national volume. This can be regarded as a drawback, and as a way to solve this situation, one should consider improving the structure of agricultural production and increasing the level of depth of its industrial processing.

Moreover, it should be noted that between 2010 and 2022, the Lviv Oblast's share of Ukraine's industrial product sales increased by 1.7 percentage points (from 2.4% to 4.1%), which is a substantial increase. Furthermore, the per capita volumes of industrial products sold in the region increased by 2.6 times between 2015 and 2021, rising from 23.1 thousand UAH in 2015 to 59.1 thousand UAH in 2021. With regard to the industrial production sector, the region consistently achieves a ranking of 8th in Ukraine, and 11th with respect to per capita output. The Lviv Oblast is a prominent contributor to the national economy, particularly in the domains of textile production and sales (18.0% in 2022), wood and paper products, printing (10.6%), natural carbonated mineral waters (40.1%), and pork (22.3%) (The potential of the Lviv region in Ukraine for 2021, 2022).

The region is also becoming increasingly significant in terms of the production and supply of agricultural products to the domestic market. Consequently, during the period 2010-2022, the region witnessed an increase in the share of crop production from 2.8% to 3.2% (by 0.4 pp), and in the share of livestock production from 5.2% to 5.5% (by 0.3 pp). Simultaneously,

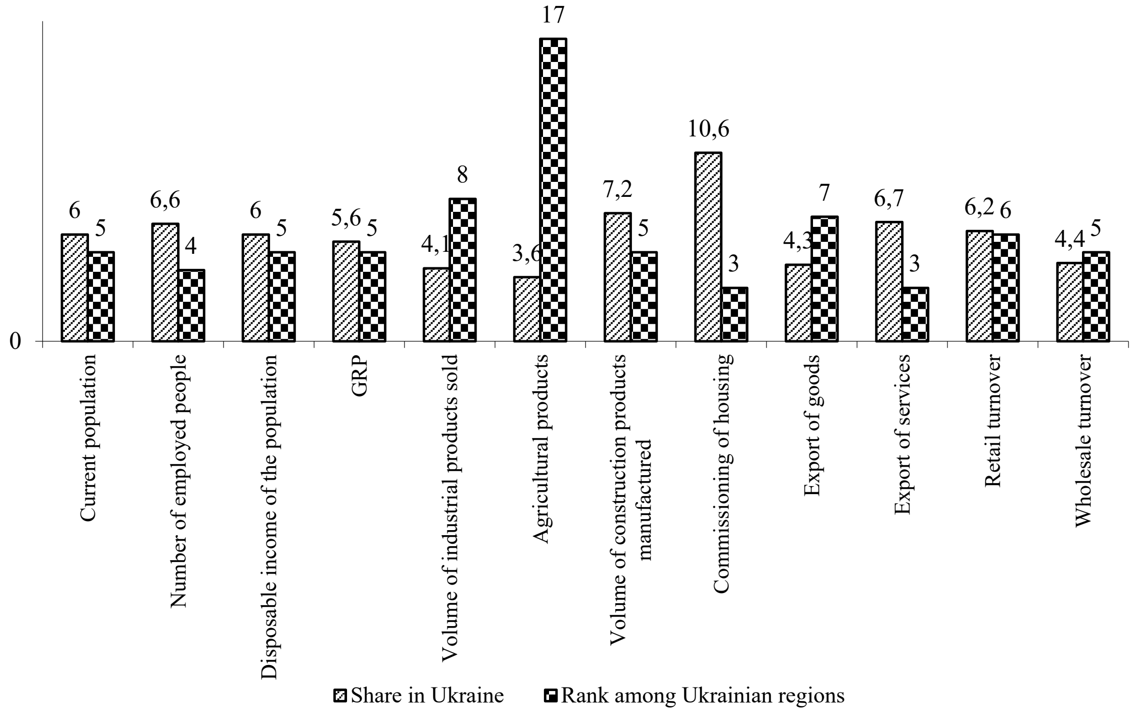

Figure 2. Potential of Lviv Oblast in terms of key socio-economic indicators in Ukraine, in 2022

Source: compiled by (The potential of the Lviv region in Ukraine for 2021, 2022) the region attained second position in Ukraine with regard to potato production, second position with regard to vegetable production, fifth position with regard to livestock production, and fifth position with regard to round wood stocking. The Lviv Oblast continues to be one of the leading regions with regard to potato production (7.9% in the structure of the national indicator), vegetable crops (8.3%), and sugar beet (7.8%) (The potential of the Lviv region in Ukraine for 2021, 2022).

In the period between 2010 and 2022, the Lviv Oblast's share of the total volume of manufactured construction products increased from 4.9% to 7.2% (an increase of 2.3 pp). Concurrently, the commissioning of the total area of housing (new construction) exhibited an increase of 1.6 pp, reaching 9.0% and 10.6%, respectively. It is evident that these and other trends have contributed to the region's attainment of a high ranking in terms of the volume of manufactured construction products (occupying fifth place among the country's regions) and the commissioning of the total area of housing (third place, including per 1,000 population – fourth place).

The Lviv Oblast has historically been recognised as a region with considerable export potential and attendant opportunities. Consequently, between 2010 and 2022, the share of the regional economy in the total volume of exports of goods increased from 1.9% to 4.3% (an increase of 2.4 pp), and the exports of services – from 0.9% to 6.7% (5.8 pp). The region's ranking in terms of exports of services was third, imports of goods fourth, and exports of goods seventh.

It is recommended that the active development of trade and the direct contribution of regional development to the progress of domestic trade of the country be considered favourable (in light of the formation of the investment environment). The region was ranked 5th in terms of wholesale turnover, 6th in terms of retail turnover, 5th in terms of retail turnover index, and 8th in terms of retail trade per capita (The potential of the Lviv region in Ukraine for 2021, 2022).

The favourable macroeconomic prerequisites for the development of the region, and the positive impact of these trends on the investment environment, are evidenced by the data on the dynamics of progress directly in the real sector of the regional economy. Consequently, during the period 2015-2022, the volume of GRP escalated by 2.7 times (rising from 94.7 to 251.9 billion UAH). Parallel growth rates were observed in GVA, which, in absolute terms, increased by 138.2 billion UAH. This signifies not only the augmentation of production capacities, but also the maintenance of the level of processing depth and the generation of added value per unit of manufactured and sold products.

It is important to acknowledge that certain economic activities exhibit even more pronounced growth rates in terms of GVA. These include construction (where the total GVA increased by 5.2 times), the mining industry, and quarrying (where the GVA increased by 3.3 times). This observation underscores the pivotal role these sectors play in supporting production and facilitating investment processes within the region.

In order to stimulate capital investments in the regional economic system, it is vital to consider the stable trend towards an increase in sales volumes in the basic sectors of the Lviv Oblast's economy. The following sectors of the regional economy should be considered particularly attractive in terms of a quick return on investment (due to growing capacities, correspondingly high sales volumes and a larger pool of potential profits): the processing industry (with a market capacity of over 100 billion UAH in the domestic sales segment) and machine building (in the domestic sales segment), and the growth rate of industrial sales was 5.4 times), mining and quarrying (industrial sales increased 9.7 times over the analysed period, reaching about 12 billion UAH per year), and construction products (8.5 times and 18.6 billion UAH).

In the context of the processing industry in the Lviv region, the following sectors have been identified as the most investment-attractive: the production of food products, beverages, and tobacco articles (with a total sales volume of 43.8 billion UAH, marking a 6.7-fold increase compared to 2010 figures). The manufacture of wood and paper products, and printing activity (12.5 billion UAH and 6.6 times), mechanical engineering (11.3 billion UAH and 5.7 times), the production of rubber and plastic products, and other non-metallic mineral products (11.0 billion UAH and 4.7 times), etc.

However, the activation and improvement of the structure and return of capital investments in the region (which are the consequences of a proactive, balanced and effective regional investment policy) serve as a direct guideline for the further expansion of production capacities in these and other industries and the increase of export potential. Nevertheless, it is necessary to use the resources not only of powerful domestic and foreign investors, but also of the entrepreneurial sector of the economy and the local population. An argument in favour of such a conclusion is the rather high position of the region in the indicators of its contribution to the development of the small business sector in Ukraine. For example, the share of the regional economy in the total number of small enterprises in Ukraine was 5.6%, micro-enterprises – 5.5%, individual entrepreneurs – 6.7%. The contribution of small enterprises to the economic parameters of the development of this sector of the economy was even higher: in employment promotion – 6.1% in the enterprise segment and 5.6%

in the sole proprietorship segment; in the volume of sales of small enterprises – 5.7% and of sole proprietors – 4.4%.

The development indicators of small enterprises within the regional economy remain high. The share of small enterprises in the total number of legal entities was 94.8%, and in the sole proprietorship segment it was 83.7%. Similar indicators for the number of employees were 29.6% and 33.5%, and for sales of products (services) – 26.6% and 13.4%. It is important to note that the small business sector in the region is undergoing consistent development. Between 2010 and 2022, the number of small enterprises increased by 2.3% (in the micro business sector, this figure was 3.1%), and the number per 10 thousand persons increased by 3.9% (in the micro-enterprise sector, this figure was 4.7%). Concurrently, the number of individual entrepreneurs in the region exhibited a 29.5% increase, with a corresponding rise of 31.5% per 10 thousand persons.

Consequently, favourable developments in the sphere of small business are both a prerequisite for increasing the volume of investment inflows into the regional economy and a factor that positively affects the quality of the investment environment.

5. SWOT Analysis of the Investment Environment of the Region (on the Example of Lviv Oblast)

In light of the aforementioned findings, and drawing upon the findings of other research in this field, it is recommended that conclusions be drawn regarding positive and negative practices, strengths and weaknesses, as well as further opportunities, prospects, and threats to the development of investment processes in the region (Figure 3).

At the intersection of strengths and opportunities identified by the SWOT analysis, prospects are identified. The implementation of these prospects serves to reinforce the influence of the course's investment processes in the region, as well as to utilise existing favourable opportunities for their activation and efficiency.

Consequently, at the nexus of vulnerabilities and threats, pivotal challenges are emphasised that regional and local authorities must address to safeguard the investment potential of the region and its territories, thereby averting the implementation of threats to business entities and the stability of the regional socio-economic system. Concurrently, it is imperative to capitalise on emergent opportunities (including leveraging existing strengths) and evaluate their impact on mitigating the deficiencies in the prevailing investment landscape, the integrated investment climate, and the quality and structural attributes of the economy's investment attractiveness.

It is imperative to consider and rely on the state and dominant characteristics of the investment environment of the regional economy, including their evolution and changes that have occurred during the full-scale war phase.

6. Tools of the Regional Policy for Implementing the Region's Investment Potential

Drawing upon the findings of research conducted on a global scale, it is possible to summarise the key provisions of the regional investment policy (see Figure 4). It is important to note that in conditions of political and economic instability, military conflicts, and full-scale war, the tools of the regional investment policy are becoming more focused on the issues of economic security, which is a natural development. Primarily, it is imperative to curtail military risks, which have a tendency to stifle investment initiatives and generally function as prevailing disincentives to economic activity. Ensuring success in this domain would facilitate the preservation of pre-war or pre-crisis levels of management and macroeconomic proportions.

The subsequent point pertains to the utilisation of all opportunities and resources for the restoration of general and critical infrastructure facilities. This is a particularly challenging undertaking in conditions of financial and resource scarcity, when the majority of budgetary resources are allocated to the military. To this end, all available alternatives must be considered. The authors are of the opinion that concession agreements and private-public partnerships regarding investments in infrastructure facilities should be utilised.

Another element of the policy is infrastructure security through the introduction of investment tools in the defence-industrial complex and industries/sectors of critical infrastructure. It is imperative to safeguard energy facilities, the region's transport and logistics system, medical institutions, and pharmaceutical enterprises. The raw materials present within the territories are of significant value and should be optimally attracted and effectively utilised. Consequently, it is imperative to provide support for projects utilising these natural resources, which serve as the raw materials for other production sectors, including the agro-industrial complex, industry, and construction.

In conditions of war, it is advisable to stimulate investments not only in security and defence, but also to significantly ensure their development based on innovation and technological modernisation, which will contribute to strengthening the technological security of the economy of the region and the country as a whole.

It is evident that a number of factors are pertinent to the utilisation of investment potential in order to

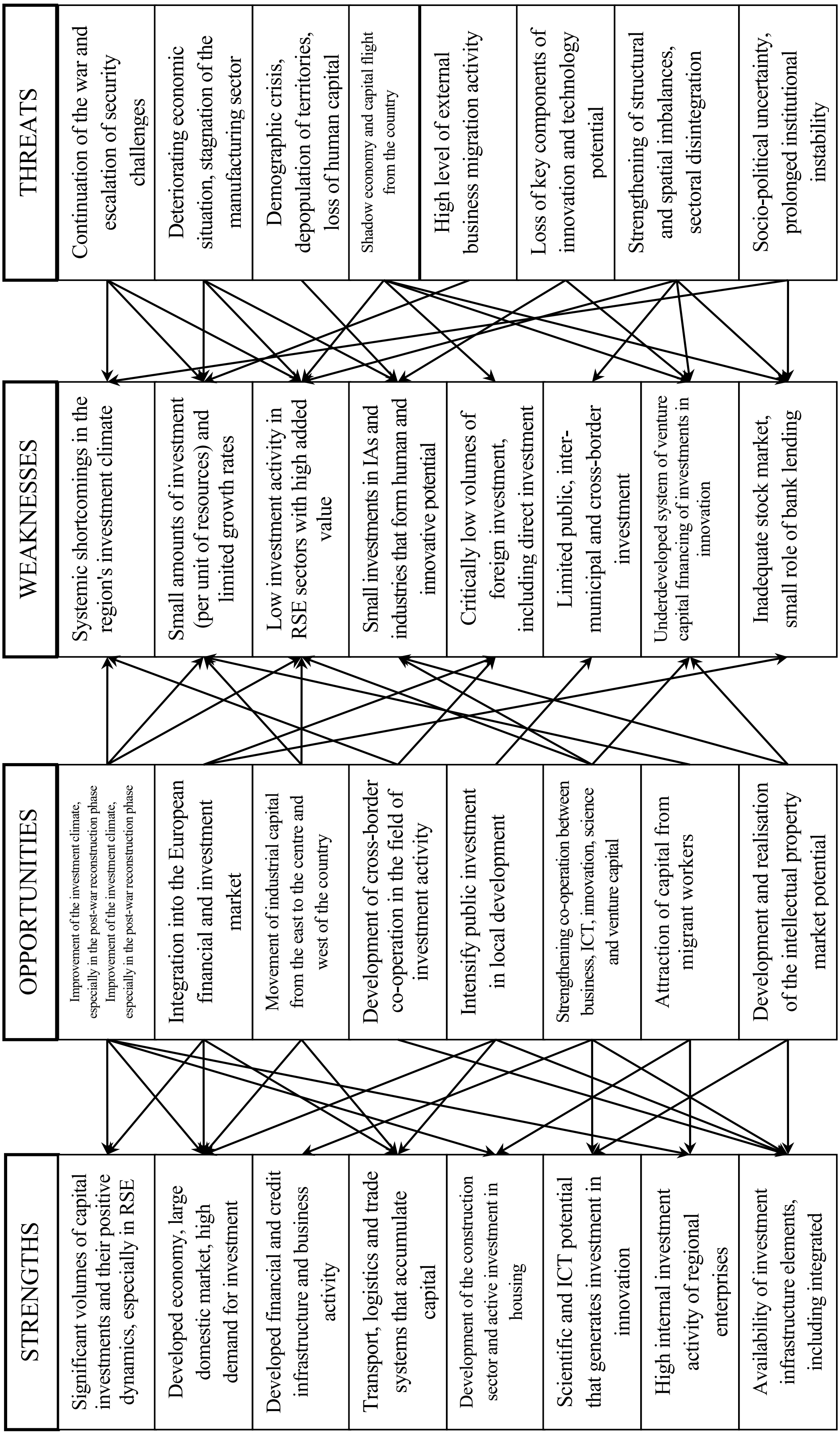

Figure 3. Results of SWOT analysis of investment processes in Lviv Oblast

Source: compiled by the authors

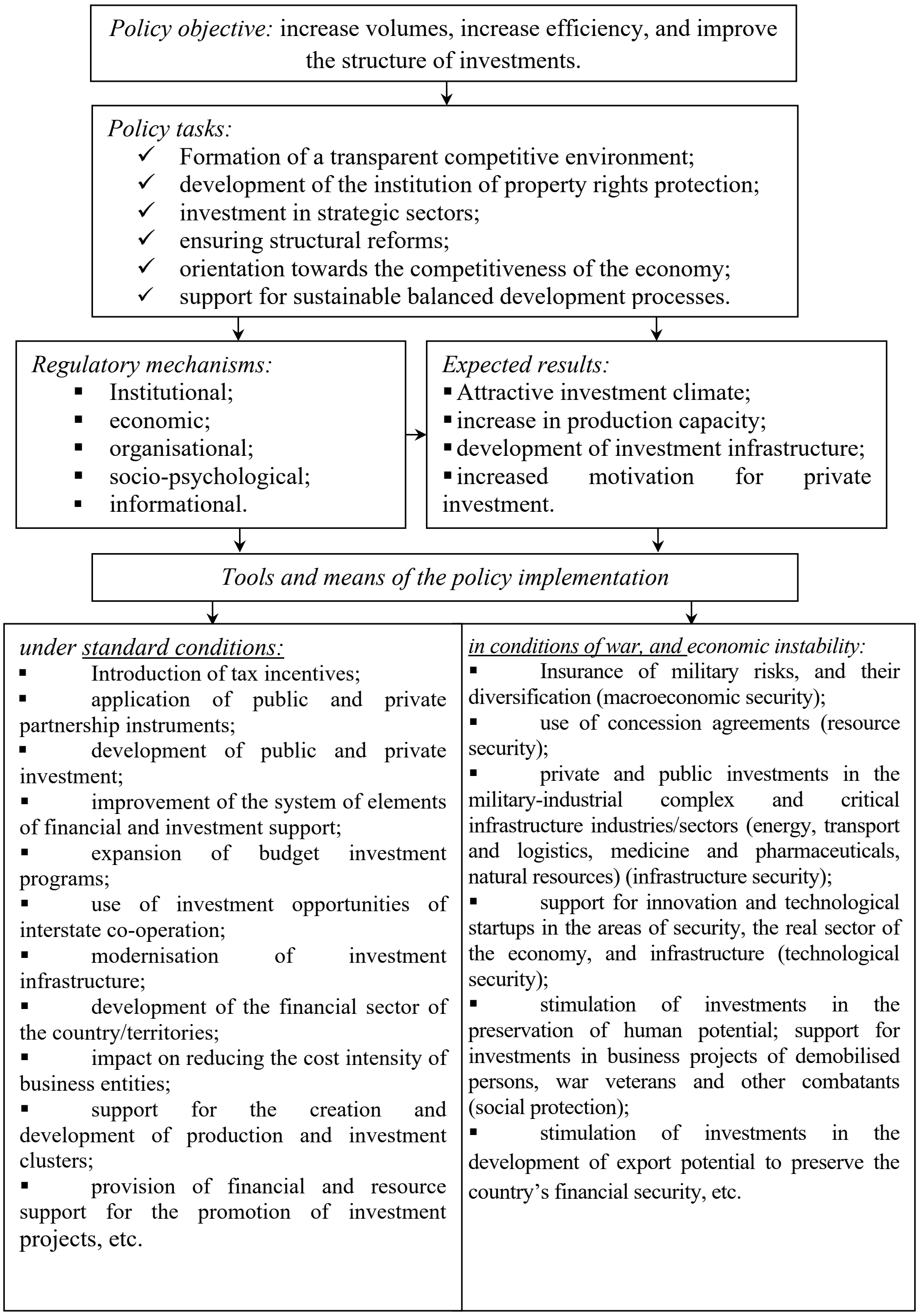

Figure 4. Key provisions for the formation and implementation of regional investment policy

Source: authors' development

enhance social security. These primarily encompass investment initiatives focused on the preservation and enhancement of general social infrastructure facilities, as well as the reduction of social vulnerability among the population, including IDPs and refugees. Other key areas include the promotion of social inclusion, societal consolidation, social integration, and the labour adaptation of demobilised persons and war veterans. Consequently, a distinct avenue of state support is constituted by business investments initiated by these vulnerable categories of the population.

In the context of war, exports assume a pivotal role in generating GDP and generating employment opportunities within the population. Moreover, they facilitate the sale of products in foreign markets, particularly in instances of domestic market oversaturation and a decline in the aggregate demand of the population. Furthermore, these exports contribute to the foreign exchange earnings of the economy, thereby fostering monetary and currency stability. For this reason, regional investment policy is also focused on supporting and stimulating the implementation of investment processes to expand the export potential of the regional economy. The policy is focused on the implementation of projects that aim to increase export volumes, expand the production capacity of the processing industry, and enhance transport and logistics systems.

7. Conclusions

In the context of a profoundly intricate external business environment, characterised by numerous factors, including armed conflict, regional authorities and local governments must prioritise investment policy measures that are designed to stimulate investment activity, while concomitantly seeking to minimise the challenges and threats that are associated with this process. Concurrently, the imperative of ensuring investment security as a state of safeguarding the economic interests of business entities, society, and the nation from investment risks and threats assumes paramount importance. The overarching priority of regional investment policy should be the establishment of a conducive economic and legal environment for entrepreneurial activity and investment climate. This is a fundamental market prerequisite for business development, the desire to invest, and, consequently, the ability of the regional economy to form and attract investment resources. Other investment policy priorities related to the allocation and effective use of investment resources are based on it, namely: stimulating the development of economic sectors, territories, types of economic activity and industries; increasing production capacities and achieving processes of expanded reproduction; strengthening the competitiveness of strategic enterprises through innovative and technological development and technological modernisation; preservation, development and effective use of human capital; improving the quality of life; digitalisation and technologisation of all spheres of public life.

Compared to other regions of Ukraine, the Lviv Oblast is characterised by a sufficiently large domestic market and a high level of development of the real sector, financial, credit and investment infrastructure, transport, logistics and trade systems, construction complex, educational, scientific and ICT potential, a significant population and a good geographical location. However, the shortcomings and weaknesses of the region's investment development remain, namely: the presence of systemic flaws in the region's investment climate; small volumes of investment and limited rates of its growth; low investment activity in the areas of the real sector of the economy with high added value; low investment in intangible assets; critically low volumes of foreign investment, especially direct investment; limited public, intermunicipal and cross-border investment; underdeveloped risk financing system for investment in innovation; underdeveloped stock market; small role of bank lending. Simultaneously, the region is distinguished by advantageous prospects that ought to be capitalised upon, with the objective of further catalysing, expanding, and optimising investment procedures. These encompass the incorporation into the European financial and investment market; the migration of industrial capital from the eastern to the central and western regions of the country; the cultivation of cross-border collaboration in investment activity; and the mobilisation of public investment in local development, among others.

A proactive and high quality regional policy for the implementation of the investment potential of the region should also be aimed at overcoming and eliminating threats to the further development of investment processes in the region, which are mainly the prolongation of the war and the aggravation of security challenges; the deterioration of the economic situation, the stagnation of the production sector; the demographic crisis, the depopulation of the territories, the loss of human capital; the black economy and the outflow of capital; the high level of external migration of enterprises; the loss of the basic components of innovative and technological potential; the increase in structural and spatial disparities, sectoral disintegration, socio-political uncertainty and continuing institutional instability.

Effective tools of regional investment policy in the context of critical instability include: military risk insurance and diversification; use of concession agreements; public-private investment in the defence industry and critical infrastructure industries/sectors (energy, transport and logistics, healthcare and pharmaceuticals, natural resources); promotion of innovative and technological startups in the security, real sector and infrastructure sectors; stimulation of investments in human resources; support for investments in business projects of demobilised persons and war veterans; stimulation of investments in the development of export potential to maintain the country's financial security.

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