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THE NECESSITY, SIGNIFICANCE AND METHODOLOGY OF ASSESSING THE INVESTMENT ATTRACTIVENESS OF REGIONS

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Abstract

This article examines the theoretical and methodological foundations of assessing the investment attractiveness of regions, with particular attention to the necessity, significance, and methodological approaches to its evaluation. In the context of increasing competition for domestic and foreign investment, regional investment attractiveness has become an important factor determining the economic development potential and competitiveness of territories. Investment attractiveness is considered as a multidimensional economic category reflecting the combination of a region's economic potential, infrastructure, labor resources, market capacity, institutional environment, innovation potential, financial conditions, and investment risks. The article systematizes the major factors influencing regional investment attractiveness and analyzes the advantages and limitations of rating, scoring, expert assessment, coefficient-based, and integral index methods. Particular attention is devoted to the development of a comprehensive methodological framework based on the normalization and weighting of key indicators. The proposed approach makes it possible to compare regions according to their investment potential, identify their competitive advantages and structural weaknesses, and formulate evidence-based regional investment policies. The article concludes that systematic assessment of regional investment attractiveness should be regarded not merely as a ranking instrument but as an important mechanism for strategic regional management, investment policy development, and balanced socio-economic growth.

Keywords: Investment, investment attractiveness, region, regional economy, investment potential, investment risk, investment environment, integral index, regional competitiveness, investment assessment methodology.

Introduction

In the contemporary global economy, competition for investment resources is becoming increasingly intense not only among countries but also among individual regions. Governments and regional authorities are seeking to create favorable conditions for domestic and foreign

investors by improving infrastructure, developing human capital, reducing administrative barriers, strengthening institutional capacity, and creating attractive investment opportunities.

Investment plays a crucial role in regional economic development. The inflow of investment contributes to the modernization of production facilities, creation of new jobs, development of infrastructure, introduction of innovative technologies, expansion of export capacity, and improvement of population welfare. However, investment resources are not distributed equally among regions. Some territories possess considerable advantages in terms of natural resources, infrastructure, human capital, market access, and institutional development, whereas others face significant structural constraints.

In this context, the assessment of regional investment attractiveness becomes particularly important. Investors require reliable and comprehensive information about the economic potential, infrastructure, market conditions, institutional environment, and risks associated with a particular region before making investment decisions. At the same time, public authorities need objective assessment mechanisms to identify regional weaknesses, determine investment priorities, and formulate effective territorial development policies.

Therefore, the purpose of this article is to examine the necessity and significance of assessing regional investment attractiveness and to develop a comprehensive methodological approach for its evaluation.

The objectives of the study are to:

clarify the economic content of regional investment attractiveness;

identify the major factors influencing regional investment attractiveness;

substantiate the necessity of systematic regional investment assessment;

examine existing methodological approaches to investment attractiveness evaluation;

propose a comprehensive integral assessment model for comparing regions.

1. The Economic Essence of Regional Investment Attractiveness

Investment attractiveness is a complex economic concept that reflects the extent to which a particular territory is capable of creating favorable conditions for investment activity and generating an acceptable level of return in relation to associated risks.

In the academic literature, investment attractiveness is often associated with investment potential and investment risk. However, these concepts should not be considered identical. Investment potential characterizes the opportunities and resources available in a region, whereas investment risk reflects the probability that economic, institutional, financial, political, social, or environmental factors may negatively affect the expected outcomes of an investment project.

Regional investment attractiveness can therefore be represented as a function of several interconnected components:

RIA = f (IP, IE, INF, HR, MS, IN, IR)

where:

RIA — regional investment attractiveness;

IP — investment potential;

IE — institutional environment;

INF — infrastructure development;

HR — human resources;
MS — market potential;
IN — innovation potential;
IR — investment risks.

This approach demonstrates that investment attractiveness cannot be adequately assessed through a single economic indicator. For example, a region may have a high gross regional product but weak transport infrastructure, insufficient skilled labor, or significant institutional risks. In such a case, high economic output alone does not guarantee high investment attractiveness.

Consequently, investment attractiveness should be viewed as a multidimensional and dynamic characteristic of a region.

2. The Necessity of Assessing Regional Investment Attractiveness

The assessment of regional investment attractiveness is necessary for several important reasons.

First, identification of regional investment potential

Each region possesses a unique combination of natural, economic, financial, labor, infrastructural, and technological resources. Systematic assessment makes it possible to identify these resources and determine how effectively they can be transformed into investment opportunities.

Second, determination of regional investment priorities

Public investment policies cannot always be implemented through identical mechanisms across all regions. Different territories require different development instruments. For example, one region may require transport infrastructure investment, while another may need human capital development or technological modernization.

Investment attractiveness assessment provides an analytical basis for identifying such priorities.

Third, provision of information for investor

Investors need reliable and comparable information when selecting locations for investment projects. A comprehensive regional investment assessment can reduce information asymmetry and improve the quality of investment decisions.

Fourth, strengthening interregional competition

Transparent investment rankings encourage regional authorities to improve their business environment, infrastructure, public services, investment support mechanisms, and institutional quality.

Fifth, reducing regional disparities

Uneven distribution of investment may increase socio-economic disparities between regions. Identifying territories with low investment attractiveness allows governments to introduce targeted measures to improve their investment conditions.

Thus, investment attractiveness assessment is important not only for individual investors but also for national and regional economic policy.

3. Major Factors Determining Regional Investment Attractiveness

Regional investment attractiveness is determined by a broad range of economic, institutional, infrastructural, social, and technological factors.

3.1. Economic Factors

Economic factors represent the fundamental component of investment attractiveness. They include:

gross regional product;
industrial production;
economic growth rate;
volume of investment;
export potential;
business activity;
development of small and medium-sized enterprises;
household income;
productivity levels.

A region with stable economic growth and diversified production is generally more attractive to investors because it offers greater opportunities for market development and investment returns.

3.2. Infrastructure Factors

Infrastructure determines the practical feasibility of investment projects.

Important indicators include:

transport accessibility;
road and railway networks;
airport availability;
logistics infrastructure;
electricity supply;
gas supply;
water infrastructure;
telecommunications;
internet and digital infrastructure.

Insufficient infrastructure can significantly increase investment costs and reduce the competitiveness of a region.

3.3. Human Capital Factors

The availability of qualified labor is becoming increasingly important in knowledge-intensive and technology-oriented industries.

Regional assessment should therefore include:

size of the economically active population;

employment and unemployment rates;
educational attainment;
professional qualifications;
labor productivity;
availability of specialized specialists;
vocational and higher education institutions.
The quality of human capital can become a decisive competitive advantage, particularly for innovative and technology-intensive investments.

3.4. Institutional Factors

Institutional quality directly influences the willingness of investors to enter a regional market.
Institutional indicators may include:
ease of doing business;
administrative procedures;
transparency of public administration;
tax administration;
protection of property rights;
effectiveness of public services;
investment support mechanisms;
regulatory stability.
A predictable and transparent institutional environment reduces uncertainty and transaction costs for investors.

3.5. Innovation Factors

Innovation potential is becoming an increasingly important component of regional competitiveness.
Relevant indicators include:
research and development activity;
number of innovative enterprises;
technology parks;
digitalization;
patent activity;
technological infrastructure;
university-industry cooperation;
share of innovative products.
Regions with strong innovation ecosystems are particularly attractive for high-value-added investment projects.

4. Investment Risk as a Component of Regional Attractiveness

Investment potential alone is insufficient for evaluating regional attractiveness. Investors also consider the risks associated with a particular territory.
Investment risks may include:
macroeconomic risk;

financial risk;
currency risk;
market risk;
institutional risk;
political risk;
social risk;
environmental risk;
infrastructure risk.

For example, high inflation, currency volatility, unstable regulations, weak infrastructure, limited market capacity, or insufficient legal protection may reduce the attractiveness of an otherwise economically promising region.

Therefore, regional investment attractiveness can generally be expressed as a combination of high investment potential and manageable investment risks.

This relationship may be represented as:

Investment Attractiveness = Investment Potential – Investment Risk

Although this simplified expression cannot capture all dimensions of the phenomenon, it illustrates the basic principle underlying many investment assessment models.

5. Methodological Approaches to Assessing Regional Investment Attractiveness

A variety of methods can be used to assess regional investment attractiveness. The selection of a particular method depends on the purpose of the research, availability of statistical data, and characteristics of the regions under examination.

5.1. Ranking Method

The ranking method involves arranging regions according to selected indicators.

For example:

Indicator	Region A	Region B	Region C
Economic potential	1	2	3
Infrastructure	2	1	3
Human capital	1	3	2
Innovation potential	2	1	3
Investment risk	1	2	3

The main advantage of this method is its simplicity and accessibility. However, it does not always adequately reflect the relative importance of individual indicators.

5.2. Scoring Method

Under the scoring method, each indicator receives a certain score according to predefined criteria.

For example:

high level — 5 points;
medium level — 3 points;
low level — 1 point.

The total score is then used to determine the overall attractiveness of the region.
This method can be particularly useful when combined with expert assessment.

5.3. Expert Assessment Method

Expert assessment can be used when certain institutional, social, or qualitative factors cannot be adequately measured through quantitative indicators.
Experts may evaluate:
institutional quality;
business climate;
administrative efficiency;
investment expectations;
infrastructure reliability;
regulatory predictability.
However, expert assessment may involve subjectivity. Therefore, it should preferably be combined with objective statistical indicators.

5.4. Integral Index Method

The integral index approach is one of the most comprehensive methods of evaluating regional investment attractiveness.
The general formula can be expressed as:
$I = \Sigma Wi \times Zi$

where:

I — integral investment attractiveness index;
Wi — weight of the respective indicator;
Zi — normalized value of the indicator;
n — total number of indicators.

The advantage of the integral index is that it allows indicators measured in different units to be combined into a single analytical framework.

6. Normalization of Indicators

Since regional indicators have different units of measurement, normalization is required before calculating an integral index.
For indicators with a positive impact on investment attractiveness, the following formula may be used:
$Zi = (Xi – Xmin) / (Xmax – Xmin)$
For indicators with a negative impact:
$Zi = (Xmax – Xi) / (Xmax – Xmin)$
As a result, all indicators are transformed into a comparable scale ranging from 0 to 1.

The use of normalization makes it possible to combine economic, financial, infrastructure, labor, and institutional indicators within one integrated assessment model.

7. A Comprehensive Model for Assessing Regional Investment Attractiveness

Based on the analysis of the main determinants of investment attractiveness, a comprehensive seven-component model can be proposed.

Assessment block	Main indicators
1. Economic potential	GRP, industrial output, exports, economic growth
2. Financial potential	budget capacity, banking services, credit resources
3. Infrastructure	transport, energy, water, telecommunications, digital infrastructure
4. Human capital	labor force, qualifications, education, productivity
5. Institutional environment	business climate, public services, legal protection
6. Innovation potential	R&D, technology parks, digitalization, innovation
7. Investment risks	inflation, currency, market, institutional and environmental risks

An integral regional investment attractiveness index may then be constructed as follows:

$$RIA = 0.20EP + 0.15FP + 0.20INF + 0.10HC + 0.15IE + 0.10IP + 0.10(1 - IR)$$

where:

EP — economic potential;

FP — financial potential;

INF — infrastructure;

HC — human capital;

IE — institutional environment;

IP — innovation potential;

IR — investment risk.

The proposed weights are illustrative rather than universal. They can be adjusted depending on the objectives of the study, regional characteristics, expert assessments, statistical analysis, or methods such as entropy weighting and principal component analysis.

8. Application of Investment Attractiveness Assessment Results

The results of regional investment attractiveness assessment can be used for several strategic purposes.

First, they can serve as a basis for determining regional investment priorities.

Second, they can help identify structural weaknesses that prevent regions from attracting investment.

Third, they can provide investors with comparable information about different territories.

Fourth, investment rankings can stimulate competition among regions and encourage improvements in the business environment.

Fifth, the results can support the development of targeted government programs for less-developed regions.

Sixth, regular assessment can be used as a monitoring mechanism for evaluating the effectiveness of regional development policies.

Therefore, regional investment attractiveness assessment should not be understood merely as a one-time ranking exercise. It should function as a continuous monitoring and strategic management instrument.

9. Methodological Improvements and Future Directions

The methodology of regional investment attractiveness assessment should continuously evolve in response to changes in the global economic environment.

Traditional indicators such as GRP, industrial output, and investment volume remain important, but modern investment decisions increasingly depend on factors such as digital infrastructure, innovation ecosystems, human capital quality, environmental sustainability, institutional transparency, and technological readiness.

Therefore, future assessment models should increasingly incorporate:

digital economy indicators;
technological readiness;
environmental sustainability;
green investment potential;
innovation ecosystems;
quality of human capital;
smart infrastructure;
investment project pipelines;
regional connectivity;
institutional transparency.

Furthermore, modern analytical technologies can improve the accuracy of regional investment assessment. Big data, geographic information systems, artificial intelligence, and machine-learning models can be used to identify patterns, forecast investment trends, and estimate potential risks.

The combination of traditional statistical methods with modern analytical technologies can therefore contribute to the development of more dynamic and evidence-based regional investment attractiveness models.

Conclusion

The assessment of regional investment attractiveness is an important component of modern regional economic policy and strategic management. Investment attractiveness reflects not only the economic potential of a territory but also its infrastructure, human capital, institutional environment, innovation capacity, market opportunities, and investment risks.

The analysis demonstrates that the use of a single indicator is insufficient for adequately evaluating regional investment attractiveness. A comprehensive methodological approach combining multiple quantitative and qualitative indicators provides a more reliable basis for comparing regions and identifying their competitive advantages and structural weaknesses.

The integral index method, supported by indicator normalization and appropriate weighting procedures, offers significant opportunities for comprehensive regional assessment. At the same time, the weights assigned to individual factors should reflect the specific characteristics and development priorities of the regions under investigation.

An effective regional investment assessment system should therefore combine economic potential, infrastructure, human capital, institutional quality, innovation capacity, financial conditions, and investment risks within a unified analytical framework.

In practical terms, systematic assessment can help public authorities identify barriers to investment, establish regional priorities, improve infrastructure, strengthen institutional capacity, and design targeted investment incentives. For investors, it can provide a more transparent and comparable information base for location decisions.

Consequently, regional investment attractiveness assessment should be regarded not simply as a ranking mechanism but as an important instrument of evidence-based regional policy, investment management, territorial competitiveness, and sustainable socio-economic development.

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