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MODERN ASPECTS OF FINANCIAL AND INVESTMENT PROBLEMS OF REGIONAL SOCIAL AND ECONOMIC GROWTH

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ABSTRACT

Modern aspects of financial and investment problems of regional social and economic growth were investigated in the article. The modern processes characterizing regional growth of Azerbaijan and its social and economic components were chosen as an object. The existing potential and the effective directions of social and economic development at the regional level, and also rational use of resources of regions was considered too. Development of more modernized and mobile structure of a regional system of formation and introduction of investment policy was investigated then. The main mechanisms of strengthening and development of a system of financial security of activity of the enterprises of regions and availability of credit resources for them were given. Multiplicative effect and its influence on social and economic development of regions, increase in their competitiveness and implementation of regional programs was analyzed also. Process of formation of value added, dynamics of production and efficiency of development of industrial production in regions of the country was described. Need of improvement of investment and financial appeal of regions and ensuring activation of attraction of investments was proved too. A number of recommendations and offers on the considered problems was prepared in the end of the article.

KEY WORDS: *Azerbaijan, regional economic policy, social and economic development, financial and investment support, interregional economic development differences, regional natural resources, regional economic potential.*

JEL classifications: R1; R10; R11; R13; R53; R58.

INTRODUCTION AND RESEARCH OF THE PROBLEM

The economics of Azerbaijan appeared for the element of the former soviet empire during the long period of 70 years (1920-1990). Back then there were no available capabilities for development of the economic modeling of the country or regional development programs. Everything was solved in the centre – in Moscow. Other ways of saying Moscow determined the programs and economic development tendencies which it considered necessary for Azerbaijan. The resources were also divided from the centre. It is worth to mention one interesting detail: for example in Sumgayit

industrial centre the two huge chemical enterprises were divided by just a fence but these two plants did not have a right on independent division of resources and raw materials between them. This issue had to be reviewed definitely three thousand kilometres away in Moscow and the work had to be done on the basis of the solution received from there. All financial issues were solved the same way. After restoration of independence in 1990 Azerbaijan had already to conduct a free economic policy, social economic reforms and to solve the issues of preparation of the regional development programs itself. From this point of view the national economic interests, the economic development tendencies of the country and

especially the perspectives of regional development modelling grew up. It is interesting that on January 15, 1992 the law about 'Foreign investment protection' was adopted. The law about 'Investment operations' was put in force on January 13th, 1995. It means that during a short period of time after restoration of independence the government of Azerbaijan was quite interested in bringing foreign investments to Azerbaijan and in increasing the attractiveness of these processes and took active measures in this field. It is known that the realization of the economic reforms is impossible without financial resources and the balanced regional social and economic development programs requires the serious level of finance and credit maintenance. Formation of sustainable and continuous financial resources and adequate modelling of the regional development to the national economic interests of the country depends on each other very much. For this reason making investments to the regions is one of the important fields of activity of Azerbaijan government in its economic policy. Alongside with all these under the circumstances of global economic challenges of the regional social and economic development and important economic transformations the definition and measurement of tendency direction, the preparation of the sustainable mechanisms of the finance and credit supply in the processes and suggestions for implementation stand in the centre of the reviewed problem. First of all we considered necessary to give our opinion to the researches on these issues, to the arguments mentioned in economics literature, to the scientific approaches and thoughts, and statistic and the other data bases, and explore the study level of the given issues.

The issues covered in the article. If make a generalization the issues covered in the article are mainly connected with finance and investment supply modeling of the regional social and economic development in Azerbaijan. First of all it is considered important to investigate the content of finance and investment supply of the regional economics importance and regional social and economic development. On the assumption of objective assessment of the resource and industry level in the region, human resources, business development level, investment and real analyses, the determination of increase directions of the finance and investment supply in the regions is one of the main problems. The problems of elimination of maladjustments between social and economic development of the regions, the growth of population's income in the regions, the problems of economic activity increase are also remained in the center of attention. The importance and solution of issues of finance and investment supply reinforcement and factors connected with them were reviewed and the relevant mechanisms and suggestions were prepared with the aim of modeling of the social and economic development of the regions.

THE PRACTICAL IMPORTANCE OF THE ARTICLE

First of all it is connected with the consideration of the regional social and economic development in Azerbaijan on a modern stage on a strategic level. The strategic aims were determined in this field and the main goals were reducing the difference in economic development level between the regions and the centre – capital city Baku, development of mechanisms balancing the social and economic development between the regions and provision of its implementation. From the other hand there were developed the scientific and practical approach

methods and suggestions on the available issues of determining financial resources and increasing the investment. The advice on modeling of the finance and investment supply in the regions were given and the adequate activity directions were justified.

METHODS AND APPROACHES

A lot of methods and approaches widely known in the economic science such as comparative analysis, synthesis, systematization, generalization, diagrams, bar charts, graphs and tables were used in the preparation of the article. The author expressed an adequate opinion on the thoughts and observations of classical economists and modern researchers and also the generalization was made. The author gave a large place to the foreign experience, and the main reason of this is that the economic development in Azerbaijan is of a specific character and formation of the regional social and economic development in the framework of the local interests. The regions of the country are rich with resources and the social and economic development of each of them, their financial support requires a special approach. From this point of view a solution of the problem on the assumption of objective realities and available resources was considered more rational. The main idea of the article consists of the author's approach to the current problem and his own point of view. The author thinks that there are not any results in solution optimization of the issues of finance and investment supply modeling yet and the researches and investigations in this sphere should be continued.

The possibility of contribution of the article to the global economic science. We think that the ideas about the regional social and economic development problems and its finance and investment supply, the approaches to the issues, specific characteristics, modeling of solution of finance and investment supply of the regional social and economic development on the country level can attract the attention of global economists, researchers and experts, the state authorities responsible for this sphere. From the other hand Azerbaijan differs with dynamic economic development in positive meaning. Because of this the development of the social and economic development programs and the materials, analysis and judgments on their finance and investment supply modeling keep their chance to become a contribution to the global economics.

1. Level problem study and literature review

As mentioned above taking into consideration the modern strong economic transformations and complexity of global economic appeal we decided that usage of last years economic literature and resources was more rational. But in formation of the main thoughts and considerations on the issues the major place is given to author's approaches. Of course this is not an evidence of a cold approach to the other economic thoughts and statements, each research work has its own scientific essence and practical value. Taking these into consideration there were declared against the problems indicated in the article according to the theoretical views of a group of classic economists and the other world economists: Smith Adam (1776–1829), Alfred Marshall (1842–1924), Keynes M. John (1883–1946), Solow Robert Merton (1924–2012), Samuelson P.A., Nordhaus W.D. (Economics, 2009), Stiglitz E. Joseph, Charlton Andrew (2005). Under the condition of treating classic economic views and many world scientists' thoughts and statements with respect we would like to

mention that in the article the preference was given mostly to scientific practical approaches to the reviewed issues adequate to the last years global economical appeals. The regional social and economic development processes taking place in Azerbaijan and the mechanisms of finance and credit supply of these problems require new approaches, mechanisms considering local specific characteristics and economic tools. From this point of view it is quite difficult to mention the fundamental study of the financing issues of the regional development programs in Azerbaijan. Thus, the existing economic practical mechanisms and the thoughts, suggestions and advice mentioned in the economic literature are not enough to solve the existing problems and their relevance is not adequate. Azerbaijan researches such as Nuriyev A. H. (2013), Atashov B.Kh. (2016), Hasanli Y.H. (2011), Huseynova Kh.M. (2010), Aliyev Sh.T. (2015), Shirinov Sh.V (2012), Allahverdiev N.B., Gafarov K.S., Ahmedov A.A. (2012) conducted researches, prepared monographs, expressed their thoughts and made suggestions about the complex problems of the social and economic development, importance and modeling of the regional development programs, the positive and negative features, the issues of financial and credit supply of these development programs and finance and investment supply. Taking into consideration these problems the works of a group of young Azeri researches such as Ahmedzadeh (2010), Baghirov N.A (2014), Khakimova Y.A (2014), Rzayev P.G (2011), Rahimov M.R (2014) and Sadygov E.M (2013) attract attention last years. The regional economic development processes and the issues of financial and investment supply related to them were in the highlight of a number of world researches. As an example we can show the scientific articles and research works of Arias Maria A., Wen Yi (2015), Brown Ross (2000), Chaplyuk V.Z (2006), Capello Roberta (2011), Florida Richard (2002), Gazizulina I.A (2011), Gren Jörgen (2003), Harshana Kasseeah (2016), Korchagina Y.V (2012), Otsuka Akihiro, Yamano Norihiko (2006), Rakar Fredrik., Tallberg Pontus (2014), Storper Michael (2011), Tolstolesova L.A (2010) and etc. Alongside with all these we would like to notify that the modeling problems of financial and investment supply of the regional social and economic development in Azerbaijan are quite relevant and have a strategic impact for our country. For this reason the importance of problems reviewed in the article is approached by the features and tendency of regional economic development processes taking place in Azerbaijan.

2. Analysis of the conceptual and practical approach to the finance and investment supply of the regional social and economic development

The social and economic development priorities of each country are directly linked to the economic development features of the country, the objective reality and optimal modeling of the regional development. After accomplishing the phase of its economic reforms Azerbaijan achieved the boosting of regional social and economic development to the priority activity level. The two state programs on the regional development which followed and complemented each other were realized and the third state program is now being developed. We are not going to list off the main essence of these state programs. The problems of renovation or improvement of the most social and economic development components in the regions of the country and also of the financial and investment supply mechanisms attracts attention.

And what is the region, the modern elements of regions, what the formation or development components consists of? As the main factors in formation and development of any region, the adequateness of the natural resources and population base in this region, formation of market infrastructure, production, social, ecological and institutional infrastructure components are of great importance. Professor Nuriyev A. considers the finance and investment supply of social and economic development in the regions to be the determinative factor (Nuriyev A.H., 2013). Professor Atashov B. mentions that investment funds in Azerbaijan began to appear comparably later than commercial banks (Atashov B.Kh., 2016). Taking into consideration that some problems have already appeared nowadays in the bank system in Azerbaijan it means that it is not still so real to wait the valuable results from the investment funds activities in the country.

2.1. The essence of conceptual practical approach to the financial and investment supply of the social and economic development in the regions

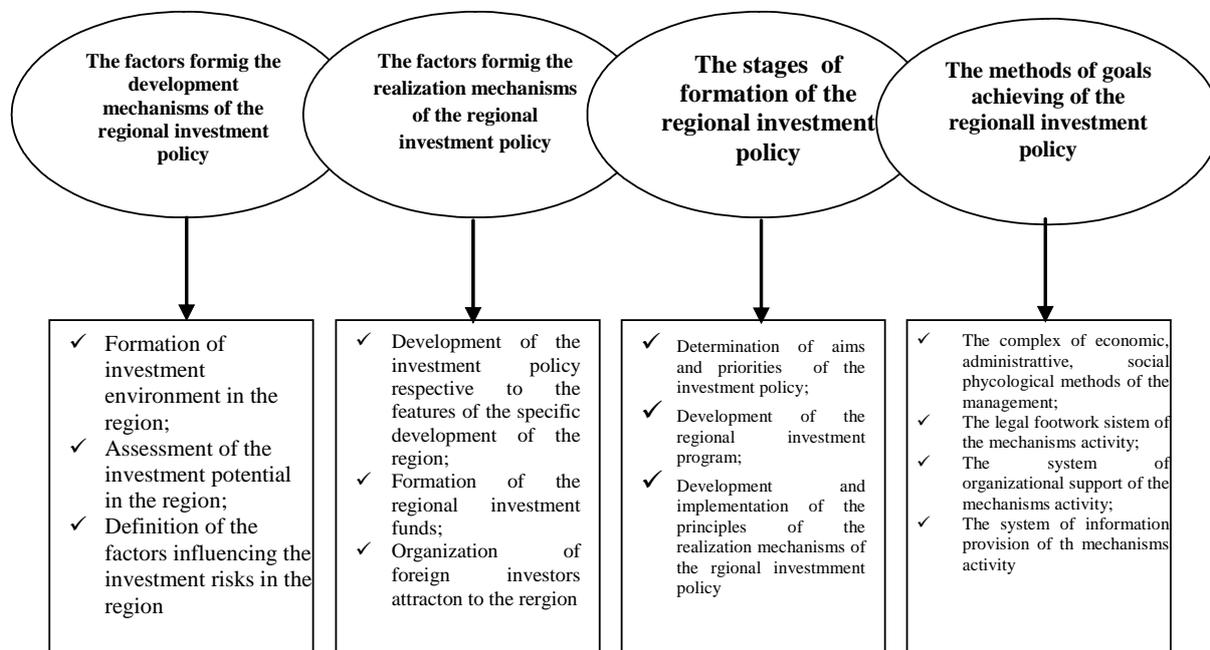
A conceptual approach to the increase of investment attraction and financial resources formation in the region should be provided. The different factors in the regions, the internal and external factors influencing the formation and development of the region should take place adequate to their features in this conceptual approach. The source of this variety are the position of both classic and neo-classic, keynessism and neo-keynessism economic schools and contradictions of the modern reality. The representatives of classic political economy consider with big foresight that 'any increase or decrease of the capital will naturally cause the increase or decrease of the industrial activities, the number of production workers, and as result the annual value of products on the land and labour of the country, the real wealth and income of its population' (Smith Adam., 1909–14; 2001). We would like to note that the conception of state regulation of the economics composes the theoretical and methodology, and practical base of the investment policy as an essential part of economic policy. J.M. Keynes's point of view on investment which gives proof to the non-compliance of the market in the pure form with social and ecological requirements of the society and the relevance of state regulation of the modern economics, conforms the terminology of the current investment policy the most (Keynes M. John., 1936). In a number of developing countries such as China, Mexico, Brazil and India, the issues of abolition of the trans-regional economic differences attracts attention (Venables Anthony J., 2003). R.Capello considers that the power improvement of the local production in the development of the regions and rational use of the advantages of the regions are the important issues (Capello Roberta, 2011). In accordance with the research based on the 125 country's information K.Harshana arrived at an important conclusion that enterprise development plays an important role in increase of economic potential and economic perspectives of the regions (Harshana Kasseeah, 2016). The complex development of the infrastructure in the regions must be seriously in the highlight (Gren Jörgen, 2003). In addition, the intensity and enhancement of the industrialization in the regions can assert great positive influence on the development of the region and financial investment supply (Otsuka Akihiro, Yamano Norihiko, 2006). From the other side, the effective use of the resources in the regions and also the enhancement of the clusterization will form the potential of productive

influence on the social and economic development of the regions (Florida Richard, 2002) and etc.

We consider that for preparation of the regional development investment policy and its implementation first of all the regional investment policy has to be developed and

the factors forming the realization mechanisms have to be determined and listed in accordance with their importance level, after that the formation levels of the regional investment policy have to be specified, and at last the ways to achieve the goals of regional investment policy have to be chosen (see: Pic.1).

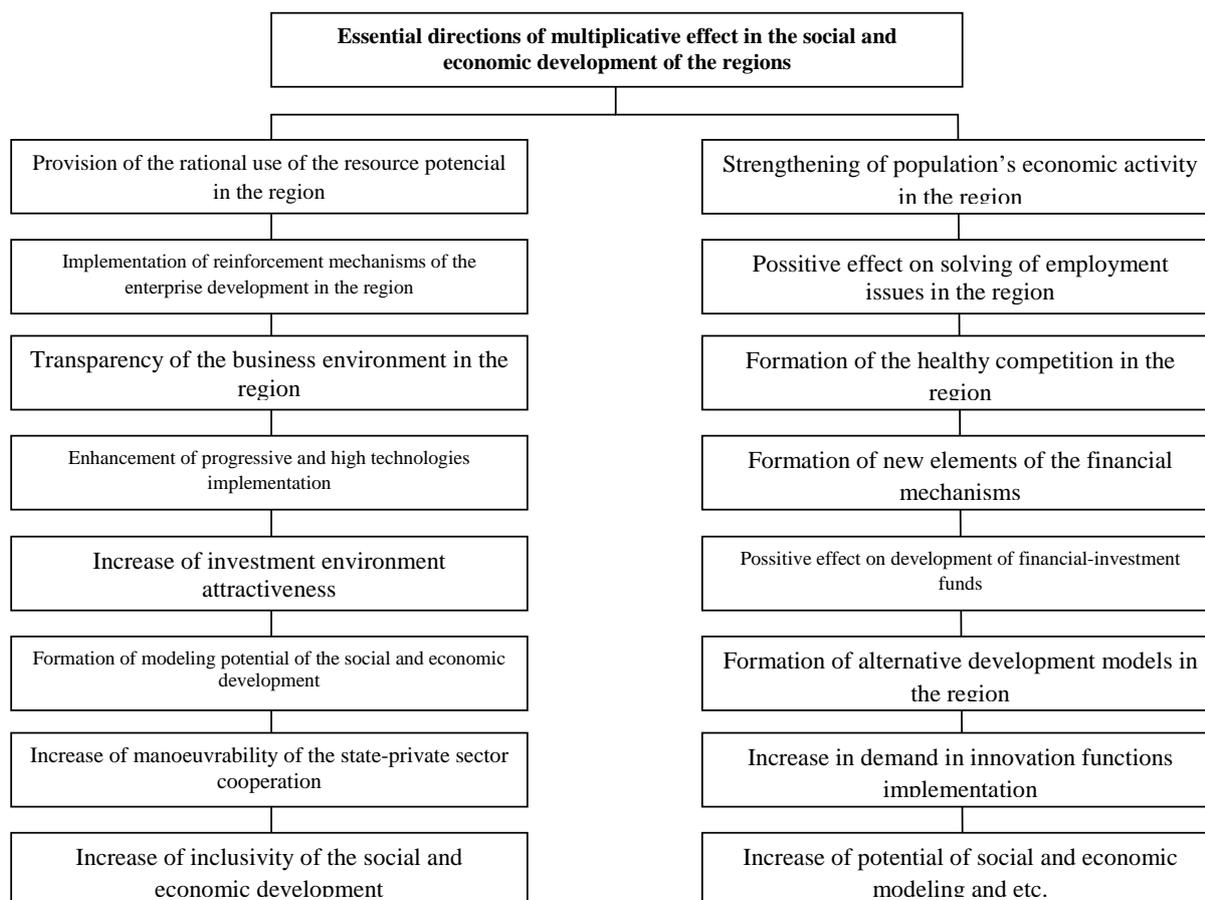
Pic.1. The structure of formation and implementation of the regional investment policy (composed by the author).



As we can see from Pic.1 the factors forming the development mechanisms of the regional investment policy and the mechanisms of realization of this policy, the levels of regional investment policy formation and the ways to achieve the goals of the regional investment policy stipulates the complex and systemic approach to many problems. Implementation of the results oriented directions of the social and economic developments in the regions and modelling of the finance and credit supply in these processes are of important conditions. Increase of competitiveness of the regional economics is especially kept in the center of attention. At the other end of the scale from the point of view of investment attracting and its rational use, more attention should be given to formation of the definite infrastructure and development issues. The finance and credit system plays a huge role in financing of the real sector of the economics (Chaplyuk V.Z., 2006). To create a multiplicative effect of the social and economic development in the regions, the investment activity should possess the necessary development rate and coverage area in the real sector. Let's review some points sipulating the necessity to review the processes of multiplicative effect creation of the social and economic

development in the country regions and strengthening of the national economic security in the unified complex. First of all we should mention that the multiplicative effect is related to investment processes, and these processes are related to the features of investment flows. A multiplier reflects the interrelation between the national income and invstment amounts. As to Keynes a multiplicative effect is stipulated by the interrelation which causes the increase between the national income and investment (Keynes M. John., 1936). And conversely, if consumers increase the funds allocated to the intake from the increased income (of course, in this situation the funds directed to the acquisition decrease) the multiplier also increases. It is hard to agree with the opinion that 'a country with mixed economy can achieve the change of its real national product structure in the direction of capital increase and current consumption decrease in the terms of high employment by provision of the necessary integrity of the fiscal and credit funds policy' (Samuelson P.A., Nordhaus W.D. Economics., 2009). The important directions of the multiplicative effect in the social and economic development of the regions were indicated in Pic.2.

Pic.2. Approximate scheme of important directons of the multiplicative effect in the social and economic development of the regions (prepared by the author).



While reviewing the Pic.2 we will see that the financial investment supply can be evaluated as an important term in realization of each important direction of the multiplicative effect in the regional social and economic development. Thus, organization of the rational use of the resource potential in the region, strengthening of population's economical activity, support of enterprise development, solution to the employment problem, implementation of high technologies, realization of innovative functions, enhancement of "state-private sector" cooperation and finally solution of social and economic problems are directly associated with availability of sustainable and adequate finance and investment supply mechanisms primarily and their further realization.

2.2. The effectivity problems of financial and investment supply of the regional social and economic development in Azerbaijan

As we have mentioned before with the aim of acceleration of social and economic development of the regions in Azerbaijan the state programs of wide format are used actively and consistently. For example, in 2004-2008, 2009-2013 the 1st

and the 2nd state programs were realized consistently, and now the state program on 2014-2018 years is in process of realization. In 2004-2008 the increase in state investment volume gives a fillip to increase of infrastructure, communal, social service objects building several times and increase in quality of the service sector (Bagirov N.A., 2014). The most of these measures are directly conneced with commissioning of important infrastructure objects. In the framework of the second large state program of the regional economic developmnt in Azerbaijan (2009-2013) the main priority activity directions consisted of modernization of the rural sector in the regions and strengthening of the market infrastructure. Finally, the third large state regional development program which is still in process of realization (2014-2018) first of all is connected with diversification of economics in the regions, development of import replacing areas, increase of production of the export directed and competitive outputs, development of enterprise, and improvement of the business environment. The financial resources for main capital on Azerbaijan regions during 2005-2017, the funds per capita and the share of regions in the total funds are indicated in Tab.1 and Pic.3.

Table 1.
The funds directed to the main capital on the regions (mln USD) and per capita (USD) in Azerbaijan

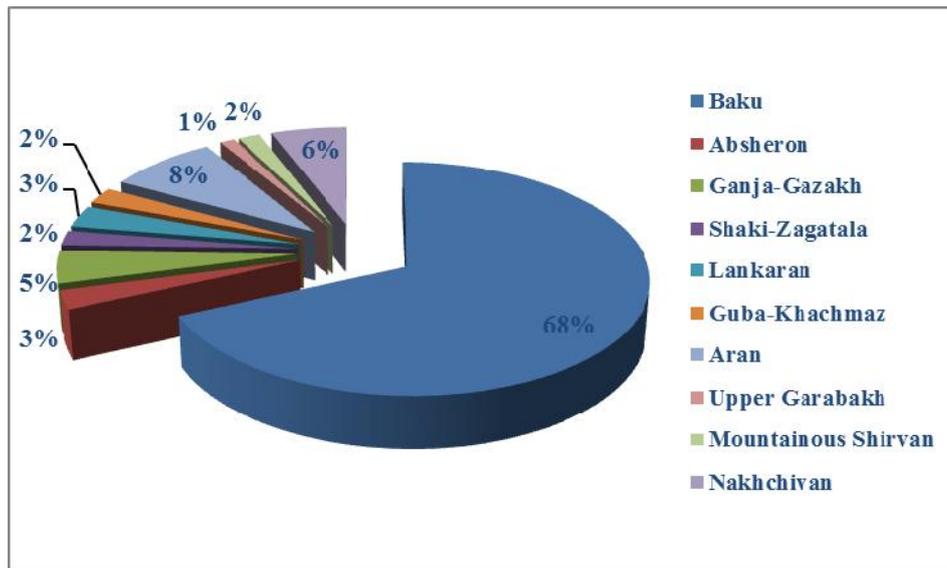
	2005	Per capita	2010	Per capita	2015	Per capita	2017	Per capita
Countrywide	6099,8	713,18	12342,0	1359,0	15551,1	1602,3	10253,12	1035,9
Baku	5390,3	2774,93	8449,3	3680,81	11165,87	5016,55	6981,8	3085,7
Absheron	143,25	309,1	148,3	283,6	381,1	683,2	270,3	475,9
Ganja-Gazakh	73,47	64,60	523,92	44,0	637,75	508,86	466,9	366,2
Shaki-Zagatala	16,92	30,66	228,6	397,4	209,34	345,4	213,9	346,9
Lankaran	98,0	124,0	167,7	197,7	332,1	366,7	318,1	342,9
Guba-Khachmaz	36,2	76,6	692,9	1390,2	262,9	492,3	235,9	433,6
Aran	123,96	72,13	694,5	400,9	1078,4	549,8	858,4	427,9
Upper Garabakh	45,0	75,4	105,9	169,7	40,8	617,3	117,4	173,6
Kalbajar – Lachin	0,73	3,4	0,96	4,1	0,19	-	-	0
Mountainous Shirvan	28,0	103,6	228,3	793,1	148,1	480,7	173,2	549,2
Nakhchivan	133,3	348,9	624,3	1522,4	927,0	2086,0	591,6	1306,6

Note: The table was prepared by the author on the basis of the official information of The State Statistical Committee of the Republic of Azerbaijan: <http://azstat.org>.

The regions shares in the resources directed to the main capital in Azerbaijan in 2017 were indicated (as %) in the Pic.3. In 2017 as compared to 2005 the share of Aran region increased from 2% to 8%. The share of Baku decreased from

88.4% to 68% at that period. The increase in Nakhchivan region composed from 2,25 % to 6,0 %, and in Ganja-Gazakh economic region composed from 1,2 % to 5,0 %.

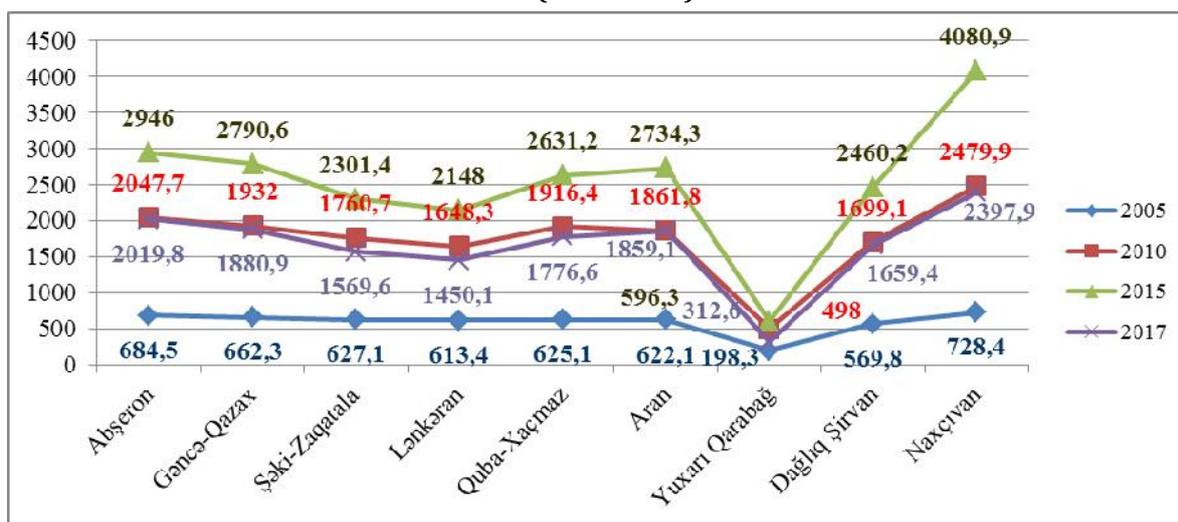
Pic.3. The share of regions (in %) in the funds directed to the main capital in Azerbaijan during 2017 (Prepared by the author on the basis of statistical information).



2.3. The analysis of the current state of the regional social and economic development in Azerbaijan

The remarkable thing is that during 2005-2017 in Azerbaijan the dynamism in the regional social and economic development was provided. The output of products on the economic regions of the country is indicated in Pic.4.

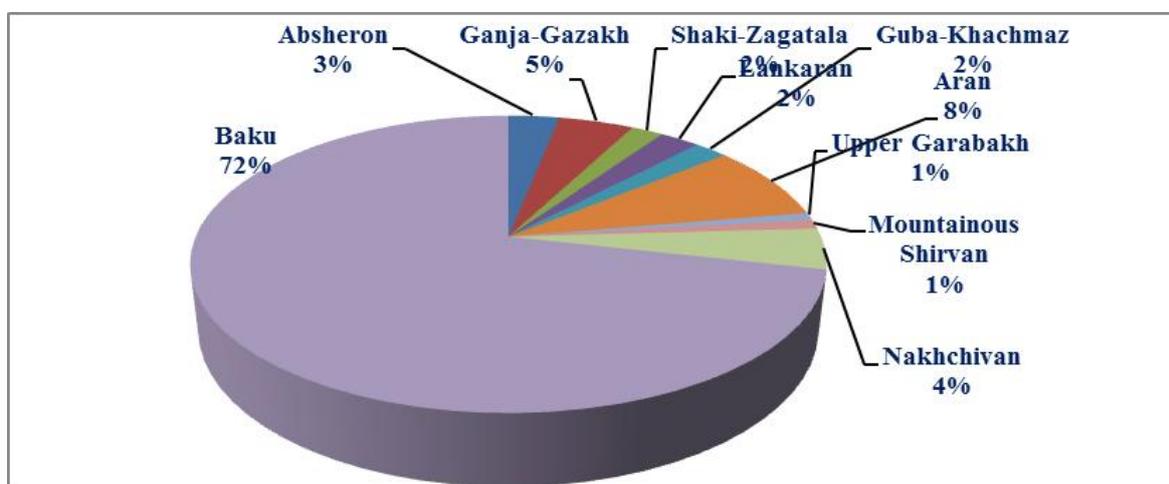
Pic.4. The output of products on the economic regions of Azerbaijan Republic, mln USD (2005-2017).



On the basis of Pic.4 we can mention that during 2005-2017 production of outputs in Aran economic region increased 3.0 times and amounted to 3753.6 mln USD in 2017. During that period the increase in in Absheron economic region – 3.84, Ganja-Gazakh economic region – 2.78, Shaki-Zagatala economic region – 3.2, Lankaran economic region – 3.1, Guba-

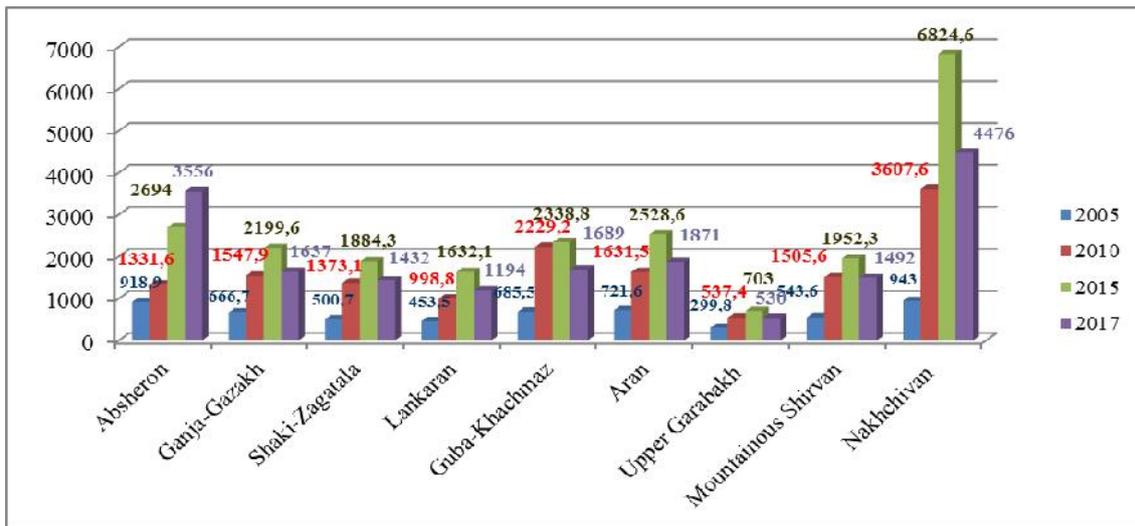
Khachmaz economic region – 2.79, Upper Garabagh economic region – 2.95, Mountainous Shirvan economic region – 2.93 and Nakhchivan economic region – 5.62 times. In Pic.5 there are indicated the shares of economic regions in the production of outputs in 2017.

Pic.5. The share of economic regions in the output of products in Azerbaijan in 2017 (as %; total 100%).



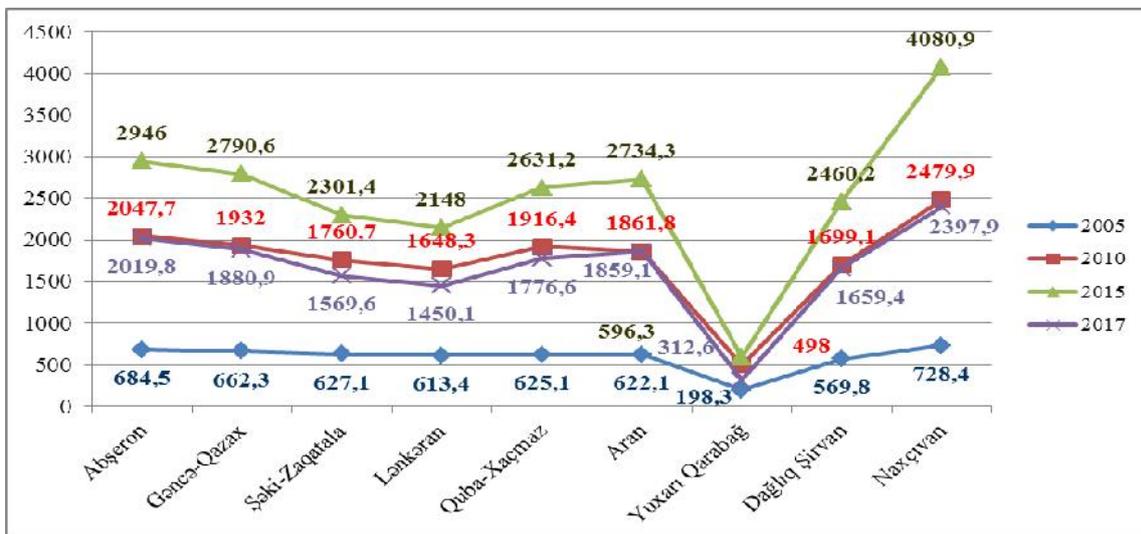
The output of products per capita in the main fields of economics on the regions in Azerbaijan in 2017 is indicated in Pic.6.

Pic.6. The output of products per capita in the main fields of economics on the regions in Azerbaijan in 2005-2017 (in current costs, USD).



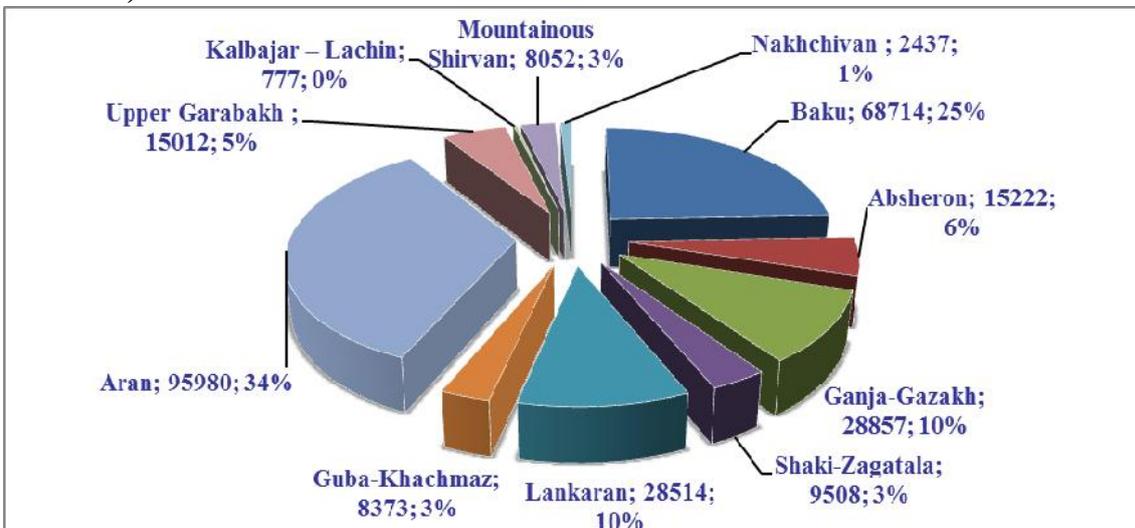
The incomes per capita on economic regions of Azerbaijan Republic (2005-2017) are indicated in Pic.7.

Pic.7. The incomes per capita on economic regions of Azerbaijan Republic, USD (2005-2017).



The regional distribution of new work places opened in Azerbaijan Republic in 2017 is indicated in Pic.8.

Pic.8. The regional distribution of new work places opened in Azerbaijan Republic in 2017, as % (281446 work places in total).



It is worth to note that the objective review and evaluation of the factors stipulating the strengthening of financial and investment supply of the regional social and economic development in Azerbaijan in present time is of great importance. Thus, the strengthening of finance and investment supply in the regional economic development model in Azerbaijan requires the complex review of a group of issues and substantiation of the factors caused by this. The financial planning and forecasts on the regions are of great importance in realization of strategical approach to the financial and investment supply of the regional social and economic development. In Azerbaijan the process of financial planning on the regions is multiple-stage process. On the basis of these standards the salaries expenses in the regions, the electric and telecommunication expenses are determined, and the tax process of the regions is defined in the process of state budget implementation (Khakimova Y.A., 2014). Against the global economic appeals and in the context of transformation of the global economic processes today the necessity of searching of new and more effective mechanisms of social and economic development management appeared in Azerbaijan (Huseynova Kh.M., 2010). The role of finance and credit organizations in the regional enterprise and business development should be enhanced, the adequate development model of the regional enterprise should be built and in general the financial and investment model of the regional social and economic development should be developed.

CONCLUSION

What do we have in conclusion of the issues revealed in the article? What is barring and missing the financial and investment supply of the social and economic development in the regions of Azerbaijan? It would be expediently to determine the adequate approach to these questions and directions of practical activity. First of all we should note that the available mechanisms of the financial and investment supply of the regional social and economic development are known: they consist of privileged credits, investments directed to the regional enterprise development, main capital investment, resources, equipment and etc. allocated via leasing. The government put a lot of efforts to enterprise development and financial investment supply of the social and economic development in the regions, but the most (80-85%) enterprises and private farms operating in the regions consist of small enterprises. Generally on the assumption of modern reality of the social and economic development in the regions it is possible to achieve the following results:

The social and economic development of the regions in Azerbaijan and the revision and modeling of the financial and investment supply of the development program connected with this is important;

In the regions of the country there is no finance and credit organizations, finance and investment funds, finance and industry group operating with independent balance and activity program. Generally such kind of finance and credit organizations were centered in capital city – Baku;

After the devaluation of the local currency-manat the activity of non-bank finance and credit organizations in the regions decreased and this situation made the financial and investment supply in the regions more complex;

With the aim of strengthening the financial and investment supply of the social and economic development in the regions the financial and investment organizations and companies creation should be stimulated and arranged in such formats as

‘Regional development funds’, ‘Regional finance and investment funds’, ‘Regional investment development banks’, ‘Regional financial and industrial groups’, ‘Regional agro-industrial companies’ and etc., and the companies, banks, investment funds which possess global experience in the similar spheres should be attracted in this processes. To organize these measurements the international tenders should be held, the concrete financial and investment supply projects should be prepared, the foreign financial and investment companies should be attracted purposefully. Alongside with the local resources and domestic investments, the mechanism of intensive bringing of the foreign investments to the regions of the country should be implemented and etc.

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