CHAPTER 1
THEORETICAL BASIS FOR THE STUDY OF FINANCIAL SUPPORT FOR SUSTAINABLE DEVELOPMENT AT THE LEVEL OF THE COUNTRY'S REGIONS

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1.1. The essence, forms and methods of financial support for sustainable development

The success of any country, the level of its socio-ecological and economic development, as well as further growth prospects, are mainly determined by the right choice of strategy and concept that provide for meeting the existing and potential needs of the population, as well as the effectiveness of financial support mechanisms to attract and rationally distribute funds for the implementation of all strategic decisions. We believe that 'given the processes associated with the decentralisation of power in Ukraine, the instability of the political, economic, social and environmental environment, the depressed state of some regions of our country, we consider it relevant to study the weaknesses and problems of the effective functioning of the mechanisms of financial support for sustainable development of the regions established in our country, as well as to find ways to eliminate them.

A number of scientific publications are devoted to the topic of financial support for sustainable development. Domestic and foreign authors consider approaches to the essence of financial support for sustainable development of regional systems, analyse and evaluate mechanisms for attracting and distributing financial resources for the development of social, economic and environmental spheres, which resulted in relevant conclusions and proposals for their improvement, etc.' [91].

In particular, when diagnosing the level of provision with financial resources of the domestic agricultural sector of the economy, L.I. Katan [41] proposed methodological principles of a comprehensive assessment of the financial and socio-ecological-economic state of the region in the context of agricultural production. D.E. Leus [48] proposed to allocate a separate direction of financial support for sustainable economic development as socially responsible investment.

Studying the features of financial mechanisms for enhancing sustainable development in Canada, V.G. Polishchuk and O.M. Zakharchuk [62] considered the possibility of implementing their foundations in our country. Also, D.E. Leus [49] proposed the main instruments of financing sustainable development, which should be used at this stage of development of our country.

A number of recent works of domestic scientists are devoted to the search for effective forms and methods of financial decentralisation in the context of ensuring sustainable development of regions. As a result of scientific research, I.V. Tiutiunyk and Y.V. Reshetniak [81] identified the benefits of financial decentralisation, and Y.V. Shpak [86] provided practical recommendations for improving the financing of sustainable development of amalgamated territorial communities.

Also interesting is the study of the European Stability Mechanism, in the context of financial support, as a powerful tool for sustainable development, conducted by M. Koczor [124].

Sustainable development of a region, in particular, any of its sectors, such as industrial, natural resource, environmental, social, requires financial resources. In other words, it can be argued that the more free financial resources are concentrated in a region, the greater its chances for successful development, provided, of course, that these resources are rationally distributed and used and invested in truly promising projects that provide for maximum economic return.

There are a number of approaches to the definition of the concept of 'financial support' in domestic scientific sources. In addition, the processes of financial support are considered at the level of the state, its regions, local territorial units, and individual business entities.

It is worth noting that financial support is not just the amount of financial resources aimed at the development of industrial enterprises, institutions, organisations, but is a certain financial mechanism set up in such a way as to regulate the flows of own and attracted financial investments, stimulate an increase in their revenues and make their rational distribution for their intended purpose, in accordance with the tasks set to solve existing problems. L.I. Ishchuk, A.M. Nikolayeva, S.O. Pirig [39] argue that in terms of content, financial support is a legally defined set of measures aimed at creating a financial basis for achieving certain goals.

L.A. Kostyrko and L.O. Zaitseva [43] conclude that financial support is a subject area of effective and optimal solution of tasks in the field of financial and economic activity, focused on the realisation of financial potential in order to increase the market value of the business entity, built on interdisciplinary and transdisciplinary interaction of instruments and methods of finance and management aimed at achieving long-term development goals.

Stoyko O.Y. and Dema D.I. consider 'financial support as a component of the financial mechanism, in particular financial methods. Financial support is the formation of targeted cash funds of economic entities in a sufficient amount and their effective use. It takes the following forms:

– self-financing (financing of an entity's activities from its own financial resources);

– budgetary financing (provision of funds from the budget on a non-refundable basis);

– lending (provision of funds on the principles of repayment, payment, urgency, security and intended use);

– lease (transfer of property for use for a period specified in the agreement and for certain a fee);

– investing (investing in certain objects to generate additional income)' [73].

Despite the multifaceted approaches to defining the essence of financial support, we conclude that it is a certain organised process of formation, accumulation of the necessary amount of financial resources based on attracting external and internal financial investments, mobilisation of own funds of business entities, as well as their rational distribution for the implementation of priority tasks for specific economic projects. Accordingly, financial support for the sustainable development of the region will involve attracting and rationally allocating financial resources for the implementation of important regional projects of socio-ecological and economic orientation.

In the theory and practice of financial support for the development of regions in our country, over the past twenty years, certain conceptual changes have taken place, approaches to its interpretation have been improved, as evidenced by the retrospective analysis of the essence of this concept (Figure 1.1).

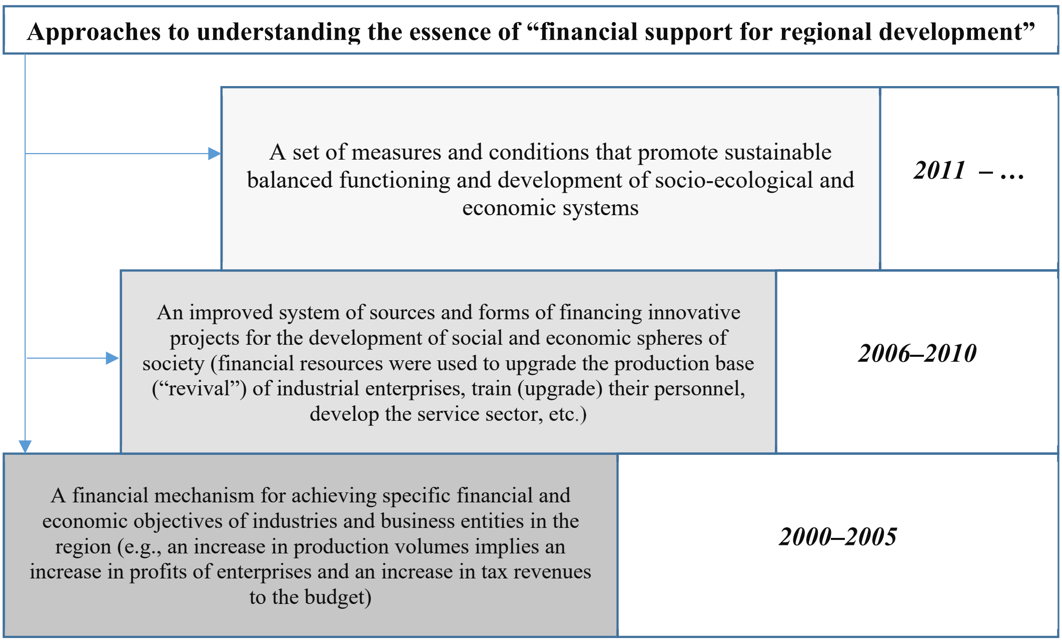

Figure 1.1. Retrospective analysis of approaches to the interpretation of the essence of "financial support for regional development" in Ukraine

Source: developed by the authors on the basis of [1; 8; 9; 13; 14; 34; 38; 74; 75; 83]

If earlier financial resources were directed to increase the purely economic level of development of the region, today the emphasis is on its social and environmental development. The analysis of domestic scientific sources has shown that in recent years, different approaches to the interpretation of the concept of 'financial support' in the context of sustainable development of the region have been formed, according to which it is considered, in a broad and narrow sense, as a financial system (O. Tulai [80], I.M. Vakhovych, I.V. Ropotan [9; 68]), financial instrument (method) for the development of regional systems (V.G. Polishchuk, O.M. Zakharchuk [63], Z.V. Gerasymchuk, I.M. Vakhovych [13]), the process of attracting financial resources and their distribution among the spheres of activity that have been formed in the region (D.V. Leus [48; 49]), as a certain sectoral model of financial development of the region (L.O. Tychkovska [78], M.V. Honcharenko [19]), etc.

In general, summarising the opinions of scholars [8; 9; 13; 14; 34; 38; 74; 75; 83], we can state that the concept of 'financial support for sustainable development' is used in a broad and narrow sense. In a broad sense, financial support for sustainable development is seen as a process of attracting, distributing and using financial resources to achieve the SDGs. These goals include economic development, social development and environmental protection. In a narrow sense, financial support for sustainable development is seen as the process of attracting, distributing and using financial resources to implement specific projects and programmes for sustainable development.

Financing for sustainable development is an important factor in achieving global sustainability. It can help address issues such as poverty, hunger, inequality, environmental degradation and climate change. It should also be efficient and transparent, aimed at implementing projects that will have a real impact on the achievement of the SDGs.

It is customary to identify a number of key principles of financial support for sustainable development:

1. Integration. Sustainable development finance should be integrated into national and global financial systems. It should be part of the overall sustainable development strategy.

2. Collaboration. Financing for sustainable development should involve a wide range of stakeholders, including governments, the private sector, civil society and international organisations.

3. Transparency. Financial support for sustainable development should be transparent and accountable. The public should have access to information on how financial resources for sustainable development are spent.

Thus, financing sustainable development is a challenging task, but it is an important step towards global sustainability.

Globally renowned international institutions also have their own vision of understanding the content of financial support for sustainable development:

1. The United Nations defines financing for sustainable development as "the process of raising, allocating and using financial resources to achieve sustainable development goals" [157].

2. The World Bank defines financing for sustainable development as "ensuring access to financial resources for development that is economically efficient, socially equitable and environmentally sustainable" [161].

3. The European Commission defines financing for sustainable development as "the process of raising, allocating and using financial resources to support sustainable development in Europe" [108; 109].

Based on the generalisation of classical approaches to the interpretation of the concept of 'financial support for sustainable development of a region', we propose to define it as a system of financial and economic relations aimed at developing and implementing effective financial mechanisms and instruments aimed at continuous generation and redistribution of necessary financial resources for the implementation of strategies, policies, programmes, projects related to the implementation of sustainable development goals of a region, taking into account the priorities of its administrative and economic authorities. Financial support should be aimed primarily at increasing the financial potential of the region through the optimal allocation and multiplication of available financial resources.

In our opinion, today the financial support for sustainable development of a region can be viewed not only as an established system of financial relations formed over the years, but also as a system of indicators or indicators for assessing the level of development of a region, characterising its investment attractiveness, scientific, technical and innovative development, relations between investment entities, the level of social security and protection of the population, competitiveness by socio-ecological and economic criteria (Table 1.1).

This approach, in our opinion, makes it convenient to monitor financial investment flows, as well as to easily identify the effectiveness and significant shortcomings of the existing system of financial support for sustainable development of the region, which, in turn, will determine the directions of its improvement.

It will also make it possible to use the most optimal forms, methods, levers, and tools to stimulate the attraction of financial investments in the development of socio-ecological and economic subsystems of the region.

According to V.S. Tulubiak, "an important component of the implementation of Ukraine's sustainable development strategy is the modernisation of the financial mechanism, the main purpose of which is to increase the efficiency of using financial potential and optimise the management of available financial resources" [79].

An important area for improving the system of financial support for sustainable development of the region is the development of an effective mechanism for attracting and distributing financial resources not only for consumption purposes, but also for ensuring its socio-ecological and economic development, which already causes certain difficulties, since its use in practice can give an ambiguous result due to the peculiarities of a particular region of the state (differentiation of natural resource potential; the status of the region as "depressed", etc.)

It should be understood that the forms of attracting financial resources will not change in their content, and will be in the form of state (budget) support, self-financing, lending and investment, but only the forms of funds flow, methods and instruments of financing will change. Let us consider in more detail the forms and methods of financial support for sustainable development of the region and define their features (Table 1.2).

Each of the forms of financing the sustainable development of regional socio-ecological and economic systems listed in Table 2 has its advantages and disadvantages.

At the same time, we believe that it is necessary to stimulate and use all possible sources of funding for regional spheres in such a way as to accumulate as much money as possible in the budgets of local amalgamated territorial communities and to create an optimal balance of costs for the implementation of programmes and projects related to their development for all regional sectors of the economy.

Table 1.1

System of indicators for determining the availability of financial resources in the region

Indicators for assessing the level of development of the region	How does the availability of financial resources in the region characterise	Data for evaluation
Investment attractiveness indicator	The amount of financial resources attracted to the development of regional subsystems indicates the real possibilities (prospects) of their innovative development and the ability to quickly (in the short term) return the financial investments made, and also indicates the stability of the investment environment	Number and amount of short- and long-term loans granted by financial institutions to business entities and their repayment; inflation rate; level of profitability of enterprises, etc.
An indicator characterising the degree of scientific, technical and innovative development	Large financial injections into regional socio-ecological and economic subsystems contribute to the development of science and technology, the development of radical innovative projects and their commercialisation, as well as the integrated rational use and reproduction of all resources available in the region	The number of employees involved in research and development; research and development expenditures; the number of industrial enterprises implementing innovations; the volume of innovative products sold; the state of the material and technical base of industrial enterprises, etc.
Indicator of the relationship between investees	Frequent receipt of financial investments from the same investors to the same business entities and increase in their volumes indicates the establishment of mutual partnerships that satisfy the interests of all participants in the investment process	Volume of investment by type of economic activity, source of funding, etc.
The level of social security and protection of the region's population	The level of financial resources available to regional economic systems and their rational distribution will affect the welfare of the local population. For example, advanced processing of products requires the involvement of more employees, increases the added value of raw materials and reduces production waste	Income and expenditures of the population, the average salary in the region; differentiation of living standards of the population; employment rate; retirement age of the population; health indicators; the amount of financial assistance provided to citizens, etc.
A comprehensive indicator of competitiveness	The availability of financial resources determines the ability of a region to compete (vie for leadership) at the interregional level in terms of economic, environmental and social parameters	Gross regional product; gross value added, sales of manufactured products; enterprise profits; emissions of harmful substances and waste into the environment, morbidity rates, etc.

Source: developed by the authors

In connection with the above information, we propose to improve the existing system of financial support for sustainable development of the region in our country in the following areas:

Table 1.2

Forms and methods of financial support for sustainable development of the region

Characteristics	Forms (sources) of financial security			
	State (budget) support	**Self-financing**	**Lending**	**Investing**
Essence	Allocation of non-refundable budget funds for the implementation of state and regional development programmes, planned targeted and individual (experimental) projects, etc.	The ability of business entities to generate revenues that will allow them to fill the budgets of all levels and increase their equity capital	Providing financial and commercial entities with the necessary funds for the development of the social, environmental and economic spheres of the region, subject to their repayment with accrued interest within the established timeframe	Receipt of direct investments from domestic and foreign investors in the development of regional economic sectors (formation of the regional investment fund)
Advantages	There is no need to repay the funds provided, relatively free use of funds within the framework of targeted programmes and projects	Increased financial capacities of business entities and regional budget funds, which contributes to their financial independence	Rapid receipt of the required amount of financial resources for the development of socio-ecological and economic systems; availability of alternatives when choosing a lender	Investments can be raised to implement long-term projects, and they do not have to be returned
Disadvantages	Unfair principles of financial resource allocation; possible misuse of financial resources; inability to fully satisfy all social, economic and environmental stakeholders	The amount of own financial resources attracted for development depends on the pace of development of the enterprise. Therefore, it takes a long time to build up the relevant funds	Complicated process of obtaining loans; high interest rates; lenders effectively dictate their own terms of the loan agreement; penalties for late repayment of loan payments; loans are granted for specific purposes	Increased dependence on investors (their interference in management processes; claims for a share of profits)
Financial methods (instruments)	Fiscal methods: tax payments, insurance premiums, state rent, financial convergence	Creation of special reserve funds; cost reduction; depreciation; marketing	Creation of special loan programmes; interest discounts for “regular” customers; leasing	Methods of attracting direct investment; portfolio investment
Areas for improvement	Implementation of decentralised funding for the region's sectors; improvement of the fiscal mechanism	Exempt business entities from certain taxes (or significantly reduce their rates)	To oblige state financial institutions to provide loans on favourable terms for all participants in the lending process	Creating a favourable investment climate; stimulating investment attraction

Source: developed by the authors on the basis of [2; 8; 9; 13; 14; 34; 38; 74; 75; 83]

– implementation of the principles of public-private investment partnership, as this will contribute to the investment attractiveness of the region, close cooperation (mutual assistance and support) of state, regional and local authorities with private commercial structures and investors, which in turn will contribute to the sustainable flow of financial resources to local budgets and their distribution for the needs of the region;

– creation of appropriate conditions for financial decentralisation of territorial development, because, according to Y.V. Shpak [86], this will expand the powers of regional and local executive authorities, local self-government bodies to form their own financial base. The policy of financial decentralisation is also supported by I.V. Tiutiunyk and Y.V. Reshetniak [81], as they believe that in the end it will definitely contribute to the increase in the efficiency of the process of developing and implementing the policy of social and economic development of territories;

– implementation of socio-economic, environmental and economic projects within the framework of sustainable development of regions, jointly with foreign countries or their individual regions, as this will contribute to the development of financial and economic relations at the international level, and will allow to adopt the best practices of foreign experience;

– improving the fiscal policy of local budget revenues.

First of all, it is proposed to improve the tax component of the fiscal mechanism, namely, to reduce the tax burden on some business entities. For example, if a taxpayer is exempted from paying income tax and a tax is introduced on expenses (including production expenses), he or she will have no reason to conceal his or her real income, and will have financial opportunities and incentives to introduce innovations at his or her own expense, which in turn will allow for the rational use of the available resource potential, reduce production costs, promote waste-free production, etc.;

– ensuring capitalisation of all resources of the social, environmental and economic spheres of the region, based on their inclusion in the processes of the real economy. This, in our opinion, will allow us to form a system of financial and economic relations between business entities that will increase the volume of financial revenues to local budgets and contribute to the financial self-sufficiency of the region.

Thus, a high level of financial resources for the socio-ecological and economic systems of the region forms the prerequisites for ensuring its sustainable development. Changes in the environment of functioning of the above systems create the need for a constant search for new or improvement of the existing approaches to the development of mechanisms and selection of effective methods and instruments of financial support. At the same time, the content of the main forms and sources of attracting financial resources remains unchanged.

Modern methods and tools of financial support should stimulate the intensification of the flow of financial resources to the regional budget and the budgets of territorial communities, which would allow to fully cover all costs associated with the development of the basic sectors of the regional economy, as well as to form budget reserves in case of unforeseen situations. As a result of the study of the components of the system of financial support for sustainable development used in our country, the following areas for its improvement were identified: implementation of the principles of public-private financial and investment partnership, ensuring conditions for financial decentralisation, participation in the implementation of joint socio-economic and environmental-economic projects, improvement of the fiscal policy of forming the revenue side of local budgets and capitalisation of all resources of the social, environmental and economic spheres of the region. The topic of this research is open and requires in-depth study.

At present, it is very important for all countries of the world, including Ukraine, to create an effective system of financing for the implementation of the SDGs defined by the UN at the global level [149]. Ukraine has been actively involved in the process of setting national priorities and implementing the SDGs. The first voluntary monitoring reports of Ukraine [52–55] on the interim results of achieving the national SDGs were published.

The importance of using various public-private financing instruments for the implementation of the SDGs is emphasised in the UN Report "Scaling finance for the Sustainable Development Goals. Foreign direct investment, financial intermediation and public-private partnership" [159].

In November 2021, following the 26th UN Climate Summit (COP26) in The Glasgow Climate Pact was approved [113], where Section III "Adaptation finance" states that the current provision of climate finance for adaptation remains insufficient to respond to the worsening impacts of climate change in developing countries, calling for increased mobilisation of finance, including private finance, for the implementation of climate plans, using innovative approaches and tools to raise funds from private sources.

In the European Union, the European Commission is addressing the issue of financing for sustainable development or sustainable investment, and in December 2016, it established a High Level Expert Group on Sustainable Finance. The main task of this expert group is to help develop a coherent European Union strategy on sustainable finance. In January 2018, the High Level Panel of Experts published a report containing 8 key recommendations in the area of sustainable finance. In March 2018, the European Commission announced an Action Plan on Financing for Sustainable Growth [108; 109].

In this context, in 2019, the European Green Deal for the European Union and its citizens was also adopted [115; 154], i.e. the EU's new environmental strategy to eliminate greenhouse gas emissions and phase out fossil fuels by 2050.

In April 2021, the European Commission adopted a legislative package [152] that sets out the directions for capital flows in the EU to increase financing for sustainable economic activities with a view to achieving EU climate neutrality by 2050.

In Ukraine, the problem of financing sustainable development is very relevant. In the context of the economic crisis, which has been exacerbated by the negative effects of COVID-19, Ukraine has a shortage of funds to implement even important social and environmental programmes.

In 2019, the President of Ukraine issued a Decree 'On the Sustainable Development Goals of Ukraine for the period up to 2030' [66, 105], in which he supported ensuring the achievement of the global sustainable development goals and the results of their adaptation, taking into account the specifics of Ukraine's development, as set out in the National Report "Sustainable Development Goals: Ukraine" [56]. Only at the end of 2021, the National Bank of Ukraine presented a comprehensive vision of building and future development of the sustainable financial sector in Ukraine – the NBU Policy on Sustainable Finance Development for the period up to 2025 [58; 139]. This document, developed in cooperation with the International Finance Corporation (IFC), aims to shape the future landscape of sustainable finance in Ukraine.

In general, studying the experience of the European Union in forming a system of financial support for the implementation of the SDGs will be very important for Ukraine in the context of its chosen path to further European integration. It is also important to study how effectively the funds raised for the implementation of the 2030 Sustainable Development Goals are used. In order to identify funding gaps and prioritise regional funding policy, it is important to conduct a comprehensive comparative assessment of the level of financial support for the implementation of the SDGs by individual regions and groups of regions in Ukraine.

A number of international organisations, platforms, and initiatives operate at the global, regional, and national levels to ensure adequate funding for the implementation of the SDGs.

In particular, at the UN level, the UN Global Compact Action Platform "Financial Innovation for the SDGs" [156] has been created, bringing together an interdisciplinary group of practitioners and experts in the field of finance to develop innovative private financial instruments that have the potential to channel private finance to critical solutions for sustainable development. In collaboration with the Principles for Responsible Investment (PRI) and the United Nations Environment Programme's Finance Initiative (UNEP FI), the platform will develop guidance on impact investment strategies that support the Sustainable Development Goals (SDGs), map current and emerging financial instruments, and provide a laboratory for the development of new innovative instruments. Ultimately, the goal is to improve the risk/return profile of SDG investments to attract institutional investors.

To improve financing for the SDGs in Ukraine, UNDP, as a leading development organisation, together with WHO, UNICEF and the United Nations Economic Commission for Europe (UNECE), is implementing a comprehensive "Joint Programme to Support Strategic Planning and Financing for Sustainable Development in Ukraine" [6].

The implementation of the SDGs in Ukraine is coordinated at the executive level, with the Cabinet of Ministers of Ukraine and regional state administrations reflecting the task of clarifying the national SDGs in their programmes of activities, development strategies and other organisational and administrative documents.

"Achieving the SDGs requires the involvement of a wide range of stakeholders at different levels of government, as well as substantial financial resources.

In 2021, UNDP, WHO, UNICEF, together with the United Nations Economic Commission for Europe, under the Joint Programme to Support Strategic Planning and Financing for Sustainable Development in Ukraine, together with the Government of Ukraine, began work on improving public financing for the implementation of the SDGs in Ukraine.

The Joint Programme's engagement at the national and subnational levels has enabled the study and assessment of the state of SDG financing in Ukraine. The study identified recommendations for improving financing using existing and potential financial instruments, as well as aligning the use of available resources with long-term development priorities and achieving the SDGs in Ukraine" [40; 60; 65].

Thus, the implementation of the UN's Global Sustainable Development Goals by 2030 is an important task for all countries that have joined the initiative to preserve the existence of human civilisation by overcoming global challenges. It is important to create adequate financial support for the implementation of measures to achieve each of the 17 Sustainable Development Goals, which each country specifies based on its own capabilities and development priorities. Among the key areas of implementation of the Sustainable Development Goals is the social sphere, which is designed to address the social problems of humanity.

At the same time, improvements in the system of financial support for sustainable development of the North-Western region, which can be carried out in certain stages.

The first stage involves consideration of the theoretical foundations of the study of financial support for sustainable development at the regional level. Within this framework, it is important to study the essence and principles of financial support for sustainable development of the region. It also provides for the selection of effective forms, methods and instruments of financial support for sustainable development. It is also important to study foreign experience and domestic practice of financial support for sustainable development of regions.

The second stage is associated with the need to conduct a comprehensive analysis and assessment of the level of financial support for sustainable development of the North-Western region. To do this, it is necessary to conduct a general description and trends in the economic development of the North-Western region. It is also advisable to analyse and assess the impact of the main factors on the change in the indicators of financial support for sustainable development of the region. At the end of the analytical procedures, it is important to conduct a multi-criteria assessment of the level of financial support for sustainable development in the context of administrative-territorial units of the region.

At the third and final stage, the task is to improve the system of financial support for sustainable development of the North-Western region. To solve this problem, it is planned to develop conceptual provisions of the regional policy of financial support for sustainable development of the region. This will further ensure the development of economic mechanisms and tools to improve the system of financial support for sustainable development of the region. At the final stage of this process, it is advisable to move on to substantiating strategies for financial support for sustainable development for individual administrative and territorial units of the region.

Thus, addressing the issue of financial support for the sustainable development of the North-Western region of Ukraine will ensure that all stakeholders – the population of these territories, business entities, central and territorial government authorities – will benefit. However, in order to implement the defined stages of the transformation of the financial support system, it is necessary to provide all possible organisational, economic and financial support for the reforms.

Based on the content of the financial support for sustainable development of the region, it is advisable to consider it from the standpoint of a systemic approach as a multifaceted concept that covers the basic provisions of the concept of sustainable development, the sphere of financial relations and the regional economy.

1.2. Sources, indicators, models of financial support for sustainable regional development

Directions and sources of financial support for achieving the SDGs may vary: budget revenues and expenditures, bank loans, investment expenditures, current expenditures of business entities, foreign direct investment, equity, international and European Union funds, household income and expenditures, etc. (Figure 1.2).

It is important that the available statistics cover all possible sources and areas of funding.

The issue of financial incentives for sustainable development at the regional level involves studying issues related to the filling and use of local budgets. After all, it is local budgets that, through the mechanism of targeted financing of the most necessary expenditure items for a particular region, ultimately affect the level of economic development of the respective region.

In the context of administrative reform, local budgets are an important tool for influencing the socio-economic development of regions, and in particular, they can largely determine the implementation of the 2030 Sustainable Development Goals. On the other hand, it is clear that local budgets are also not self-sufficient in the vast majority of cases, as not all regions of the country have the necessary prerequisites to fill them. This is especially true for the local budgets of the regions of Western Ukraine, where the level of socio-economic development is relatively lower, which accordingly determines the revenue side of local budgets. These regions include, in particular, the North-Western region, which includes Volyn and Rivne oblasts. In view of the above, it is of particular importance to assess the financial support for the sustainable development of the North-Western region at the expense of consolidated local budgets.

The SDGs define 17 areas that cover the economic, social and environmental spheres, but they need to be achieved in a comprehensive manner to ensure a synergistic effect of improving the human environment. To a large extent, the success of these goals depends on the state of funding in these areas and directions, as well as the level of socio-economic development of the region in question.

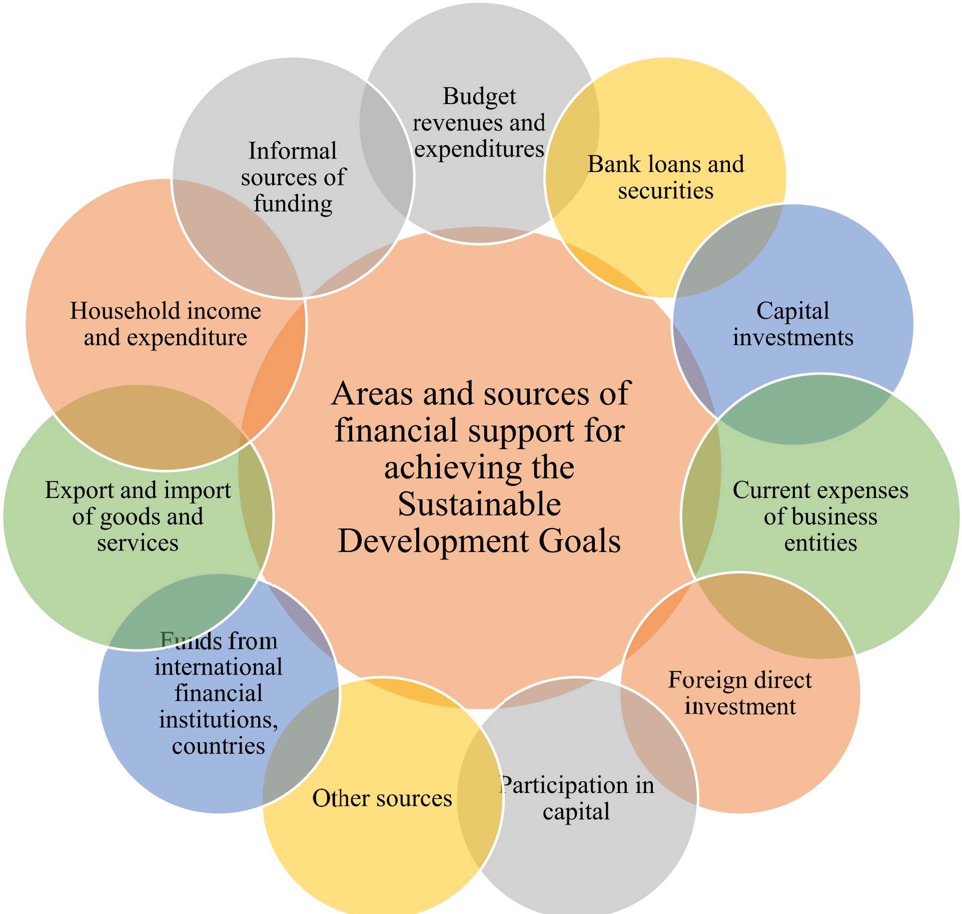

Figure 1.2. The most advanced areas and sources of financial support for the implementation of the SDGs

Source: built by the authors

If consolidated local budgets are singled out as a source of funding for achieving the SDGs, it is important to study how they are spent in the dynamics, and to what extent local budgets are able to influence the level of sustainable development of the region as a whole.

The main specific feature that characterises the sustainable development of the region is the complex nature of the functioning of the regional system of socio-economic relations itself, which includes a large number of components, including the education system and human capital of the region, its social system and the specifics of the activities of state institutions, transport and communication infrastructure, as well as various environmental aspects. Thus, it can be argued that the sustainable development of the region should also be based on a complex system of its financial support, which should include various sources related to both targeted state funding and subsidies for certain areas, corporate investments of local enterprises, and household expenditures that directly or indirectly ensure the improvement of the efficiency of the regional socio-economic system.

Thus, the search for specific instruments to ensure financing of sustainable regional development is to find ways to ensure a kind of public-private partnership. As practice shows, it is not only inappropriate to rely solely on public funding in the current environment, but also inappropriate, since the traditional limitedness of public finances excludes the possibility of sufficient expenditures to cover all regional needs. This means that not only the centralised funds of the consolidated budget are limited, but also the resources of local governments, which should be directly interested in increasing expenditures to meet the social, economic and environmental needs of citizens living in the region.

At the same time, a key feature of public-private partnerships is the recognition of the important role played by the private sector in ensuring regional development. According to the World Bank analysts, "the main advantages of the private sector in ensuring sustainable development of regions are:

– stimulating innovation;

– use of advanced knowledge and experience;

– the ability to mobilise the capital needed to expand successful economic and environmental development practices and increase the efficiency of regional supply chains" [116, p. 45].

At the same time, any instrument of financial support for regional development cannot exist on its own, because for its effective functioning there is a need for a specific mechanism that would enable the practical implementation of the capabilities of this instrument at the regional level. As I. Degtyareva notes in this aspect, "the world practice operates with the following main mechanisms of financing sustainable development:

– mobilisation of financial resources (external private capital flows, official donor assistance, commitments of developed countries, funding from international financial institutions);

– release of funds (global conservation of various types of resources, cancellation of exorbitant state debts, reduction of state budget expenditures);

– ax revenues (introduction of new small taxes). Institutional and organisational sources of funding include increased funding" [30, p. 20].

However, if we are talking about a specific mechanism for financing the needs of sustainable development at the regional level, there is a need to rethink the existing approaches to its formation. This is primarily due to the fact that for a long time in Ukraine, regional development issues have been the sole responsibility of the state. At the same time, all aspects of the development plans were approved at the national level rather than at the regional level, since budget funding for all activities related to the development plans was approved centrally. Accordingly, to ensure the functioning of such a mechanism, there were specific approaches that do not work properly in the current conditions of diversity of ownership and budget decentralisation.

However, the peculiarities of the current stage of socio-economic development of the regions require maximum mobilisation of internal and external innovative sources of financing for sustainable development, as well as ensuring the efficient use of these funds and their correct distribution among eligible projects. Accordingly, there is an urgent need to ensure more effective incentives and better allocation of available resources.

As defined by the UN Conference on Sustainable Development, "the focus on sustainable development requires new approaches to ensure its proper financing. In line with the main principles of the sustainable development strategy for regions, its financing should be aligned with the expected results, which are integrated and combined in three main dimensions – economic, social and environmental" [131, p. 975].

Thus, there is an objective need to formulate theoretical and methodological approaches to understanding the institutional mechanisms of sustainable regional development and mechanisms for attracting new and innovative sources of financing for this development from various sources. At the same time, these sources of financing should be stable and predictable, and should complement traditional sources of financing for regional needs, instead of replacing them. This statement is particularly relevant in the context of the constant insufficient financing of regional needs from traditional budget sources. Therefore, in the process of formulating a sustainable development policy for the region, it is necessary to consider taking measures to mobilise all new and innovative sources of funding to ensure that all projects identified in the development programme can be implemented.

All of this is particularly relevant in light of the need to finance necessary but significant investments, for example, to bridge gaps in the region's infrastructure or address significant environmental issues.. Therefore, to achieve these goals, it is necessary to create appropriate institutional and regulatory conditions for the development of regional capital markets and support for institutional investors, which can help attract the necessary additional financial resources.

Accordingly, since there is a need to plan the attraction of financial resources to meet the growing needs of sustainable development, it is necessary to consider the overall scheme of this financing (Figure 1.3).

Thus, we can see that for the proper functioning of this scheme of sources of financing for sustainable development of the region, more effective approaches, methods and tools for ensuring such financing need to be in place and adapted to the current economic conditions.

According to the UN experts, "establishing a sustainable development agenda for the region requires significant investment in public goods such as social services, clean air, water and a constant flow of ecosystem services on which the region's economy and population depend" [149, p. 12]. It should be added that these types of investments are characterised by high social development indicators and low returns on private investment. Accordingly, such programmes are likely to require a significant amount of public funding from state resources.

Thus, we conclude that financing the necessary but costly development programmes to address the region's infrastructure gaps and environmental problems requires mobilising public finance and support from both domestic and foreign capital markets. It is important to note that only timely and adequate public sector spending can stimulate appropriate growth rates, thus increasing fiscal resources. In turn, this will result in public investment in the process of sustainable development being transformed into private investment, which will generate additional income not only for its investors but also for the state and regional budgets.

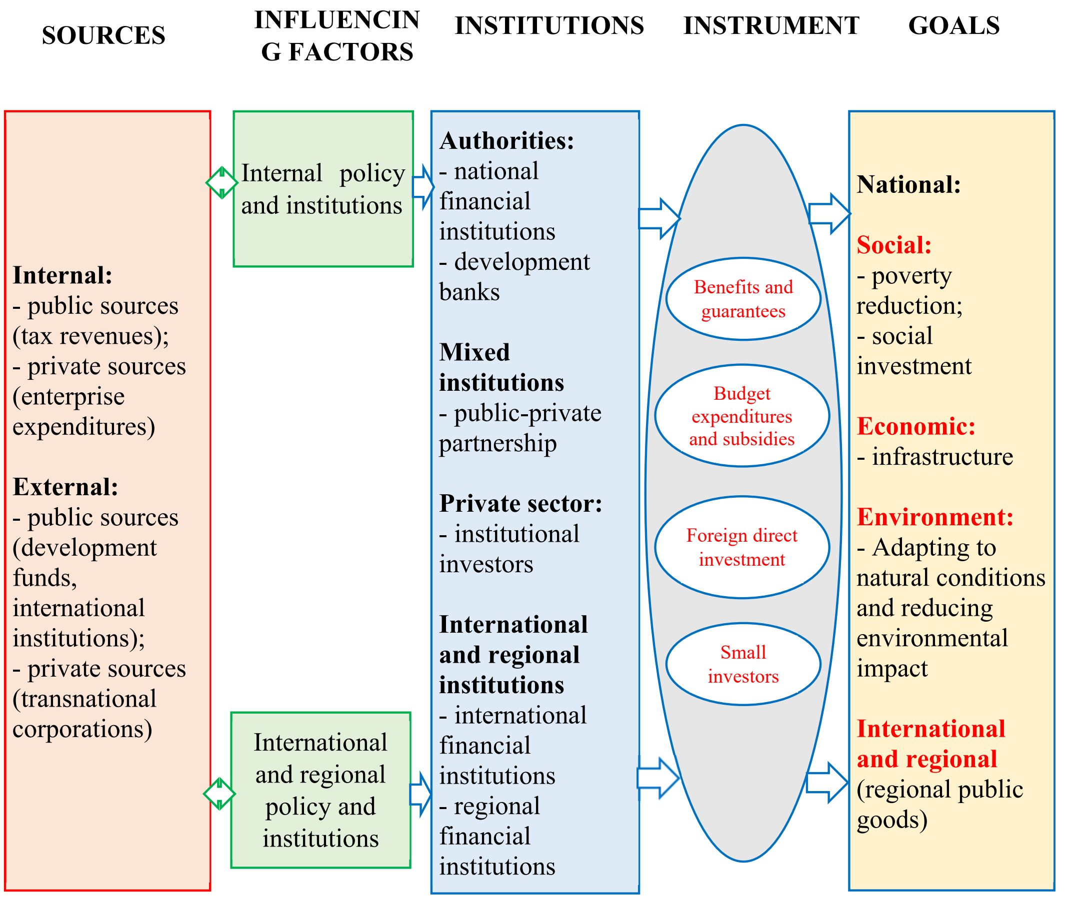

Figure 1.3. Sources of financing for sustainable development of the region

Source: built by the authors based on the source [148, p. 9]

In addition, according to World Bank experts, "innovative sources of financing, such as carbon taxes, bonds and taxes on financial transactions, can be used to ensure sustainable development of regions in the current environment of the need to ensure environmental safety" [134, p. 34].

As practice shows, ensuring sustainable development through the search for new, alternative sources of financial resources has recently become widespread, especially in the European Union. t the same time, such sources are not primarily related to the attraction of alternative financing or any specific organisations or institutions as partners, but rather involve the introduction of a targeted additional tax burden in terms of meeting the environmental needs of the region.

If we are talking about financial support for sustainable development in Ukraine, the list of sources is defined by the "State Strategy for Regional Development" and includes a set of key sources (Figure 1.4).

As we can see, the main feature of the sources of financial support for sustainable development defined by the Strategy is their differentiation, which, unlike previous programmes, provides for the identification of a significant range of different areas of funds for the implementation of sustainable development goals. At the same time, it is necessary to note the main drawback of such a mechanism for implementing the strategy – out of the six sources of funding for development projects, four are directly or indirectly formed and depend on budget funding. Only investor funds and technical assistance from the European Union act as separate, isolated ways of raising funds.

However, the Rural Development Fund, which is to be created and involved in the implementation of sustainable development projects, will in turn receive funding, again from the state budget and from EU assistance.

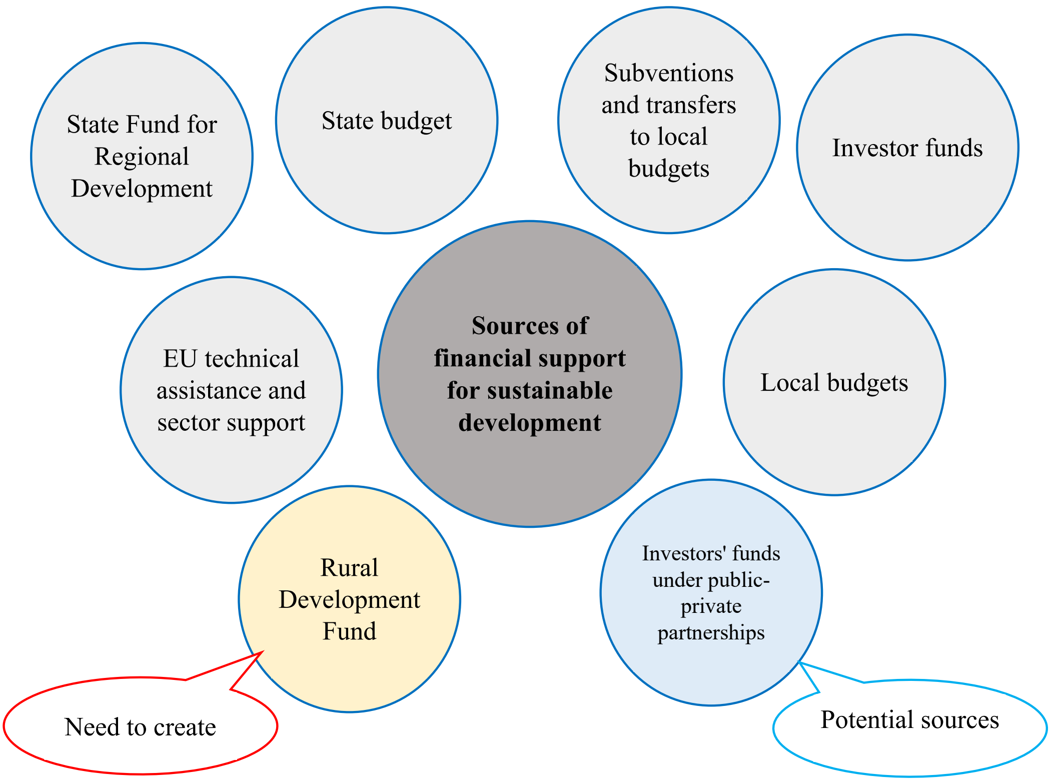

Figure 1.4. The main existing and potential sources of financial support for sustainable development in Ukraine

Source: built by the authors based on [32]

And the mechanism of public-private partnerships, which is currently expected to attract investment, is not actually backed by legislative and regulatory support for the principles of its functioning. This calls into question the practical implementation of many projects defined by the Sustainable Development Goals as those that will be implemented within such a partnership.

It is also worth paying attention to the financial instruments that are determined to be appropriate for use within the framework of the draft "Strategy for Sustainable Development of Ukraine until 2030". In particular, it states that "to ensure proper financing of measures to implement the Strategy, it is necessary to:

– to increase the efficiency of the tax system by improving the taxation system and implementing European principles of good governance in the field of taxation;

– ensure improvement of the investment climate and introduce measures to encourage foreign and domestic investors to invest, with priority given to investments aimed at implementing the objectives of the Strategy;

– introduce a new model of state investment management to promote investment in high-tech and export-oriented sectors of the economy" [67, p. 21–22].

Thus, it can be argued that there is an urgent need to improve the existing system of formation of sources of financing for sustainable development both in the direction of its differentiation in terms of attracting additional non-budgetary sources and in terms of legislative improvement of the regulatory framework for interaction within the framework of public-private partnership.

In this aspect, it is worth paying attention to the need to assess the total set of sources of financing for sustainable development, since the allocation of individual components or the inclusion of new ones is inherently linked to the need to form a separate mechanism of financial support. According to experts, "one of the main tasks of the regional policy of financial support for sustainable development is to optimise the amount of financial resources of the region that are directed to the implementation of sustainable development goals. In the context of limited financial resources, distribution processes play an important role at different stages of implementing the policy of financial support for sustainable development, as successful and reasonable distribution of funds can become the main tool for solving urgent problems that require priority, preventing or eliminating the consequences of crisis situations, etc." [13, p. 63].

At the same time, the construction of any models of financial support for sustainable development or the formation of appropriate tools within the financial support mechanism is advisable only when there is an objective opportunity to evaluate the effectiveness of their functioning. After all, the mere expenditure of resources on regional development programmes may not yield any result, and only a comprehensive approach to assessing the effectiveness of investments made allows the mechanism of financing sustainable development to function effectively. Thus, there is an objective need to form a model for assessing the effectiveness of sustainable development of the region with an extensive system of evaluation benchmarks (Figure 1.5).

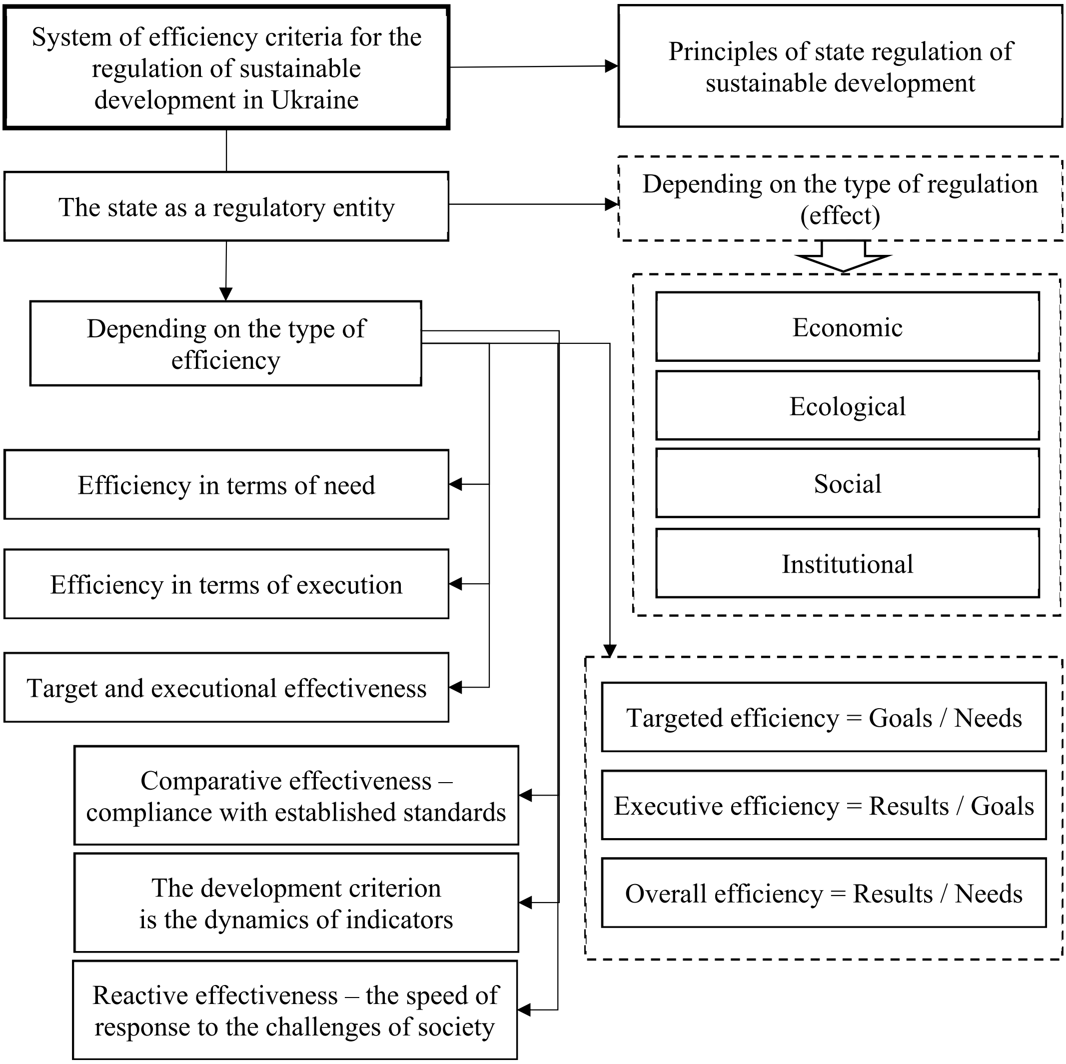

Figure 1.5. System of indicators for assessing the effectiveness of sustainable development regulation in Ukraine

Source: [5]

Thus, the possibility of effective monitoring of sustainable development indicators makes it possible to make operational adjustments to financing plans to achieve its goals. As already mentioned, the bulk of sources of financing for sustainable development includes budgetary and targeted funding at various levels of government.

Accordingly, there is a need to take into account a set of factors that have a significant impact on the formation of financial resources of public authorities, which should be used to implement sustainable development plansThus, the following factors can be identified as the main ones:

– the principles of distribution of powers to regulate financial flows to the respective budgets and extra-budgetary funds between central and regional government authorities;

– regulatory framework and principles of revenue distribution between the state and local budgets, as well as peculiarities of regulating the amount of sustainable development expenditures within the consolidated budget;

– the specifics of organising intergovernmental financial relations in terms of the procedure for redistributing revenues, as well as legislative regulation of the specifics of intergovernmental transfers to local government budgets;

– macroeconomic stability of the national financial market in terms of the availability of public authorities at various levels to raise borrowed funds through bank lending or issuance of debt securities;

– the general financial condition of business entities that contribute to local budgets and can be considered as investors in the process of achieving the goals of sustainable development of the region or as partners in the implementation of public-private partnership programmes;

– real interest of public authorities in achieving sustainable development goals and their assistance in implementing programmes of socio-economic development of the region.

However, as M. Goncharenko notes, “in today's environment, when, along with the state and local self-government, private business and the population act as subjects of influence on the development of territories, the financial resources of the region are not limited to budgetary funds. The list also includes loans, financial resources of public utilities, financial resources of the population, investments, targeted financing of regional programmes from the state budget, extra-budgetary funds and inter-budgetary transfers, etc.” [19; 20].

Indeed, as practice shows, focusing solely on state budget financing is not justified to ensure the achievement of sustainable development goals in the current environment. The problem lies not only in the potential limitation of the state budget, but also in the issues of ensuring innovative approaches to sustainable development projects. Indeed, allowing private investors to implement sustainable development projects allows for the stimulation of new approaches to their implementation, as private investors are more likely to apply innovations to ensure a high level of project returns. In addition, innovative projects can also ensure that the requirements of the environmental component of development goals are met. However, in this aspect, it is necessary to take into account the need to regulate the activities of private investors, who should be allowed to implement certain projects only after prior approval of all financial, innovative and environmental aspects and needs.

Thus, there is a need to formulate goals for financing sustainable development through private investors and public-private partnerships, which would become part of the overall goals of sustainable development in the region. In our opinion, the following goals should be identified:

1. Priority investment in projects that promote the integration of economic, social and environmental aspects of sustainable development.

2. Promote an inclusive and efficient increase in resources to reduce social and income inequality, create jobs and generally improve the cost-effectiveness of investments through the appropriate allocation of resources to achieve zero poverty.

3. Implementation of a system of long-term financing for private companies to ensure a steady flow of investment in the region's sustainable infrastructure.

4. Strengthening investment in public goods by increasing financial resources allocated to education, healthcare and social protection systems.

5. Mobilising market incentives and ensuring adequate access to finance for green energy investments and mitigation of negative environmental impacts.

6. Strengthening the governance structure and regulatory framework for private investors to minimise risks and ensure effective institutional mechanisms for achieving socially responsible goals of inclusive growth, social justice and environmental sustainability.

Thus, the combination of factors affecting budgetary financing of sustainable development with sustainable development goals that can be realised through financing from private investors allows us to talk about building a comprehensive system of financial support for the region that would combine these aspects. The practice of research in the field of sustainable development shows that there are currently several comprehensive approaches to building such models. However, most of them have been formed within the framework of the UN Sustainable Development Programme and, despite the common list of sustainable development goals, have significant differences in terms of specific tools, including financial support, due to regional and national differences in different countries and territories.

Therefore, to ensure the effective efficiency of the system of financial support for sustainable development of the region, it is necessary to rely on a process model adapted to the national peculiarities of regulatory regulation and budget decentralisation (Figure 1.6).

Based on the peculiarities of the process model of financial support for sustainable development shown in Figure 1.6, it is worth noting that it is budget-oriented and mainly takes into account sources of financing that are directly or indirectly related to public expenditures. At the same time, as noted above, in order to form a harmonious and balanced financial support mechanism, it is necessary to formulate a set of criteria that will allow it to function effectively in line with the goals of sustainable development. The main criterion for such a financial support mechanism is that all sources of finance, both public and private, should be mobilised to the maximum extent possible to address the advanced challenges of sustainable development.

As the Intergovernmental Committee of Experts on the Financing of Sustainable Development (ICESDF) notes, “the world has enough money to achieve sustainable development, but real progress requires a clear political commitment to structural reforms and systemic change, as well as additional and innovative approaches to financing” [110, p. 3].

Thus, in our opinion, the main criteria on which the financial support for sustainable development of the region should be based should include the following:

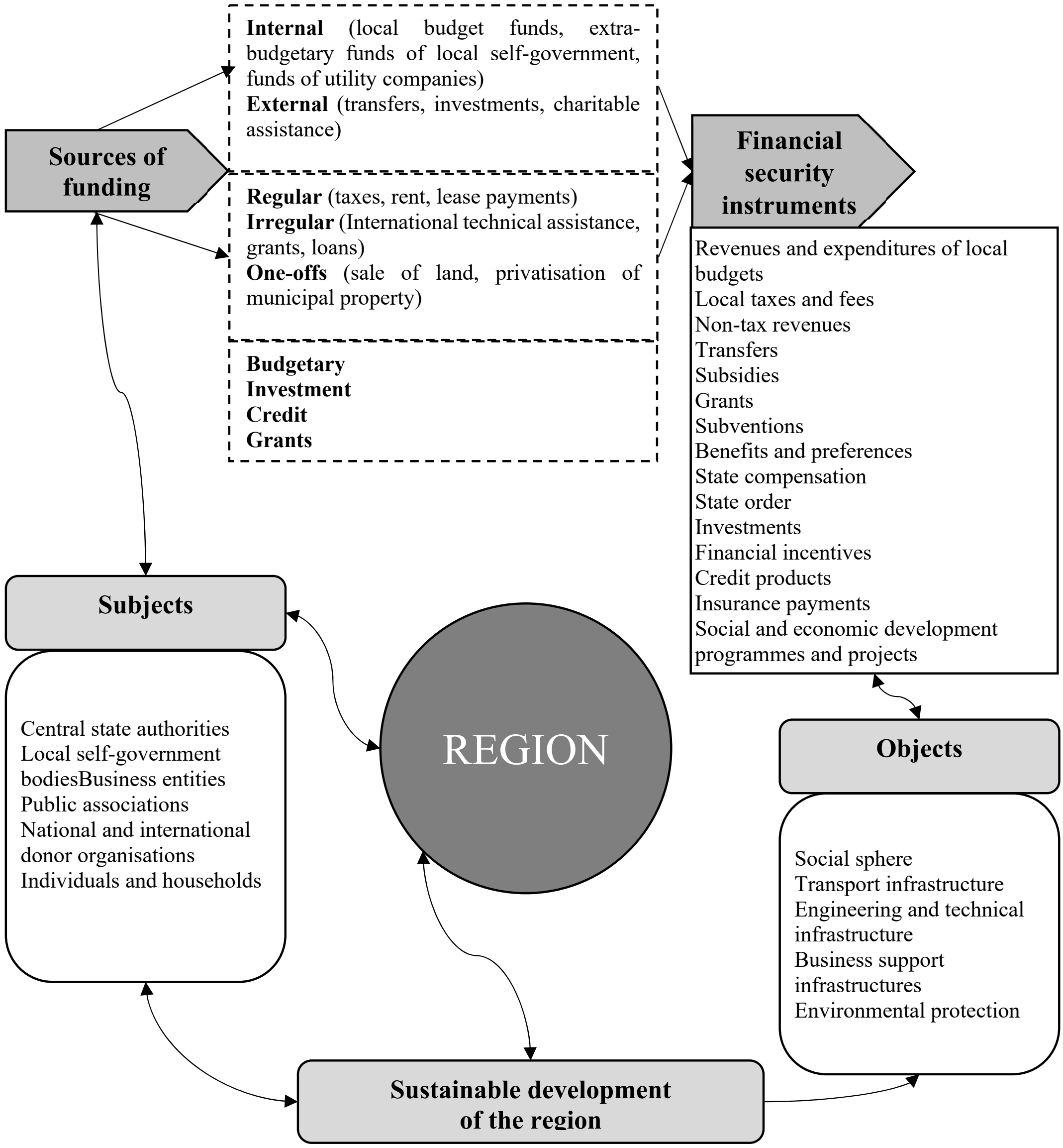

Figure 1.6. Process model of financial support for sustainable development of the region

Source: built by the authors on the basis of the source [77]

1. Transparency and accountability: Good governance – with a particular focus on accountability and the responsible and fair use of financial resources – must be a key element in the implementation of the sustainable development agenda. Transparency in decision-making, establishing clear roles and responsibilities for different actors, and ensuring that all relevant data is collected and made available at national and international levels are critical to achieving the sustainable development goals. Reliable and independent accountability mechanisms will

enable public authorities to attract a significant range of private investors to finance projects to achieve these goals and to provide the financial and non-financial means to implement these plans. At the same time, public authorities should have realistic and fair governance mechanisms, including timely opportunities for effective and inclusive multi-stakeholder participation.

2. Coherence of public policies on sustainable development: international or domestic policies can have indirect effects that undermine sustainable development and negatively impact people's rights, development opportunities and the environment. This applies to the regulation of trade, migration, energy, food production systems or the exploitation and consumption of natural resources. Policies at all levels and in all sectors should be aligned to ensure, rather than limit, the region's sustainable development.

3. Strengthen social and environmental standards through effective regulation. All public financing flows for sustainable development should deliver results that contribute to the implementation of social and environmental agreements and other commitments, and comprehensively support their implementation. At the same time, social and environmental safeguards should be in line with international standards and best practices.

4. Building on existing principles for achieving the Sustainable Development Goals, financial sources for sustainable development should build on existing principles of financing and commitment.

5. Efficiency and coordination, which means ensuring that all funding streams are regulated, coherent and complementary at the national level. Implementation of the principles of sustainable development should be based on comprehensive national development strategies that integrate all the goals and should be resourced, financed and implemented through national governance systems with the active participation of all actors: NGOs, private enterprises, central and local government. This will avoid the danger that some goals will conflict with or counteract others, and ensure that certain regions are not left without funding for sustainable development.

Thus, based on the above principles and criteria for the formation of a mechanism for financial support for sustainable development, it is possible to summarise existing approaches to its functioning and, taking into account the identified limitations and specifics, to propose our own scheme of this mechanism (Figure 1.7).

As shown in Figure 1.7, achieving the goals of sustainable development is possible only as a result of the interaction of three main components of the mechanism of its financing: the subjects of the mechanism, sources of financing and specific financial instruments to ensure financing of this development. At the same time, within each component, we see its elemental specification, which, if necessary, can be deployed for further clarification or, on the contrary, adjusted in accordance with the conditions of a particular region or situation.

It is worth noting that the effectiveness of this mechanism largely depends on the successful interaction of all its components. This, in turn, requires a complex system of regulatory levers. In particular, according to P. Shevchuk and A. Serant, it is necessary to form "financial mechanisms of state regulation of sustainable development, which should be aimed at the following:

– balance of inter-budget and intra-budget relations;

– directing budgetary support to domestic producers and implementing strategically important domestic social and economic programmes;

– strengthening the fiscal and regulatory functions of the tax service aimed at increasing the economic activity of the population;

– focus of the financial and credit policy on supporting and intensifying entrepreneurial activity and the agricultural sector, ensuring the balance of credit demand and credit supply in the country, region and at the local level;

– increasing the investment attractiveness of the state, region and specific territory" [69, p. 18–19].

In general, it can be argued that the analytical framework that should guide the formulation of strategies for financing sustainable development in the region assumes that all sources of finance can be divided into four categories: domestic public, domestic private, international public and international private. Therefore, when designing a mechanism for financial support for sustainable development, it is necessary to focus on the possibility of accumulating and stimulating as many of these diverse and decentralised sources of financing as possible for the desired projects to achieve sustainable development goals.

At the same time, it should also be remembered that the decision to finance certain projects, in any case, regardless of the sources and institutions involved – public or private – is influenced by national regional development policy and international financial assistance. Therefore, the design and development of instruments to facilitate investment in sustainable development is a priority for ensuring the effective functioning of the sustainable development mechanism. To achieve this goal, a number of steps should be taken to facilitate this effectiveness, including:

1. Ensure the state's responsibility and leadership in implementing national sustainable development strategies with the support of the international community.
2. Adopt effective public policy as a pillar of the sustainable development financing strategy.
3. Make the most of all available financial flows. Meeting the financing needs of sustainable development requires optimising contributions from all sources, including public, private, domestic and external.
4. Matching funding sources to the relevant needs. Different sustainability needs and project characteristics require different types of public, private and mixed finance.
5. Maximising the impact of international public finance. ODA plays a crucial role in countries where the needs are greatest and the capacity to mobilise resources is weakest. The use of financing instruments and their concessional nature should be tailored to each country's level of development, its specific conditions, capacities and capabilities, and the nature of the project.
6. Include sustainable development criteria in national strategies for financing it. Finance should support the economic, social and environmental dimensions of sustainable development.

7. There is a need to build synergies between the economic, environmental and social dimensions of sustainable development, as the different sustainable development objectives often overlap. Therefore, financing should be designed to exploit synergies and support policy coherence for sustainable development, taking into account potential trade-offs.

8. Adopt a multi-stakeholder, socially-oriented and inclusive approach to maximise results.

9. Ensure transparency and accountability of funding at national, regional and international levels.

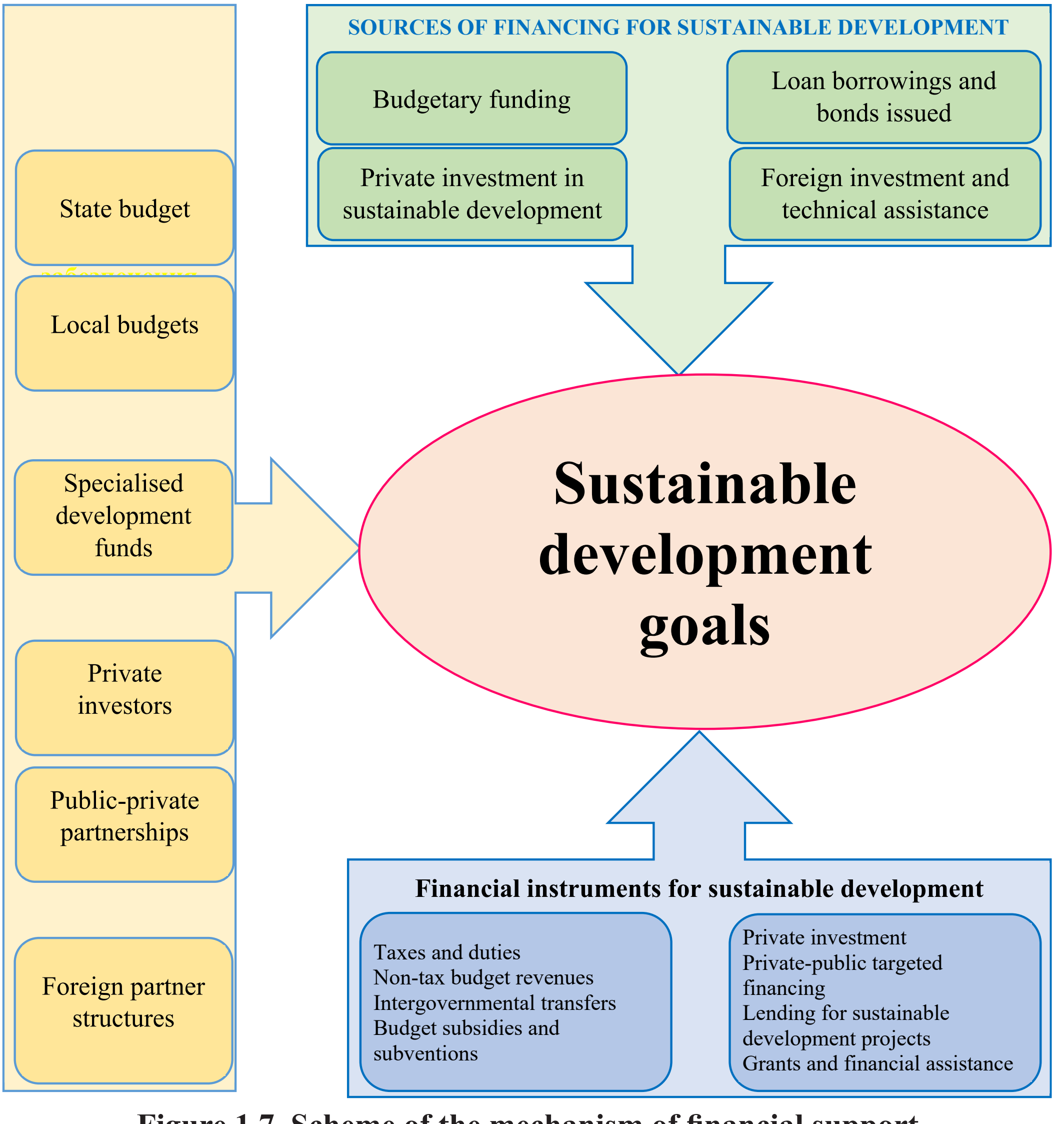

Figure 1.7. Scheme of the mechanism of financial support for sustainable development of the region

Source: author's development

For sustainable development to be financed effectively, its objectives must therefore be aligned with the national strategy. This will generally avoid the risk of some targets being left unfunded. It will also help to maximise progress in the formulation and development of national sustainable development strategies.

1.3. Foreign experience and domestic practice of financial support for sustainable regional development

The programme for sustainable development of territories was introduced at the end of the 1980s to improve the quality of life of the population. Accordingly, during this period, various countries have accumulated considerable experience in implementing sustainable development programmes and goals, which allows experts to process the experience gained and improve approaches to increase the efficiency of achieving the goals and objectives of sustainable development.

At the same time, the issue of studying and taking into account foreign experience in terms of building an effective mechanism for financial support for sustainable development is of particular importance. Its key significance lies in the fact that the implementation of any programmes related to the development of territories and regions certainly requires proper financial support. And as practice shows, financial issues are the most problematic in all sustainable development projects, especially when such projects have social rather than financial and economic benefits. Thus, it can be argued that it is impossible to build an effective national model of sustainable regional development without proper study and consideration of the experiences of other countries in this regard.

At the same time, it is also necessary to take into account certain nuances associated with the practice of such research. In particular, it means that the main focus of domestic scholars is on studying the issues of state regulation of such a mechanism. As well as the peculiarities of the financial basis for the implementation of sustainable development programmes in terms of their public funding. At the same time, not only private initiatives at the regional level are often o verlooked, but also the mechanism of public-private partnerships, which has recently become increasingly important in achieving sustainable development goals at the global level.

In assessing global trends in financing sustainable territorial development, it is important to note the 2018 report of the United Nations Sustainable Development Programme, which states that achieving the Sustainable Development Goals on a global scale will require annual global investment of USD 5–7 trillion in the coming years. At the same time, it notes separately that “financing the six major social transformations recommended by the UN Sustainable Development Plans (in education, health, energy systems, agriculture, urban planning and technology) will require an annual increase of about USD 2–3 trillion over current levels” [143].

In general, the programme to achieve the Sustainable Development Goals requires significant social transformations that will depend on substantial fiscal expenditures and private investment. Fiscal expenditures include public investment, public provision of social services and social protection of vulnerable groups. The key aspect of this plan is that the governments of low-income countries need a significant but achievable increase in international development assistance, both from official sources and from private donors, in order to achieve the sustainable development goals. Thus, in certain areas, the mechanism of financial support for sustainable development provides for the possibility of its transformation in terms of inclusion as one of the main sources of international financial assistance in the overall system of financial flows. Which will be used to achieve certain sustainable development goals.

"It is worth noting that the same UN programme provides for approaches to alleviate the financial burden of achieving the Sustainable Development Goals for low-income countries, defined as those with a per capita income of less than US$2,700. In this case, these countries are eligible for concessional support from the International Monetary Fund (IMF). However, according to the IMF's Financial Affairs Department (FAD), receiving such assistance also implies an increase in national budget expenditures on healthcare, education, infrastructure, biodiversity conservation, and social protection" [143, p. 5]. On the other hand, the level of IMF financing of such expenditures is at a pace that far outstrips their current real and potential domestic revenues.

For Ukraine, cooperation with the IMF in this area is more than effective. In particular, in 2015–2017 our country was a low-income country in terms of GDP per capita, and thanks to the aforementioned programme of cooperation with the IMF on financing sustainable development goals, we managed to keep spending on key sustainable development goals at the appropriate level. Since the second half of 2018, due to the growth of GDP per capita, Ukraine's participation in this programme has been terminated. However, a retrospective assessment of the mechanism of financial support for sustainable development in this period will suggest a significant share of external financing in the total amount of expenditures on sustainable development of territories.

In general, sustainable development financing abroad means investing in solutions to improve human well-being that do not degrade the environment or affect the well-being of others. All sustainable development finance programmes are based on this concept: understanding the interrelationships between the economy, society and the environment; living within the limits of nature's capacity to sustain life; and supporting the equitable distribution of resources and opportunities for this and future generations. This concept functions as a holistic system consisting of three concentric circles: the economy is located in society, and both the economy and society exist in the environment. At the same time, indicators are set for the financing of sustainable development goals to measure the degree of compliance with these boundaries.

However, in our opinion, it is also worth considering an alternative approach proposed by economist H. Daley, who rearranged sustainability into a triangular system – environment, justice and economy (Figure 1.8).

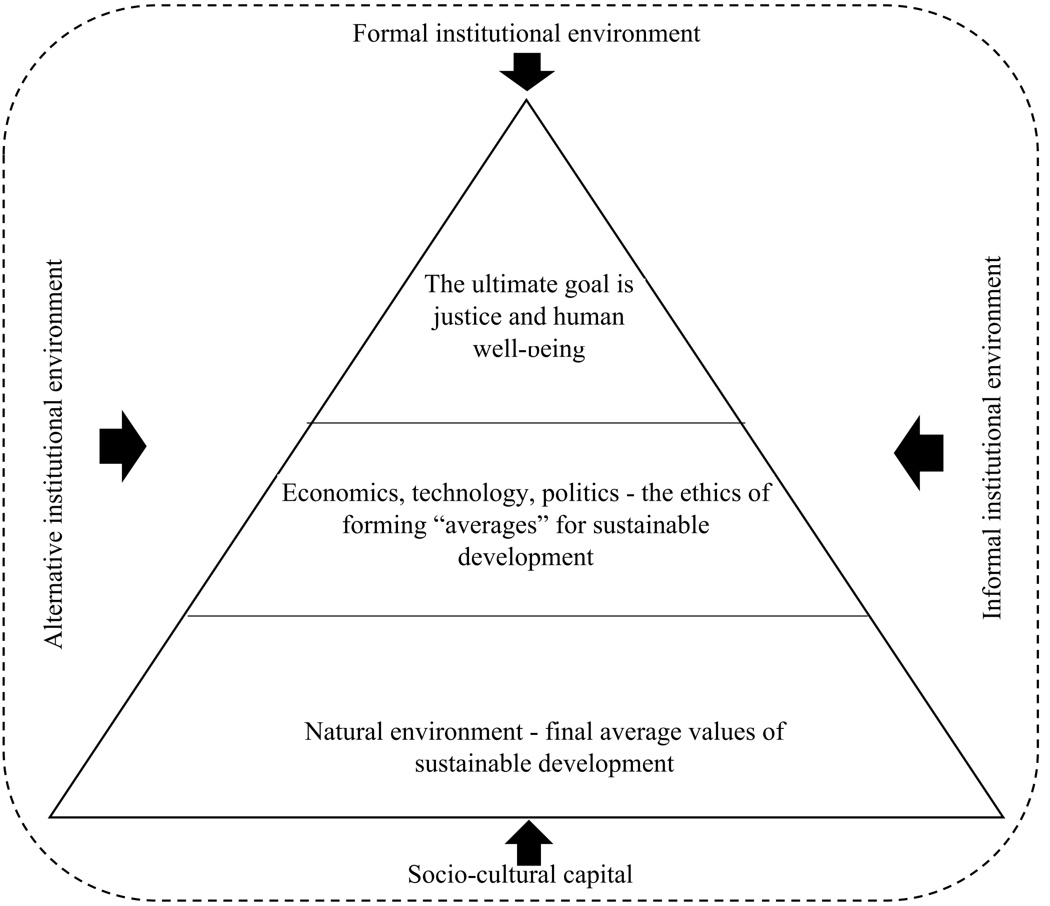

Figure 1.8. H. Daley's model of financing sustainable development goals

Source: [120, p. 258]

As you can see, at the bottom of the triangle is the environment or "Ends", representing natural resources as a prerequisite for a decent human life. The next level is the economy (including technology, politics and ethics), which is not independent but serves as a means to the ends. At the top is justice, or the "Ultimate Goal", which refers to human well-being. According to Daly, financing for sustainable development should be done in such a way that the economy succeeds to the extent that it preserves and restores the ultimate means (the environment) and enables the achievement of the ultimate ends (equity).

The European experience of forming approaches to building a mechanism for financial support for sustainable development provides for the specifics of its regulation, which is determined by the peculiarities of intergovernmental agreements within the European Union. Therefore, most sources of sustainable development financing are controlled by the European Central Bank and the European Commission. Thus, we can speak of a specific European approach to sustainable development financing and its regulation.

Therefore, in this aspect, it is important to identify all the key areas of such a financial mechanism and the specifics of its functioning under the current conditions.

In particular, one of the newest sources of funding for sustainable development goals in the EU is the issuance of sovereign green bonds (SGBs), which are seen as the most direct way to distribute the money needed to tackle the climate crisis while avoiding the pitfalls associated with ecosystem securitisation. A direct analogue to JI is the promotion of an energy transition to green and energy-saving technologies (such as renovation and energy-efficient buildings, renewable energy production and transmission, and low-carbon transport, to name a few) or investments in climate resilience (to counteract floods, heat waves, droughts, cyclones, fires and other extreme climate events).

CDOs allow European governments to bridge the financing gap for sustainable development goals without raising new taxes. As R. Wray notes, "CDOs are a special form of government bonds that are a "risk-free asset" because the risks of illiquidity and insolvency are zero when the government borrows in sovereign currency" [163].

CDOs thus represent a new category of risk-free assets that can be purchased by banks and pension funds, which have strong regulatory incentives to do so (debt is 0% under Basel I solvency ratios).

However, the application of this strategy in the EU is limited by the institutional rules of the eurozone, which set limits of 3% for the budget deficit and 60% for public debt (relative to GDP). It should be noted, however, that the existing EU treaties currently provide a legal basis for issuing government bonds aimed at ensuring sustainable development.

The next element of the European financial mechanism for ensuring sustainable development goals is economic macroprudential policy. It is based on the fact that, according to the theory of endogenous money, lending and bank behaviour can be aligned with the priorities of the sustainable development goals. However, this requires establishing a "sustainability taxonomy" of assets. According to the European Expert Group on Sustainable Finance, "such a systematisation should allow to determine under what conditions or criteria any given investment or financial product will contribute to the achievement of the EU's sustainable development goals" [117, p. 15].

Using this taxonomy, the entire manufacturing sector is divided into a "non-SDG sector" and an "SDG sector". Similarly, bank loans are divided between these sectors – into loans to the 'non-SDG sector' and to the "SDG sector". In this case, the total flow of bank loans is equal to the loan assets of banks on the balance sheet of the banking sector.

The European Central Bank can use two main indicators to regulate the financing of sustainable development goals as part of its prudential policy. The first indicator tracks lending to the SDG sector as a percentage of total lending. Reaching the target value of this indicator in a given year means that a certain percentage of newly created credit money (ΔM h) circulating in the economy has been issued in response to the investment needs of the SDGs in that year. The second indicator measures the proportion of assets on banks' balance sheets that contribute to sustainable development goals. Achieving the target for this indicator in a given year will help to keep sustainability-related financing costs low for issuers, thereby supporting adequate demand. Thus, increasing the stock of SDG assets will also increase the cost of financing non-SDG assets and provide incentives to align the production structures of the economy with sustainable development goals.

"In practice, the European Central Bank exercises its ability to stimulate investment in the sustainable development of territories usually by modifying the existing deposit insurance system. In particular, commercial banks in the euro area are required to hold reserve deposits with the ECB equal to 1% of the value of their deposits with a maturity of up to two years. The ECB, in turn, is required to lend on demand at its base rate up to the value of the collateral provided by the bank requesting the reserves. In this way, the reserves do not in any way restrict lending in the economy" [107].

The ECB currently defines asset impairment categories using a combination of asset type and issuer group criteria. Banking supervisors regularly review these categories from a risk perspective. And it is the adjustment of these impairments applied to different assets and issuers that is an effective way to support banks' interest in sustainable assets. Such a policy, which amounts to a modification of the asset classification system, will support the demand for such bonds in the financial markets. The European Central Bank may also change its reserve requirement rate for banks that meet or fail to meet the financial soundness indicators. That is, banks that lend excessively or hold collateral from a sector that does not meet the SDGs will receive a higher reserve requirement.

Another way to encourage banks to adopt an SDG financing strategy is to create a market for SDG lending certificates, following the example of India's Priority Sector Lending Certificates (PSLCs). In India, the central bank sets lending targets for priority sectors for the banking sector. At the end of the year, each bank reports the amount of financing it has provided to such sectors as the amount of outstanding loans in the priority sector as a proportion of its new lending. In order to achieve targeted lending to priority sectors, banks can sell and buy priority sector lending certificates (PSLCs) through a trading platform established by the Central Bank. In this case, banks with excess financial resources sell priority sector liability certificates, and buyer banks, on the contrary, buy liabilities without transferring risk or borrowed assets, which is possible precisely because of the certificates guaranteed by the Central Bank. In this way, the financing of the SDGs is based on a market mechanism. This strategy encourages banks to invest their surplus capital and encourages them to lend more to the SDG sector.

Another policy option used by the ECB to stimulate banks is to provide targeted loans to the sustainable development sector. Under this policy, banks directly obtain interbank loans from the Central Bank to provide targeted loans, which are in turn pledged as collateral at a discount. The practice of re-discounting is not widespread in most OECD countries today, but it was once a staple in developing countries. In particular, in a 1985 report on small business lending, the World Bank stated that "the most successful mechanism for encouraging commercial banks to become intermediaries in financing priority sectors of the economy is the establishment of an agency to re-discount loans made by credit institutions" [20, p. 22]. Currently, many central banks in developing countries (e.g. the Philippines, Nigeria and India) are actively using the policy of re-discounting to ensure sufficient financing for priority sectors in line with the Sustainable Development Goals. In turn, the European Green Deal platform has endorsed this approach, calling on the European Investment Bank to issue long-term green bonds, which would then be purchased by the European Central Bank as part of its SDG asset purchase programme [21]. It should also be noted that such re-discounting schemes are now beginning to be actively used to counter the economic impact of COVID-19 in Europe, and therefore their use to finance the SDGs is also appropriate and possible for widespread implementation.

Thus, summarising the approaches of the European Central Bank to ensure the functioning of the financial mechanism for sustainable development of territories, we can visually display its scheme, conditionally dividing the direction of regulatory influence into two areas (Figure 1.9).

Another country that puts the environmental component at the heart of its sustainable development goals is Canada. This is mainly due to the nature of the country's territory, where the majority of the population is concentrated in a number of large urban areas, while other regions may have a population density of less than 5–7 people per square kilometre. As a result, any environmental issues related to business activities affect a significant proportion of the local population at once. As a result, the Canadian government is focusing on these aspects in the SDG system.

According to V. Polishchuk, "Canada's priority environmental goals are: ensuring the safety of air, water and land; protection and rational use of renewable natural resources; protection of flora and fauna; preservation of the northern territories; ensuring global environmental security; greening management decisions at all levels; minimising the consequences of environmental emergencies. In general, Canada is characterised by an approach to financing environmental projects based on the criteria of environmental and economic efficiency, i.e., environmental projects that are economically beneficial in addition to improving environmental performance are implemented first" [62, p. 290].

As already noted, when assessing the practice of European Union countries in forming a financial mechanism for the environmental component of sustainable development, there are differentiated approaches to financing projects in this area, as not all of them are economically viable. Since the Canadian government is more focused on attracting private investment and the system of public-private partnerships in financing the SDGs, it needs to form a complex system of financial relations between all parts of the financial sector to involve them in solving the tasks and implementing priority areas of environmental development and environmental safety of territories. It is worth noting that this scheme includes both local budgets and households' funds, which are partially redistributed through tax mechanisms to finance the environmental areas of the SDGs. A generalised scheme of such redistribution is shown in Figure 1.10.

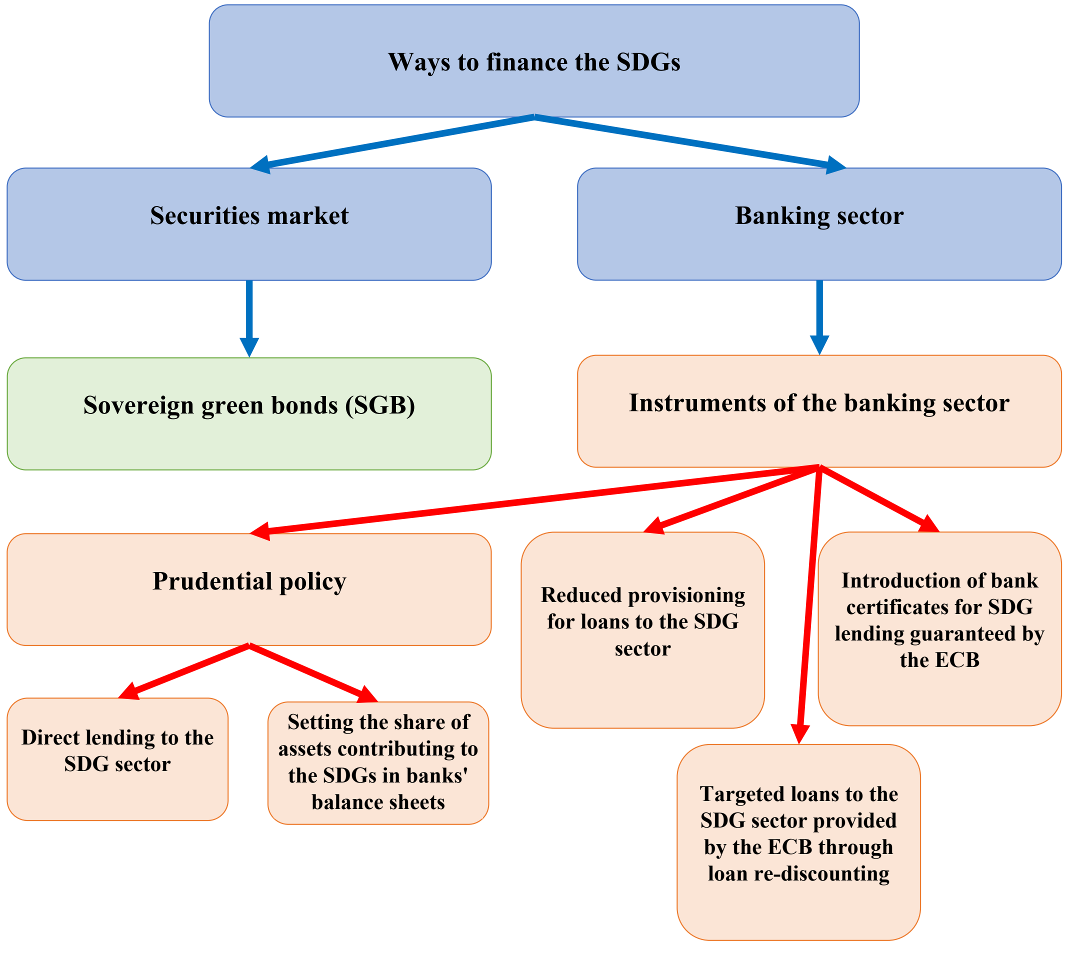

Figure 1.9. Ways and means of financing sustainable development goals according to the ECB methodology

Source: summarized by the authors based on the source [22]

As you can see, the main aspect of Canada's financial policy in terms of achieving the sustainable development goals is the formation of a mechanism to stimulate all areas of the financial system to invest in the SDGs or the budgetary redistribution of accumulated tax revenues for the relevant purposes.

Japan's experience in raising fiscal and budgetary resources for sustainable development goals is important for evaluation and research. This experience is particularly relevant as Japan is one of the few countries with financially strong regional administrative units in the form of prefectures. The existing mechanism of tax regulation and redistribution in the country allows them to implement rather expensive projects, which in turn contributes to the rapid and effective implementation of the tasks set by the Sustainable Development Goals.

According to O. Bobrovska, "a significant part of tax funds is redistributed through the state budget of Japan by means of deductions from state taxes to local budgets.

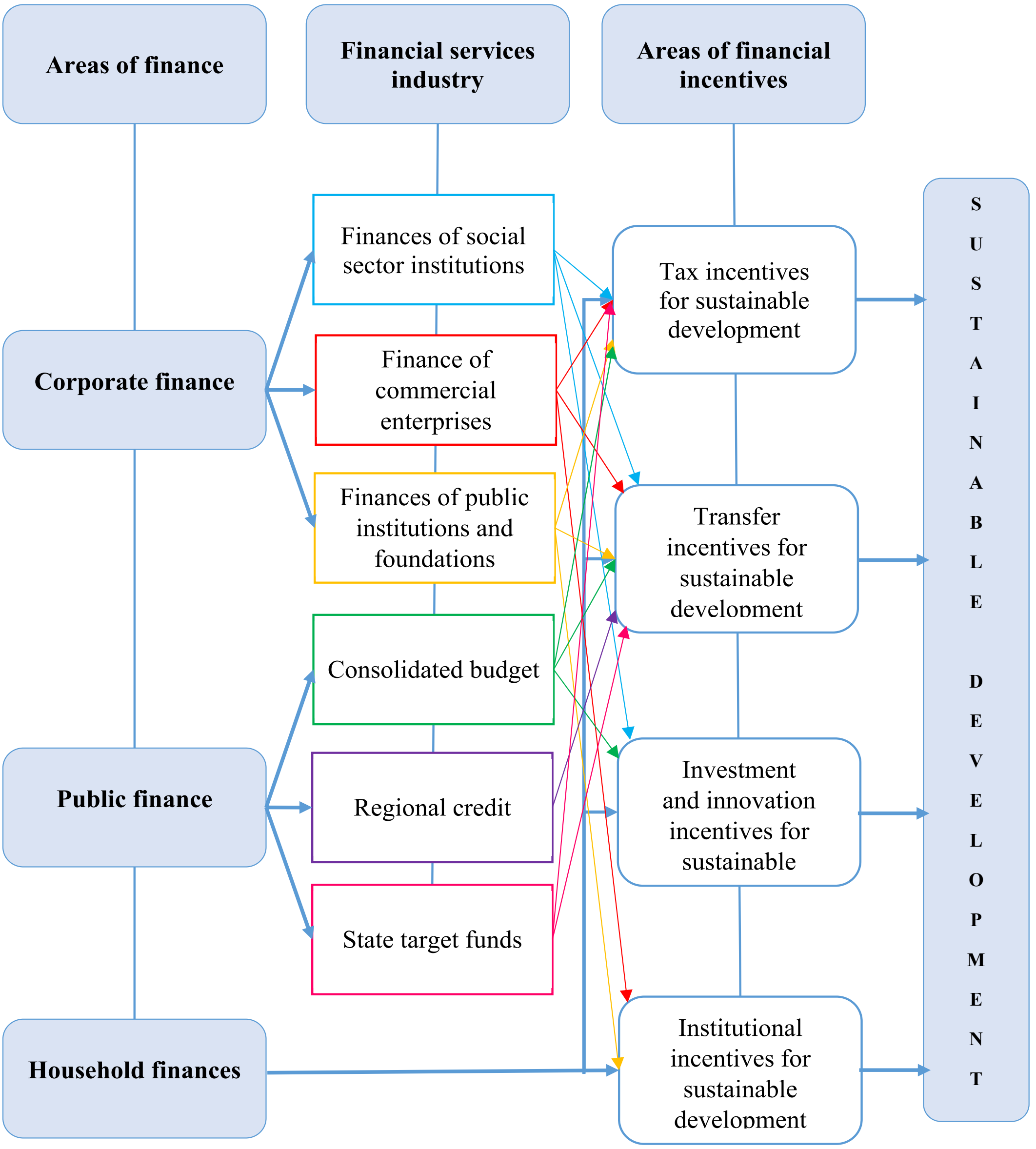

Figure 1.10. Directions of financing sustainable development of territories on the example of Canada

Source: [4, p. 288]

The distribution of taxes is a kind of mirror image of their collection: about 60% of the financial resources are spent on local sustainable development needs, and the rest of the funds ensure the implementation of national functions. Despite this, the amount of tax revenue collected locally does not allow local authorities to properly perform their functions, mainly to finance the education system, public works, social security and sustainable development programmes" [4, p. 19].

Accordingly, in order to ensure the achievement of the projects and sustainable development goals set by the prefectures, Japan has developed an effective mechanism for redistributing financial resources, which operates on the principles of intergovernmental transfers and subsidies. At the same time, Japan has a well-developed mechanism of public-private partnership and cooperation, which allows attracting business funds for the implementation of targeted regional prefectural programmes. At the same time, such non-tax revenues represent targeted investments of large local companies and corporations in the implementation of sustainable development projects.

Thus, "many factors of fiscal and budgetary policy influence stable economic development in Japan and ensure sustainable development, and it is not only the reduction of tax rates. For example, the innovative development of the system of services provided by the state apparatus, the reduction of the pressure of bureaucratic procedures through their standardisation, the high level of services provided by tax institutions, the control of state institutions, the openness of the budgetary process both in terms of planning and spending, etc. are significant factors of development" [4, p. 20].

It is important to note that Japan's experience in creating competitive regions and territorial communities is extremely important for Ukraine. The reason for this is that "the traditional channels of raising funds to stimulate economic growth (budget financing, bank loans, internal and external loans, own funds of enterprises and legal entities, etc.) used so far in Ukraine cannot provide the necessary amount of resources. Therefore, an important addition to the available resources are the funds that can be obtained as a result of the central bank's credit issue if it is targeted at implementing priority national programmes using preferential rates based on the experience of Japan in the 1950s and 1970s" [44, p. 48].

As we can see, financing of sustainable development goals in different countries is rarely possible without attracting funds from private companies and investors. That is why the corporate community plays an important role at various summits dedicated to the development of the SDGs and prioritisation of their implementation. In particular, large multinational corporations have consistently demonstrated active participation in partnerships. In turn, Business Action for Sustainable Development (BASD – an initiative of the International Chamber of Commerce (ICC) and the World Business Council for Sustainable Development (WBCSD)) is concerned with promoting corporate responsibility and accountability through the 'development and implementation' of intergovernmental agreements. At the same time, the concept of partnerships between governments, business and civil society has provided a significant impetus for the implementation of sustainable development goals around the world.

In particular, business representatives favour a free trade approach to tackling environmental problems (e.g. the Kyoto Protocol) and prefer voluntary measures that are not subject to voluntary initiatives and commitments and do not have government monitoring and control mechanisms.

However, this does not mean that the involvement of large companies in the implementation of the SDGs is based on uncontrollable costs. On the contrary, private companies have developed a number of specific financial instruments that make it easier for the corporate financial and non-financial world to fulfil their commitments in the process of contributing to the achievement of the SDGs. In particular, TNCs use a range of financial instruments to support financial security in the short and long term to achieve the SDGs (Appendix A).

As we can see, the set of proposed financial tools for assessing the security of investments in SDG projects includes both global tools of the World Bank and the International Monetary Fund, and is focused on the level of domestic investment in a given country or a practical system of ensuring settlements. Therefore, it is clear that the implementation of such tools in the practice of companies involved in the implementation of projects related to the achievement of the Sustainable Development Goals is possible only for large multinational companies that can actually interact with governments in the framework of public-private partnerships.

According to financial analyst M. Juken, “due to the lending, investment and insurance practices of large international financial corporations, as well as their intermediary position in the economy, the influence of banks and insurance companies is potentially very high in promoting sustainable economic growth and achieving sustainable development goals” [119].

Thus, it can be concluded that the overall performance of large companies in achieving the SDGs should be measured on the basis of their overall contribution to economic prosperity, environmental quality and social capital of the respective region. In other words, the assessment of corporations' activities in ensuring sustainable development should be based on their corporate social responsibility, which is the basis for developed European countries in the process of private-public interaction.

Accordingly, research processes in the field of corporate social responsibility and sustainability should cover four main areas of analysis: internal social policy, external social policy, environmental policy and ethical and economic policy. Within internal social policy, the main areas of focus are strategy, employment, job content, employment conditions, working conditions and industrial relations, which have been identified by academics, NGOs and other stakeholders as important for any social audit of a company. Within environmental policy, issues related to strategy, management, production and products are important elements of any corporate social responsibility analysis. Similarly, a minimum scope can be defined at the level of external social policies, including labour and human rights, and ethical and economic policies.

“The peculiarity of the above methods of corporate interaction is that in the European Union they function not as declarative principles of interaction between business and local authorities, but are under the clear regulatory control of the European Commission, which at the regulatory level monitors the transparency of the level of management of corporate investments in projects related to the SDGs” [108]. It is noted that corporate social responsibility practices and tools are more effective if they are part of a concerted effort by local authorities and private companies and are based on clear and proven standards.

In general, the concepts of corporate social responsibility and sustainable development are not uniform and limited. Each company has its own specific approach, just as each investment fund has a different view of this interaction, including the separate approaches of the regional units of such funds. The European Commission states that no one can claim to have the final concept of corporate social responsibility, but the discussion on sustainability finance should not stop within the diversity of these concepts.

On the other hand, the wide variety of such concepts confuses consumers and investors. As H. Peters notes in this regard, "In practice, there have been many efforts to harmonise the process of collecting data on sustainable development finance. However, harmonisation based on the same lists of questions and indicators is very valuable and depends only on the internal quality of these indicators. The comparability and validity of data can be greatly improved through standardisation. However, corporate social responsibility research can never be fully harmonised due to various cultural and socio-political differences. The only solution in this regard is to create networks that are global and local, multidisciplinary and multicultural" [140, p. 225–226].

The overall conclusion on the financing of sustainable development by large corporations is that governments and EU supranational organisations have identified business, including the financial industry, as a key partner in many aspects of achieving the Sustainable Development Goals. At the same time, large companies are encouraged to continue to assume their social responsibilities through their intermediary role in the economic system, as well as through partnerships and innovative products.

Thus, summing up the key points of foreign experience in financing sustainable development goals in terms of using it to implement the financial mechanism for sustainable development in Ukraine, the following conclusions can be drawn:

In practice, there is a sufficient diversity of approaches and concepts to find sources of financing for sustainable territorial development, which differ from country to country in the way and manner in which they are combined to achieve the desired SDGs.

The practice of financing the SDGs through budget reallocation and targeted budget financing is typical for developed countries with high tax revenues. However, the practical experience of financing the SDGs in such countries is not necessarily applicable to Ukraine due to the constant national problem of filling the state budget. In addition, Japan's experience shows that effective implementation of SDG projects is possible only if self-sufficient territorial units are formed, which in Ukraine requires completion of the process of administrative and budgetary decentralisation in terms of forming financially efficient territorial communities.

The concept of corporate social responsibility, which is being implemented in the European Union to ensure the participation of large companies in financing projects to achieve sustainable development goals, as well as to establish an effective and efficient public-private partnership, is useful for borrowing. Since in many cases large TNCs are involved in such partnerships, the introduction of similar principles of their interaction with local authorities in terms of achieving the SDGs in Ukraine is quite possible and does not require significant time to establish such a relationship.

We believe that the most effective form of stimulating the financing of SDGs is the financial mechanism introduced in the European Union, which includes a set of market-based measures implemented on the stock market and through the regulatory activities of the ECB, providing financial incentives for banks and individual investors to implement projects necessary to ensure the achievement of sustainable development goals. At the same time, it should be borne in mind that Ukraine's ability to adopt this experience is limited, as the regulatory influence of the NBU is incomparably less than that of the ECB. At the same time, it is quite possible to finance the environmental aspects of the SDGs in Ukraine through the issuance of specialised green bonds, similar to EU green bonds.

Thus, the concept of "financial support for sustainable development" should be considered in a broad and narrow sense. In the broad sense, financial support for sustainable development is seen as the process of attracting, distributing and using financial resources to achieve the goals of sustainable development, which include economic development, social development and environmental protection. In a narrow sense, sustainable development financing is seen as the process of attracting, allocating and using financial resources to implement specific sustainable development projects and programmes.

Financial support for sustainable development is an important factor in achieving global sustainability. The development of effective mechanisms and the use of efficient financial support instruments, adapted to the specificities of a given country and its regions, will help to mobilise the necessary financial resources to address global challenges such as poverty, hunger, inequality, environmental degradation and climate change. The process of financial support should be efficient and transparent, with the aim of implementing projects that have a real impact on achieving the sustainable development goals.

The author's own definition of the concept of "financial support for sustainable development of the region" as a system of financial and economic relations, aimed at developing and implementing effective financial mechanisms and instruments aimed at continuous generation and redistribution of the necessary financial resources for the implementation of strategies, policies, programmes, projects related to the implementation of sustainable development goals of the region, taking into account the priorities of administrative districts, cities, towns, villages, and territorial communities, is proposed.

The article defines a system of indicators of provision of the region with financial resources: investment attractiveness, degree of scientific, technical and innovative development, relations between investment entities, level of social security and protection of the population of the region, and a comprehensive indicator of competitiveness.

The article considers forms and methods of financial provision of sustainable development of the region by the main forms – budget support, self-financing, lending, investment. The main directions for improving the system of financial support for sustainable development of the region are proposed: introduction of the principles of public-private investment partnership, creation of conditions for financial decentralisation of territorial development, implementation of socio-economic and environmental projects, improvement of the fiscal policy of forming the revenue side of local budgets. It is concluded that a high level of financial resources for the socio-ecological and economic systems of the region forms the prerequisites for ensuring its sustainable development.

Based on the theoretical synthesis of the opinions of domestic scholars, the authors conclude that in order to improve the system of financial support for sustainable development at the regional level, it is important to concentrate activities in the following areas: introducing the principles of public-private financial partnership; creating appropriate conditions for real financial decentralisation of territorial communities; and stimulating the implementation of socio-economic and environmental projects.

It is theoretically substantiated that in order to form an effective system of financial support for sustainable development of the region, it is necessary to rely on a process model adapted to the national peculiarities of regulatory regulation and budgetary decentralisation. Such a model should be budget-oriented and mainly take into account the sources of financing that are directly or indirectly related to public expenditures.

In order to create a harmonious and balanced financial support mechanism, it is necessary to formulate a set of criteria that will enable it to function effectively, in accordance with the sustainable development goals specific to regional characteristics. The main criterion for such a financial support mechanism is the need to mobilise financial resources from all sources, both public and private, to address sustainable development priorities.