



## THE SCENARIO APPROACH OF THE COUNTRY INVESTMENT POLICY IN THE CONDITIONS OF GLOBALIZATION

*Lidiia Karpenko*<sup>1</sup>


Considering the particularities of economic development, countries should cooperate and participate in joint projects within regional and international groupings. The paper aims to develop a scenario approach to the investment policy of countries in the context of globalization. Defines how important the investment component of a country's economic development is and justifies why countries are heterogeneous regarding investment attractiveness. To fulfil the main goal the author applies the capital asset pricing model, which is a basic concept in the field of finance. In addition to the main goal, the text of the article systematizes the stages of development of the organizational project scenario, justifies the role of foreign investments in economic development, and analyses world trends regarding changes in the attractiveness of investments. The paper estimates how attractive national economies are for foreign investments as well. Key words: investment policy, capital asset pricing model, capital market, investment freedom index, scenario approach, territorial development  
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### 1 INTRODUCTION

Investment policy is one of the most important components of the state's economic policy. In today's conditions of financial and economic instability, it acquires a special priority. The state has the main means of regulating the reproductive process. The investment policy of the state should contribute to the rise of the economy, increase the efficiency of production, ensure social and economic stability and solve environmental problems.

The current conditions of the country's economic development dictate the need to study the patterns of increasing investment activity. The problem of investment activities activation is currently being transformed and consists not only in increasing

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<sup>1</sup> Prof. Lidiia Karpenko. DrSc., Local Self-Government and Territorial Development Department, Educational and Scientific Institute of Public Service and Administration of the Odesa Polytechnic National University, Genueska 22, 65000 Odesa, e-mail: [lidiiko888@gmail.com](mailto:lidiiko888@gmail.com).  
 <https://orcid.org/0000-0002-2888-2477>

investments, but in their effective use. The key principle of managing investment activities is the combination of investments with innovations, while innovative development requires a large-scale investment policy of the state. An important task of reforming the current state of the economy is the development and implementation of an effective mechanism for coordinating the investment activities of business entities.

For example, for Ukraine, the key element of ensuring economic growth and, therefore, the entire socio-economic development strategy should be an investment breakthrough, a significant increase in the volume of direct foreign investments in the country's economy and an increase in the efficiency of their use. In the conditions of limited domestic sources of financing, the attraction of foreign investments into the economy of the regions, in particular, is of particular importance, which should contribute to the accelerated development of the innovative component of the state's economy. Therefore, at the current stage of the modernization of the national economy, the problem arises of finding constructive ways to overcome crisis phenomena and identifying optimal mechanisms of state influence to optimize and effectively use the existing Ukrainian potential with the aim of integrating Ukraine into the European economic and legal space on the basis of equal partnership rights.

The main purpose of the contribution is to examine the scenario approach of the country's investment policy in the conditions of globalization through the application of the capital asset pricing model.

Author builds the prognostic validity of foreign investment activity at the regional level and systematizes the instrumental basis for investment forecasting. In-depth descriptions of the benefits and drawbacks of the capital asset pricing model are provided in the study. Based on the constructed mathematical models, the effects of foreign direct investment on the real sector of the regional economy are analysed and the features of this influence in relation to the region's transformation and economic security are established. There is a systematic approach to creating an organizational project scenario. The importance of foreign investments in the growth of a nation's economy is supported, and global patterns pertaining to shifts in a nation's investment appeal in light of globalization are examined. The attractiveness of national economies to foreign investors is estimated.

The work's findings validate the usefulness of applying the country investment policy's scenario approach and the capital asset pricing model for the use of investment projection for territorial development. Future research could look more closely at the mechanism and process of implementing regional investment policy, which is based on the interactions between corporate structures and local and regional authorities, as well as the systematization of techniques for assessing the performance of regional investment projects.

## **2 LITERATURE REVIEW**

The study of issues related to regional investment strategies is the focus on the efforts of several scientists and experts, both domestic and foreign. A vast range of subjects related to research in the area of investment activity and attracting foreign investment in order to enhance the investment climate are covered in the works of economists and scientists, both domestic and foreign.

For example, Tkachenko (2018) presents assessment of investment attractiveness of Ukraine through the lens of international ratings. Fabozzi (2008) pays attention to the investment management and investment modelling of territory development. Authors like Elton, Gruber, Brown and Goetzmann (2014) explore the modern vectors of investment policy and portfolio analysis. Pearce (2013) has devoted his works to the areas of formulation, execution, control, and strategic management. Karpenko (2018) is working on the issues of base alternatives and the paradigm of impact investing development in the coordinates of globalization changes and Euro integration. Additionally, Karpenko (2019) uses systematic basic factor models to study novel trends in the process modelling of international strategies. Turnbull (2018) explores the issues of optimal capital allocation in decentralized business.

However, due to the need for ongoing development and the search for alternate methods of effectively implementing the regional investment policy, investment projection of territories, and development of bond indexing strategy, it is necessary to continuously improve current methods and develop new mechanisms for drawing investment resources to the regional economy. As a result, the research issue selected is pertinent and calls for ongoing refinement and creation of strategies to maximize the investment projection of territorial growth. You can address the problem of rationalizing investment decisions with the help of mathematical statistics.

## **3 DATA AND METHODS**

We start our investigation by looking at regional investment policies and project implementation. The regional investment policy, in the context of regional interaction, municipal structures, and business structures, is a set of measures put in place by regional authorities with the goal of drawing in and making sensible use of investment resources of all kinds in ownership with an eye towards the region's sustainable and socially conscious development. The examination of the theoretical foundations of regional investment policy is of particular scholarly interest of the paper.

To fulfil the purpose of the contribution, we propose a market model based on the capital asset pricing model, which enables the formation of the country's investment policy scenario in the conditions of globalization. The capital asset pricing model posits that there is only one factor that affects the return on a security – the market. The relationship, sometimes called the market model or the single-index model, can be expressed as follows:

$$R_{it} = a_i + \beta_i R_{Mt} + \varepsilon_{it}, \quad (1)$$

where:

- $R_{it}$  – return on asset  $i$  over the period  $t$ ;
- $R_{Mt}$  – return on market portfolio over period  $t$ ;
- $A_i$  – a term that represents the nonmarket component of the return on asset  $i$ ;
- $\beta_i$  – a term that relates the change in asset  $i$ 's return to the change in the market portfolio;
- $\varepsilon_{it}$  – a random error term that reflects the unique risk associated with investing in an asset.

The market model says that the return on a security depends on the return on the market portfolio and the extent of the responsiveness as measured by  $\beta_i$ . In addition, the return will also depend on conditions that are unique to the firm as measured by  $\varepsilon_{it}$ .

### 3.1 Graphical depiction of the market model

Graphically, the market model can be depicted as a line fitted to a plot of asset returns against returns on the market portfolio. Each point represents the return of the asset and of the market portfolio during a single period of time (usually a week or month). The term  $\beta_i$  (beta) is the slope of the market model for the asset, and measures the degree to which the historical returns on the asset change systematically with changes in the market portfolio's return. Hence, beta is referred to as an index of that systematic risk due to general market conditions that cannot be diversified away. For example, if a stock has a beta of 1.5, it means that, on average, on the basis of historical data, that stock had a return equal to 1.5 times that of the market portfolio's return. The beta for the market portfolio is, of course, 1.0.

The term  $a_i$  in the market model, popularly referred to as alpha, is the intercept point on the vertical axis. It is equal to the average value over time of the unsystematic returns for the stock. For most stocks, alpha tends to be small and unstable. (Fabozzi, 2008)

### 3.2 Decomposing total risk using the market model

Recall from our earlier discussion, the total risk of an asset can be decomposed into market, or systematic, risk and unique, or unsystematic, risk. We use equation 1 to quantify these two risks. To see how, let's look at the total risk of the return of asset  $i$  as measured by the variance of its return. This is done by determining the variance of equation 2. We show without proof that the variance would be:

$$\text{var}(R_t) = \beta_i^2 \text{var}(R_M) + \text{var}(\varepsilon_i), \quad (2)$$

According to equation 2 the total risk measured by  $\text{var}(R_t)$  is equal to the sum of the market or systematic risk measured by  $\beta_i^2 \text{var}(R_M)$  and the unique risk measured by  $\text{var}(\varepsilon_i)$ .

The continuation of the author's research consists of further analysis the market model which is estimated by applying statistical techniques to historical data on returns. The percentage of systematic risk to overall risk is another outcome of the statistical method used to evaluate beta. It is quantified statistically by the coefficient of determination from the regression, which shows the proportion of the asset's return variance that can be accounted for by the return of the market portfolio. The coefficient has a value between 0 and 1. When an asset has a coefficient of determination of 0.3, for instance, the return of the market portfolio accounts for 30% of the variation in the asset's return. The amount that is not explained by the return of the market portfolio is known as unsystematic, or unique, risk. It is 1 minus coefficient of determination. (Tkachenko, 2018)

Research indicates that the typical common stock listed on the New York Stock Exchange (NYSE) has a systematic risk of approximately 30% of return variation, whereas the unsystematic risk is approximately 70%. A well-diversified stock portfolio, on the other hand, would usually have a coefficient of determination above 90%, meaning that unsystematic risk accounts for less than 10% of the variance in the overall return of the portfolio.

### 3.3 The security market line

An equilibrium condition where the expected return on an asset portfolio is a linear function of the expected return on the market portfolio is represented by the capital market line. For the predicted returns of individual securities, an exactly similar connection exists:

$$\text{var}(R_t) = R_i + \frac{|E(R_M) - R_i|}{SD(R_M)} SD(R), \quad (3)$$

## 4 GLOBAL INVESTMENT TRENDS

Global foreign direct investment (FDI) declined by 12% in 2022 to US\$ 1.3 trillion after a robust gain in 2021, mostly as a result of overlapping global problems including the war in Ukraine, rising food and energy costs, and spiraling public debt. Most developed economies saw the downturn, with FDI dropping by 37% to US\$ 378 billion. However, investment flows to developing nations increased by 4%, albeit unevenly, with the majority of the investment going to a small number of major emerging nations while the least developed nations saw a fall. Positive trend can be highlighted in

greenfield investment projects that increased by 15% in 2022, with growth observed across most areas and industries.

Project activity increased in supply chain-challenged industries such as electronics, semiconductors, automotive, and machinery, while investment in digital economy sectors decreased. Foreign investment increased as also in the production of renewable energy, such as wind and solar power, albeit at a slower rate than in 2021 (by 50% to 8%). It's interesting to note that once plans to develop batteries were announced, the sum promised increased to over US\$ 100 billion by 2022. According to the report, large oil companies are allegedly selling off their fossil fuel interests at a rate of roughly US\$ 15 billion annually, primarily to smaller operators with less stringent disclosure rules and unlisted private equity groups. (The Heritage Foundation, n.a.)

For prudent asset management, this necessitates the development of new deal making models. In 2022, foreign investment in developing nations' SDG (Sustainable Development Goals) sectors grew, with an increase in the number of projects in the areas of infrastructure, energy, water and sanitation, communication systems, health, and education. However, because of the COVID-19 pandemic's severe reduction in investment and the early years of sluggish GDP, the increase since the SDGs were approved in 2015 has been rather small.

The frightening US\$ 4 trillion represents the yearly SDG investment deficit in developing nations, up from US\$ 2.5 trillion in 2015. The rise is the result of both increased needs and insufficient investment. Over half of the difference is accounted for by the estimated US\$ 2.2 annual energy investment needs of developing countries. Investments in energy production, energy efficiency, and low-carbon transition sources and technologies are all included in this. There are also big gaps in the transportation and water infrastructure. Positive trends in sustainability investment in global capital markets contrast with the growing SDG investment gap in developing nations. In 2022, the market for sustainable finance rose by 10% to US\$ 5.8 trillion.

## **5 RESEARCH FINDINGS**

First of all, we describe the scenario approach of the country investment policy for using equilibrium models.

*Capital asset pricing model assumptions (CAPM)*. Because there are abstractions of reality, capital market theory and the CAPM are predicated on certain oversimplifying presumptions. These presumptions oversimplify the situation considerably, and some of them might even appear implausible. On the other hand, the mathematical tractability of the CAPM is improved by these assumptions. The CAPM makes the following assumptions:

1. Investors base their decisions on expected return and variance;

2. Investors follow Markowitz methods of portfolio diversification and are rational and risk averse;
3. All investors invest for the same period of time;
4. They have similar expectations regarding assets;
5. There is a risk-free investment and investors can borrow and lend any amount at the risk-free rate.

*Two-Parameter Model.* According to Markowitz portfolio theory, investors base their decisions about investments on two factors: return variance and expected return. For this reason, the theory is occasionally called a two-parameter model. As we saw, also talked about other metrics, such the semi-variance. Other scholars have proposed alternative metrics for downside risk. Regardless, the model remains a two-parameter model as it incorporates both the expected return and a solitary risk measure.

*Investors Are Apostles of Markowitz: Rational and Risk Averse.* The two-parameter assumption tells us what investors use as inputs in making their investment decisions. Specifically, it is assumed that in order to accept greater risk, investors must be compensated by the opportunity of realizing a higher return. We referred to such investors as risk averse. This is an oversimplified definition.

*Homogeneous Expectations.* It was assumed that investors had similar expectations for the inputs – asset returns, variances, and covariances – that are utilized to generate the optimal portfolios in order to derive the Markowitz efficient frontier, which we will use to develop the CAPM. The homogeneous expectations assumption is what's meant by this.

*Existence of a Risk-Free Asset and Unlimited Borrowing and Lending at the Risk-Free Rate.* Portfolios with riskier assets were designed to use Markowitz efficient portfolios. The question of how to construct effective portfolios in the absence of risk-free assets was not addressed. Both the existence of a risk-free asset and the ability for an investor to borrow money at interest paid at a risk-free rate are presumptions made by the CAPM.

*Capital Market Is Perfectly Competitive and Frictionless.* The earlier presumptions addressed how investors behaved while choosing investments. Assumptions regarding the features of the capital market that investors trade in are also required. In this context, two presumptions apply. First, ideal competition in the capital market is assumed. This generally indicates that there are enough buyers and sellers and that the total number of investors is small enough in relation to the market for any one investor to have no effect on the price of an item. As a result, all investors are price takers, and the point at which supply and demand are equal determines the market price.

The second presumption is that the supply and demand for an asset are unaffected by transaction costs or other barriers. These different expenses and barriers are referred regarded as frictions by economists. Frictional costs usually mean that consumers pay

more than they would have in the absence of frictions and/or that sellers receive less. In the context of financial markets, frictions could include dealer bid-ask spreads and broker commissions. They also consist of transfer fees levied by the government and taxes.

Research on the economic development of nations at the start of the twenty-first century is conducted on an entirely different level than it was before, before globalization was acknowledged as a regular occurrence and a crucial component of global economic development. The need to reorient the economic development of nations with organizations that serve as the cornerstone for the growth of the global economy and regional alliances has been demonstrated by the rise in national activity, the expansion of their openness to international cooperation, and the establishment and operation of supranational institutions and international organizations. In such circumstances, the nations gave them some of their authority and focused their energies on harmonizing interstate relations and unifying the legal system.

At the same time, the coexistence of countries with different levels of economic development, unequal prerequisites for participation in the social division of labour exacerbated existing inter-country conflicts (more precisely, between groups of countries with different levels of development), when it was not possible to reach a consensus within the framework of multi-format economic cooperation in adopting solutions. These trends have not escaped the investment sphere, which under the conditions of a globalized world is an important element of the world economy, because the regulation of the countries investment activity is not only the prerogative of their national policy, but also an integral part of the policy for such organizations as the OECD, the IMF, the World Bank, the World trade organizations, etc.

The state economic policy of Ukraine solves the priority tasks of the national development strategy and is aimed at the effective activity of state administration entities in the implementation of the directions for the state investment policy. Investment policies are part of the state economic policy in Ukraine, which is aimed at ensuring a positive investment image of the country, a favourable investment climate and general economic growth of the country. The investment attractiveness of the country, the level of its competitiveness, economic stability and security, and the social and economic standard of living for the population depend on the effective mechanism of investment policy implementation.

The comprehension of the functional role of investment policy in the state's economic system is imperative given the present economic and social development of Ukraine. Any nation's economic progress can be accelerated via investments. The investment process is regarded as a strategic development vector that serves as the cornerstone for the state's and its region's prosperous socioeconomic growth. To implement structural economic changes and the innovation-investment model of development in Ukraine, it is imperative that investment processes be activated and that investment volumes rise effectively. As a result, to carry out the short and long-term goals



of economic and social reforms, it is necessary to create efficient mechanisms for controlling investment processes in addition to an investment policy that is fully justified, balanced, and takes into account the unique characteristics of each region's current stage of economic development. (Karpenko, 2019)

The transformation period of the Ukraine economy development was marked by the deepening of crisis phenomena in all spheres of the economic life of society, the emergence of a number of factors that negatively affected investment activity, and the very slow growth of investment potential. Among them, an economic recession unprecedented in the history of the world economy, changes in the sphere of reproduction of public capital, a fall in the pace and scale of gross accumulation, an imbalance in the financial and monetary credit systems.

The primary objective of the macroeconomic policy plan is to guarantee long-term, stable growth, which will support the economy's structural, innovative, and social reorientation as well as to create an environment that is conducive to investment. A cumulative approach that ensures unity in the choice of ways for further development, the use of comparable algorithms of actions, and methods of implementing systemic influence are what make up the system administration scenario for regional development processes. This scenario consists of a set of local and integral management mechanisms that are connected by the goals, purpose, content, and structure of solved tasks and functions of system management objects.

The multi-plane, multi-subject, and multi-step construction of the system management scenario defines its structure. Additionally, the method of assessing the outcomes of its influence takes on multiple criteria. As a result, it is advised to put the system administration mechanism for the processes of balanced, sustainable growth of all region territories into place within the context of an organizational pilot project. Design is a universal tool that can be used and is currently successfully applied at all levels and in all areas of activity. It is suggested that the primary tasks for creating the organizational project scenario be completed in phases (Table 1).

Table 1: Stages of development of an organizational project scenario

<i>Content</i>	<i>Stage</i>
Theoretical – description of the system management mechanism’s theoretical constituents	<ul style="list-style-type: none"> <li data-bbox="696 1382 1189 1698">• The following general categories for sustainable development are defined for regions that do not claim to be completely utilised in operational activities under specified circumstances of sustainable development: region, element of systems, processes, influencing variables, and systemic features of the regional economy.</li> </ul>

	<ul style="list-style-type: none"> <li>• Definition of the conceptual apparatus of territorial development.</li> <li>• Identifying the primary development processes and the kinds of activities associated with their implementation on the regions` territory in the "nature - society - man" system.</li> <li>• Identifying inconsistencies and strategies for resolving them in the region development strategy and practice.</li> </ul>
<p>Experienced – the examination of regional characteristics as a potential application domain for the system management method</p>	<ul style="list-style-type: none"> <li>• System installation, including the region`s basic economic and spatial structure, resource types and structures, activity types, development processes, and the technologies and tools required to carry them out.</li> <li>• Analysis of the development objectives, relationships, and orientations of the component systems.</li> </ul>
<p>Conceptualized – the problem domain is defined</p>	<ul style="list-style-type: none"> <li>• Identifying common issues with regional development processes and suggesting solutions.</li> <li>• Justifying the rationale and practicality of employing the system management technique.</li> <li>• Identifying the function, location, goal, and elements of the system development management framework.</li> <li>• Identifying the tasks, functions, and structure of the mechanism.</li> </ul>
<p>Modeling – the process of creating a model of the area`s administrative structure and development space</p>	<ul style="list-style-type: none"> <li>• Building a system model on the operational space of the region.</li> <li>• Building the system administration mechanism model for sustainable development procedures.</li> <li>• Further refinement of the mechanism model.</li> <li>• Establishing the standards for model evaluation.</li> <li>• Examining the mechanism for correctness, stability, completeness, adequacy, and inherence.</li> </ul>

<p>System control mechanism construction and design</p>	<ul style="list-style-type: none"> <li>• Establishing the configuration of the system control mechanism. Breakdown of mechanism element contact.</li> <li>• Local mechanisms combined into a single system administration mechanism.</li> <li>• Establishing the prerequisites for using the mechanisms.</li> <li>• Establishing parametric properties for the system administration mechanism in territorial development.</li> <li>• Identification of the mechanisms tasks and functions.</li> <li>• Determination of the mechanism's influence results on the condition.</li> <li>• Deciding on the resources needed to put the process into action.</li> </ul>
<p>Implementation – introduction of system administration mechanism</p>	<ul style="list-style-type: none"> <li>• Legislative and normative backing.</li> <li>• The process of institutionalizing the method.</li> <li>• Incentives and levers for motivation.</li> <li>• Tracking the effects of the influence on the region's territories` state of development.</li> <li>• Participants in management and topics are trained.</li> </ul>
<p>Reflective</p>	<ul style="list-style-type: none"> <li>• Controlling and accounting for development process outcomes.</li> <li>• Examining the outcomes of the area's endeavors to guarantee progress in development procedures.</li> <li>• Modifications, when needed, of decisions and development tasks that have already been approved.</li> <li>• Evaluation of the region's balanced development.</li> <li>• Creation of strategies to enhance the mechanisms of complex influence.</li> <li>• The creation of strategies to enhance the complex's mechanisms even more.</li> </ul>

Source: processed by author according to Casidy (2014) and Brown, Hagerman, Griffin, and Zmijewski (1987).

The four blocks that make up the structural model of the system management scenario are designed to have a systemic impact on development processes. These parts are the block of functional mechanisms, the block of target mechanisms, the block of preventive mechanisms, and the block of mechanisms for the formation and implementation of complex, systemic influences. The creation of a system management scenario project can benefit from the intellectual resources found in scientific research, international and state forums, institutional and legal frameworks, laws, resolutions, regulations, methodical publications, project organizations, and their highly qualified personnel.

Because of the organizational project's implementation of creating a system management scenario based on the synthesis of numerous local mechanisms, consideration should be given to the invariance of these mechanisms applications and the establishment of shared objectives for related activities. This will make the system management scenario a potent synergistic factor of development. The accomplishment of the organizational project to construct a system management mechanism will enable a deeper disclosure of the contents for its constituent parts, given the means to guarantee their operation and additional crucial organizational and security instruments for their application. Agreement on broad local objectives, planning techniques and indicators, activity organization, norms and standards for the use of all resources, principles, and influence instruments are required for the implementation of such a mechanism and its constituent parts. (Karpenko et al., 2019)

Assigning local or integrated mechanisms to one group or another during the process of creating a system management scenario will enable the deepening, concretization, and closest possible application of the technologies for forming their joint action in accordance with related algorithms and identifying the tasks of sustainable development of the territories in the regions. In addition to helping to unify management tasks and functions, designing the structure and content of individual mechanisms as part of the system management mechanism for development processes will lay the groundwork for further developing the content and unifying development functions into a comparatively independent institution of system administration. (Kravchenko et al., 2021)

The ability to be applied to the management of the development of any system in a region - economic, social, ecological, or human in general - to organize and establish systemic interaction in the internal and external environment is what makes the system management scenario unique. It is important to note that the responsibilities of the system management scenario extend beyond distinct activity categories, stand-alone systems, and regional processes. However, by reaching compromises, removing imbalances and inconsistent development tasks and directions, creating technologies for compensatory measures, gathering development resources, and enhancing the use and reproduction of

current mechanisms, some of the issues can already be resolved at the construction stage. (Hawley and Lukomnik, 2018)

The implementation of coordinated planning, the organization and institutionalization of strategic and contemporary management decision-making technologies, and the coordination of development goals and principles will all be necessary to reap the benefits of new opportunities for regional development brought about by the introduction of a system management mechanism, with all the variety of forms and methods employed by management bodies in the systems of the region. The mechanism's homogeneity pushes society's ideologies towards the necessity and viability of sustainable, balanced development and encourages the adoption of a single strategy for deciding on shared development processes, initiatives, and the institutional and organizational support for them. Simultaneously, obligations, standards, values, and guidelines are established that must be adhered to inside the borders of the area, by the government, the populace, and different forms of organizations that service businesses and private individuals. (Karpenko, 2018)

It should be highlighted that, generally speaking, investment policy is the primary component of economic policy implemented by the government and corporate entities. This includes determining the nature and scope of investments, their intended uses, and their sources of funding while keeping in mind the necessity of resolving socioeconomic issues. (Karpenko and Pashko, 2019)

When it comes to clearly defining the regional investment strategy's substance, method, creation, and execution, researchers, practitioners, and managers all stress that the policy is still in its formative stages. We believe that the term "essence" has both a restricted and a broad definition. Here is an example of a more thorough explanation of this idea. In order to ensure targeted environmental, social, and economic development of regions and their internal business entities in the mode of extended reproduction, regional investment policies are systems of target orientations, institutions, mechanisms, and tools that determine the direction of investments and make investment decisions. This is contingent upon an increase in the share of private and foreign investments as well as shareholder accumulation funds in their state-wide object. This definition of the term, which encompasses investment policy's goals and duties, is overly expansive. (Elton and Gruber, 2014)

There are more concise formulations of this concept: "*Regional investment policy should be understood as a system of measures and a mechanism for their implementation aimed at stimulating investment activity and forming a favourable investment climate in the region.*" In our opinion, the most appropriate option for defining the essence of this category can be the following:

- regional investment policy is a set of measures to regulate and stimulate investment activity in the region and a mechanism for their implementation in order to ensure sustainable socio-economic development of the region;
- regional investment policy is developed and implemented through the interaction of state authorities at the federal and regional level, as well as local self-government institutions. (Doing Business. n.a.)

The investment policy of the region is also a set of decisions systematically adopted by the authorities regarding directions, forms and methods of investment processes development in the region within the general strategy of regional socio-economic development. (UNCTAD, 2024)

The investment policy in each region has its own characteristics, which are determined by the following factors:

- The general strategy of socio-economic development carried out in the region;
- the size of the available resource potential;
- the geographical location;
- the investment climate of the region, etc. (World Economic Forum, n.a.)

The next step in the research was the proposal of the *conceptual foundations of the capital asset pricing model*.

The capital pricing model, or CAPM, is a cornerstone concept in the sphere of finance. It has been a model for decades, helping in determining expected investment returns, especially for risky assets. While the CAPM has been praised for its simplicity and usefulness, it is important to delve into its traditional form to fully appreciate its inner workings and limitations. In this section, we unravel the basic principles of the traditional CAPM, analyse it from different perspectives, and provide insight into how it has shaped modern finance. (Karpenko and Filyppova, 2016)

CAPM building blocks are as follows:

1. The CAPM revolves around the relationship between risk and return. It assumes that an investor's expected return is a linear function of an asset's beta, which measures its sensitivity to market movements.
2. The risk-free rate, usually represented by government bonds, serves as the basis for the CAPM. This means the minimum return an investor should expect without taking on risk.

## 6 PRACTICAL RESULTS

The practical part of the work is the statistical analysis of the investment freedom index between years 1995 – 2023 in different countries. (Global Economy Company, 2023).

The index of investment freedom stands out in the structure of the economic freedom index. Other components such as freedom of business, freedom of trade, freedom of financial freedom, freedom of money, freedom of financial freedom, property rights, freedom from corruption and freedom of work, are important for the attractiveness of the foreign investors. (Yanenkova et al. 2021) The index of economic freedom consists of ten indices, which are evaluated from 0 to 100, where 100 correspond to the highest level of freedom.

In general, a low assessment of the index of investment freedom indicates that the country has obstacles to the movement of investment flows, pectoral restrictions and bureaucracy. Ukraine entered the rating with an index of investment freedom of 20, while in European countries and other economically developed countries it exceeds the level of "moderately free, mostly free" countries. Gradation is as follows: free countries (80 – 100%), mostly free (70 – 79.9%), moderately free (60 – 59.9%), mostly un-free (50 – 59.9%), un-free (0 – 49.9%). According to the data in the Table 2, there is considerable variation between countries in terms of their attractiveness for investment. However, the main emphasis should be on internal problems related to the support of economic growth of Ukraine, and not on the manifestations of the global financial crisis. This is due to the fact that Canada, having levels of investment freedom in 1995, was able to liberalize the investment regime.

Table 2: Dynamics of the investment freedom index in selected countries

Year	Countries					
	Luxembourg	Denmark	Singapore	Italy	Slovakia	Ukraine
Min –max 1995 – 2023	70 – 95	70 – 90	75 – 90	70 – 85	50 – 80	25 – 70
Average 1995 – 2023	89	82	85	75	70	37
2022	95	90	85	80	75	35
2023	95	90	85	80	75	...

Source: processed by author according to Global Economy Company (2023).

Even after the crisis, Poland implemented a series of reforms to attract foreign capital, as other economically developed countries have done. According to the Heritage Foundation, Ukraine is currently at the level of the least developed countries, along with Congo, Algeria, Equatorial Guinea and Liberia, despite the great potential for creating a favourable business environment and investment climate. (Pearce, 2013)

The assessment of the country's investment attractiveness is of great scientific and practical importance for the successful conduct of business and the implementation of investment strategies. Existing methods of assessing the use of index-rating indicators are the focus of investment attractiveness. The persuasive value of these indicators lies in the fact that they can serve as important examples in making investment strategic decisions for business in the economy of an individual nation.

## 7 CONCLUSIONS

Modern trends in the economic development of individual countries allow us to pay attention to the following regularities in the implementation of the investment component for this system:

- investing during the strengthening of both positive and negative consequences of globalization is the most dynamic form of international economic relations and the most sensitive to globalization;
- the sphere of investments is diverse and focused on social, political, economic and other national interests;
- the growth of investment efficiency is supported by the growth of the number of TNCs and their functions;
- global inequalities regarding the regional distribution of direct foreign investments;
- the liberalization of investment conditions is accompanied by the strengthening of state regulation, which leads to hidden protectionism in the investment sphere. Thus, a dualism is observed in the manifestation of national investment policies.

The author contends that government economic intervention must take into account both the immediate and long-term consequences in order to be legitimate. As a result, the state cannot determine investment policy on its own; rather, regional, global, and cooperative efforts that take into consideration the unique characteristics of each nation's economic development must produce a favorable investment climate.

The paper proposes the scenario approach of the country investment policy in the conditions of globalization on the base of capital asset pricing model. The author organizes the instrumental foundation for investment forecasting and strengthens the prognostic validity of foreign investment activity at the regional level.

This paper explains the implications of portfolio theory, a theory that deals with the construction of Markowitz efficient portfolios by rational risk-averse investors. Once a risk-free asset is introduced, the new efficient frontier is the capital market line, which represents a combination of a risk-free asset and the market portfolio.



The capital asset pricing model is an economic theory that describes the relationship between risk and expected return, or, equivalently, it is a model for the pricing of risky securities. The CAPM asserts that the only risk that is priced by rational investors is systematic risk, because that risk can not be eliminated by diversification.

Essentially, the CAPM says that the expected return of a security or a portfolio is equal to the rate on a risk-free security plus a risk premium. The risk premium in the CAPM is the product of the quantity of risk times the market price of risk. The beta of security or portfolio is an index of the asset systematic risk and is measured statistically.

Historical beta is calculated from a time series of observations on both the assets return and the market portfolios return. This assumed relationship is called the characteristic line and is not an equilibrium model for predicting expected return but rather a description of historical data. Another way to estimate beta is the fundamental beta approach. The basic idea of the fundamental beta is that other sources of systematic risk are related to the fundamental characteristics of the firm in addition to the single measure of the historical covariance of an asset with the market.

There have been numerous empirical tests of the CAPM, and, in general, these have failed to fully support the theory. Richard Roll has criticized these studies because of the difficulty of identifying the true market portfolio. Furthermore, Roll asserts that such tests are not likely to appear soon, if at all.

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