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## **THEORETICAL FOUNDATIONS FOR STATE REGULATION OF REGIONAL DEVELOPMENT**

### ABSTRACT

The purpose of the article was to examine the effectiveness of state regulation in fostering balanced regional development. The research methodology involved a comprehensive theoretical analysis of legislative frameworks, governance strategies, and funding mechanisms that support regional development. Particular attention was given to examining how centralized policies can be adapted to address local needs and how investments in institutional and human capital contribute to long-term stability and resilience. The results of the study highlighted the critical role of human capital and institutional quality in achieving regional socio-economic cohesion. The research identified targeted policy tools, such as state funding programs and economic incentives, as essential for reducing regional disparities. Additionally, the study demonstrated how strategic governance frameworks can align centralized objectives with local implementation, facilitating

regional sustainability. The analysis of international experiences in regional development highlighted the importance of central coordination in implementing effective regional policies. The case studies from the Czech Republic and Latvia illustrated the critical role of specialized ministries and agencies in managing territorial development and ensuring the equitable distribution of resources across regions. A modelling and forecasting analysis were conducted to assess the long-term consequences of proposed strategies and their impact on key factors such as economic balance, social justice, and environmental sustainability. The conclusions indicate that balanced regional development requires an integrated approach that includes investments in governance quality, infrastructure, and institutional capacity. The findings are particularly relevant for regions facing structural deficiencies and economic stagnation, offering insights into how such challenges can be addressed through adaptive policy measures.

**KEYWORDS:** management, socio-economic processes, decentralization, economic resources, financing.

**INDEX:** 1. Introduction. - 2. Material and Methods. - 3. Results. - 3.1. Analysis of historical and contemporary theories of state regulation in regional development considering current global challenges. - 3.2. Development of a comparative model of state regulation integrating the experiences of developed and transitioning economies. - 3.3. Innovative strategies for state regulation to reduce regional disparities and ensure sustainable development. 4. Discussion. - 5. Conclusions.

## **1. Introduction**

Theoretical foundations for state regulation of regional development hold paramount importance in addressing the growing socioeconomic disparities across regions. Uneven development poses challenges such as migration from underdeveloped areas to urban centres, resource misallocation, and increased regional inequality, which can lead to social instability. By establishing a robust theoretical framework, policymakers can ensure balanced growth, optimize resource utilization, and foster a more equitable society. This research topic is particularly pertinent in an era where globalization and technological advancement simultaneously enhance and exacerbate these disparities.

Moreover, state regulation serves as a pivotal mechanism for mitigating market failures and addressing regional disparities that market forces alone cannot resolve. Historical and contemporary approaches to state intervention provi-

de critical insights into strategies for sustainable development and regional cohesion. Examining these theories enabled a better understanding of how to adapt classical economic principles to modern challenges, including digital transformation, environmental sustainability, and the integration of marginalized regions into the national economy. By identifying best practices and innovative solutions, this research contributes to bridging the gap between theory and practice in regional policy development.

A. Thomas<sup>1</sup> reinterpreted the concept of demand in the works of Adam Smith and David Ricardo, emphasizing the interconnection between “effective demand” and “market size”. The study highlighted the social nature of demand and its dual impact on economic growth from both demand and supply perspectives, suggesting the analytical significance of demand in classical theories. P. Ghisellini et al.<sup>2</sup> analysed the evolution and crisis of John Maynard Keynes' theory in the context of neoliberal dominance, assessing its effects on global economic and societal sustainability. The study identifies tensions between Keynesian principles and contemporary market-driven policies, which is crucial for understanding the role of the state in mitigating economic crises and achieving sustainable development. The work of S. Brandes<sup>3</sup> critiqued the portrayal of “market individuals” prioritizing self-interest over state involvement, presenting the government as an adversary. This work highlighted ideological shifts that challenge the legitimacy and efficiency of state intervention in regional development.

D. Meadows and J. Randers<sup>4</sup> focused on macroeconomic and regional policies aimed at improving the quality and quantity of production factors for sustainable development. The emphasis on sustainability aligns with modern goals of regional development, providing a framework for balancing economic, social,

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1 THOMAS, A.M. 2021. On “effectual demand” and the “extent of the market” in Adam Smith and David Ricardo. *The European Journal of the History of Economic Thought*, 28(3), 305-323. <https://doi.org/10.1080/09672567.2020.1817120>

2 GHISELLINI, P., PASSARO, R., ULGIATI, S. 2021. Revisiting Keynes in the light of the transition to circular economy. *Circular Economy and Sustainability*, 1(1), 143-171. <https://doi.org/10.1007/s43615-021-00016-1>

3 BRANDES, S. 2020. The market's people: Milton Friedman and the making of neoliberal populism. In: W. Callison & Z. Manfredi (Eds.), *Mutant Neoliberalism: Market Rule and Political Rupture* (pp. 61-88). New York: Fordham University Press. [https://pure.mpg.de/rest/items/item\\_3193042/component/file\\_3501298/content](https://pure.mpg.de/rest/items/item_3193042/component/file_3501298/content)

4 MEADOWS, D., RANDERS, J. 2012. *The limits to growth: The 30-year update*. London: Routledge. <https://doi.org/10.4324/9781849775861>

and environmental objectives. Research of A. Thirlwall<sup>5</sup> advanced ideas from new growth theory and Paul Krugman's new economic geography, addressing persistent regional and national disparities in growth rates and income levels. C. Ding et al.<sup>6</sup> examined the role of technological innovations in the digital economy's influence on economic development. The authors recommend targeted digitalization strategies to reduce regional imbalances, which is particularly relevant for crafting modern state-driven regional development policies. A. Maiev<sup>7</sup> investigated regional policy formation in France, focusing on mechanisms for reducing interregional disparities and promoting development within a decentralized framework. This study highlights the potential application of France's best practices in Ukraine, offering comparative insights for administrative-territorial reform.

The work of I. Kostetska<sup>8</sup> explored strategic planning principles for rural development in Ukraine and compares them with Poland's strategic planning system. The research emphasizes the transition from subsidies to grant funding as a pathway to improved efficiency, which offers actionable lessons for enhancing regional development strategies. A. Rodríguez-Pose and T. Ketterer<sup>9</sup> evaluated the impact of governance quality on regional productivity in the EU. The findings underscore the importance of governance improvements in fostering regional growth, particularly in underdeveloped regions. R. Crescenzi and M. Giua<sup>10</sup> analysed the impact of EU cohesion policies on regional growth and employment

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5 THIRLWALL, A.P. 2014. Kaldor's 1970 regional growth model revisited. *Scottish Journal of Political Economy*, 61(4), 341-347. <https://doi.org/10.1111/sjpe.12048>

6 DING, C., LIU, C., ZHENG, C., Li, F. 2021. Digital economy, technological innovation and high-quality economic development: Based on spatial effect and mediation effect. *Sustainability*, 14(1), 216. <https://doi.org/10.3390/su14010216>

7 MAIEV, A. 2022. Ensuring regional development under decentralization: French experience for Ukraine. *Studia Socii Universytetów Pogranicza*, 6, 97-119. <https://doi.org/10.15290/sup.2022.06.08>

8 KOSTETSKA, I. 2023. Application of strategic planning in rural development: The case of Poland for Ukraine. *Green, Blue and Digital Economy Journal*, 4(4), 7-18. <https://doi.org/10.30525/2661-5169/2023-4-2>

9 RODRÍGUEZ-POSE, A., KETTERER, T. 2020. Institutional change and the development of lagging regions in Europe. *Regional Studies*, 54(7), 974-986. <https://doi.org/10.1080/00343404.2019.1608356>

10 CRESCENZI, R., GIUA, M. 2020. One or many Cohesion Policies of the European Union? On the differential economic impacts of Cohesion Policy across member states. *Regional Studies*, 54(1), 10-20. <https://doi.org/10.1080/00343404.2019.1665174>

using spatial regression discounting. Their findings indicate that while cohesion policies yield positive effects, the distribution of benefits is uneven, with limited and unstable impacts in Southern Europe.

The reviewed works provide a robust theoretical foundation for state regulation in regional development. They highlight the interplay between market mechanisms, state intervention, governance quality, and sustainability. Additionally, they illustrate how policy frameworks can address regional disparities and align development efforts with broader economic goals. Despite their contributions, the reviewed works do not extensively address specific mechanisms for balancing traditional growth factors with innovative approaches in state-regulated regional policies and comparative analysis of state regulation practices across various governance systems, particularly in the context of transitioning economies.

The purpose of this research was to develop a theoretical framework for state regulation of regional development that addresses contemporary challenges such as economic globalization, technological advancement, and environmental sustainability, while leveraging innovative strategies to reduce disparities and promote balanced and sustainable growth. The research tasks were revised as follows: to analyse historical and contemporary theories of state regulation in regional development, taking into account current global challenges; to develop a comparative model of state regulation that integrates the experiences of developed and transitioning economies; to propose innovative strategies for state regulation aimed at reducing regional disparities and ensuring sustainable development.

## **2. Materials and methods**

The research employed a comprehensive combination of methods, including analysis, synthesis, comparison, and modelling, to examine regional development with a focus on state regulation and the mitigation of regional disparities. The analytical method was used to conduct an in-depth study of legal frameworks, policy documents, and academic models concerning state regulation of regional development. Special attention was devoted to the experiences of European countries, particularly Latvia and the Czech Republic. Key legislative docu-

ments analysed included the work by J.-C. Frecon and P. Leuba<sup>11</sup>, the Law of the Republic of Latvia No. 41 “On Budget and Financial Management”<sup>12</sup>, and the Law of the Republic of Latvia No. 118 “On Financial Adjustment of Municipalities”<sup>13</sup>. This analysis was further enriched by exploring European Union financial instruments to contextualize the administrative and economic mechanisms that support regional development. These instruments included the European Regional Development Fund (2024), the Cohesion Fund<sup>14</sup>, the European Agricultural Guarantee Fund<sup>15</sup>, and the Financial Instrument for Fisheries Guidance<sup>16</sup>. These funding tools were examined in terms of their objectives, operational mechanisms, and effectiveness in promoting balanced territorial development.

The comparative method was applied to develop a detailed table that highlights regional development practices in Latvia, the Czech Republic, Germany, Bulgaria, Italy, Tajikistan, and Kazakhstan. This comparative analysis explored the functions and powers of state institutions responsible for integrated territorial development, providing insights into similarities and differences in governance frameworks, institutional capacities, and policy approaches.

The modelling method played a crucial role in the theoretical exploration of economic regulatory models. The study examined classical models such as the Classical Model<sup>17</sup>, the Keynesian Model<sup>18</sup>, and the Monetarist Model<sup>19</sup>, alongside

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11 FRECON, J.-C., LEUBA, P. 2011. Local and regional democracy in Latvia. <https://rm.coe.int/168071a836>

12 Law of the Republic of Latvia No. 41 “On Budget and Financial Management”. 2005. <https://likumi.lv/ta/id/58057-likums-par-budzetu-un-finansu-vadibu>

13 Law of the Republic of Latvia No. 118 “On Financial Adjustment of Municipalities”. 2010. <https://likumi.lv/ta/id/274742-pasvaldibu-finansu-izlidzinasanas-likums>

14 Cohesion Fund. 2024. [https://ec.europa.eu/regional\\_policy/funding/cohesion-fund\\_en](https://ec.europa.eu/regional_policy/funding/cohesion-fund_en)

15 European Regional Development Fund. 2024. [https://ec.europa.eu/regional\\_policy/funding/erdf\\_en](https://ec.europa.eu/regional_policy/funding/erdf_en)

16 Council Regulation No. 1263/1999 “On the Financial Instrument for Fisheries Guidance”. 1999. <https://eur-lex.europa.eu/EN/legal-content/summary/fifg-financial-instrument-for-fisheries-guidance.html>

17 SMITH, A. 2002. *An inquiry into the nature and causes of the wealth of nations*. London: Methuen & Co. <https://www.econlib.org/library/Smith/smWN.html>

18 KEYNES, J.M. 2018. The general theory. In: J.M. Keynes (Eds.), *The General Theory of Employment, Interest, and Money* (p. 3). Cham: Palgrave Macmillan. [https://doi.org/10.1007/978-3-319-70344-2\\_1](https://doi.org/10.1007/978-3-319-70344-2_1)

19 FRIEDMAN, B.M., WOODFORD, M. 2010. *Handbook of monetary economics*. London: Elsevier. <https://shop.elsevier.com/books/handbook-of-monetary-economics/friedman/978-0-444-53454-5>

contemporary approaches like the Ethos Model<sup>20</sup>, the Liberal Model<sup>21</sup>, and the Mixed Model<sup>22</sup>. These models were analysed for their relevance to regional development, their mechanisms for addressing socio-economic inequalities, and their potential application in modern governance structures. By employing these methods, the research systematically addressed the complexities of regional development and state regulation. The multi-method approach ensured a robust analysis of the issue and facilitated the formulation of practical recommendations. This methodology provided a foundation for understanding the interaction between legislative, economic, and governance frameworks in achieving sustainable and equitable regional development.

For modelling, the scenario analysis method was applied, which allows for the assessment of the impact of key strategies on territorial development based on three main parameters: economic balance, social justice, and environmental sustainability. The research utilized a multidisciplinary methodological framework, combining legal, economic, and comparative analysis to study the regulation of regional development comprehensively. Comparative Method was instrumental in analysing governance systems across different countries, focusing on legislative frameworks, administrative structures, and fiscal mechanisms. By comparing Latvia and the Czech Republic this approach identified best practices and adaptable strategies. Legal Analysis Method was central to this study, focusing on the examination of national and EU legislative documents. This method explored the relationship between centralized policies and decentralized implementation, with particular attention to administrative-territorial reforms and fiscal regulations. By identifying overlaps and gaps in legal frameworks, the study aimed to uncover opportunities for harmonized regional development strategies.

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20 MERZLYAKOVA, D.R., MIROSHNICHENKO, A.A., BARANOV, A.A., POPKOV, A.V., IVANOVA, N.P. 2022. Human and the foodnet market: On the formation of the agricultural producer ethos (psychological and pedagogical aspect). *IOP Conference Series: Earth and Environmental Science*, 949, 012042. <https://doi.org/10.1088/1755-1315/949/1/012042>

21 FERNÁNDEZ-LOMBAO, T., BLASCO-BLASCO, O., FREIRE, F.C. 2024. Politicisation persists and is increasing in European public service media in the digital society. *Media and Communication*, 12, 7759. <https://doi.org/10.17645/mac.7759>

22 ZHONG, X., ZHOU, S., YU, X. 2024. Land market misallocation, regional integration, and economic growth: Evidence from the Yangtze River Delta Region, China. *Public Administration and Development*, 44(1), 17-31. <https://doi.org/10.1002/pad.2033>

Systemic-Structural Analysis was applied to evaluate the interrelations among state institutions involved in territorial governance. It allowed for the identification of hierarchical structures and processes critical for implementing integrated development strategies. Special attention was given to the alignment between national policies and regional needs, examining how institutional frameworks support or hinder development objectives. The study also included a detailed analysis of economic models relevant to state regulation of regional development. The classical, Keynesian, monetarist, Ethos, liberal, and mixed models were analysed in terms of their alignment with the socio-economic characteristics of specific regions. By employing these methods, the research provided a comprehensive understanding of the theoretical and practical dimensions of state regulation in regional development.

### **3. Results**

#### **3.1. Analysis of historical and contemporary theories of state regulation in regional development considering current global challenges**

Global experience demonstrates that sustainable regional development, as well as the regulation of associated processes, is primarily achieved through state territorial policy. Such policies are implemented through a multifaceted approach that integrates economic, social, and national dimensions. Territorial economic policies aim to optimize the distribution and utilization of resources, ensuring balanced economic growth across regions. Simultaneously, territorial social policies address the socio-economic inequalities between regions, enhancing access to public services and improving the quality of life<sup>23</sup>.

National policies serve to align regional development goals with the broader objectives of national governance, fostering cohesion and preventing disparities that may undermine social and economic stability. The successful implementation of these policies relies on a robust methodological foundation and the ability of governments to adapt strategies to the unique characteristics of each region, including its socio-economic structure, cultural heritage, and environmen-

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<sup>23</sup> BRANCA, G. 2012. Civil society organization in the Mediterranean area: Societal role, challenges, dynamics. <https://esarn27sassari2012.wordpress.com/wp-content/uploads/2012/10/giampiero-branca-paper-for-esa-conference-2012.pdf>

tal conditions.

State territorial policy encompasses a comprehensive framework for the regulation and management of regional development<sup>24</sup>. This policy integrates economic, social, and administrative dimensions, each contributing to the sustainable and balanced growth of regions within a country. Its formulation and implementation rely on extensive analysis and strategic planning, reflecting the complexities of regional governance in the modern era.

In the economic domain, territorial policy addresses the spatial distribution and economic structure of regions. This involves the study of interregional and international economic linkages, the localization and advancement of productive forces, and the execution of in-depth analyses to identify potential development opportunities. By assessing economic disparities and resource allocation efficiency, territorial policy aims to promote balanced regional growth and enhance overall national economic stability<sup>25,26</sup>.

In the social sphere, the focus of territorial policy shifts to demographic and societal factors that influence regional development. Key areas of concern include population dynamics such as settlement patterns, birth and mortality rates, and natural population growth. Additionally, policies target the reduction of unemployment and the promotion of workforce participation, addressing migration trends and ensuring adequate access to essential resources such as natural gas, clean water, and housing<sup>27,28</sup>. Social infrastructure, including education and healthcare systems, is also prioritized, with an emphasis on

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24 PAVLOVSKYI, O., BLIKHAR, M., AKIMOVA, L., KOTSUR, V., AKIMOV, O., KARPA, M. 2024. International migration in the context of financial and economic security: The role of public administration in the development of national economy, education, and human capital. *Edebeiss Applied Science and Technology*, 8(6), 1492–1503. <https://doi.org/10.55214/25768484.v8i6.2265>

25 MIKHNO, I., IHNATENKO, N., CHERNIAIEV, O., VYNOGRADNYA, V., ATSTAJA, D., KOVAL, V. 2023. Construction waste recycling in the circular economy model. *IOP Conference Series: Earth and Environmental Science*, 1126(1), 012003. <https://doi.org/10.1088/1755-1315/1126/1/012003>

26 IHNATENKO, M., ANTOSHKIN, V., POSTOL, A., HURBYK, Y., RUNCHEVA, N. 2020. Features of the content and implementation of innovation and investment projects for the development of enterprises in the field of rural green tourism. *International Journal of Management*, 11(3), 304–315. <https://doi.org/10.34218/IJM.11.3.2020.033>

27 GIYASOVA, Z., GULIYEVA, S., AZIZOVA, R., SMIECH, L., NABIYEVA, I. 2025. Relationships between human development, economic growth, and environmental condition: The case of South Korea. *Environmental Economics*, 16(2), 73–83. [https://doi.org/10.21511/ee.16\(2\).2025.06](https://doi.org/10.21511/ee.16(2).2025.06)

improving the quality and accessibility of services to foster equitable development across regions.

In terms of governance, territorial policy is deeply rooted in the principles of strategic and indicative planning<sup>29</sup>. Activities in this area encompass forecasting regional trends, developing general and sector-specific plans, and enhancing the efficiency of local self-governance systems. These efforts are supported by institutional reforms aimed at optimizing the management of socio-economic development at the regional level. Effective governance frameworks are essential to ensuring the coherence and alignment of regional policies with national objectives, enabling responsive and adaptive decision-making processes. Two primary approaches dominate the contemporary practice of territorial policy formulation: the “equalization policy” exemplified by Germany<sup>30</sup> and the “growth pole theory” rooted in France<sup>31</sup>.

The equalization policy aims to support underdeveloped regions by channelling budgetary resources from more prosperous areas. This redistributive mechanism seeks to mitigate regional disparities and foster accelerated development in economically disadvantaged territories<sup>32</sup>. The justification for this policy lies in addressing environmental instability, economic stagnation, and adverse market conditions, which often characterize lagging regions. By providing targeted fi-

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28 HASANOV, R.I., VASA, L., GULIYEVA, S., GIYASOVA, Z., SHAKARALIYEVA, Z. 2025. Assessing the impact of oil prices and inflation on bank deposits in Azerbaijan. *Banks and Bank Systems*, 20(1), 11–22. [https://doi.org/10.21511/bbs.20\(1\).2025.02](https://doi.org/10.21511/bbs.20(1).2025.02)

29 HRINCHENKO, H., TRISHCH, R., MYKOLAIKO, V., KOVTUN, O. 2023. Qualimetric approaches to assessing sustainable development indicators. *E3S Web of Conferences*, 408, 01013. <https://doi.org/10.1051/e3sconf/202340801013>

30 JERKOVIĆ, E. 2023. Fiscal equalization as a function of regional development. In Economic and social development. In: I. Kovač, P. Misević, A. Zahariev (Eds.), *105th International Scientific Conference on Economic and Social Development – “Building Resilient Society”* (pp. 214-226). Varaždin: Varaždin Development and Entrepreneurship Agency and University North. [https://esd-conference.com/upload/book\\_of\\_proceedings/Book\\_of\\_Proceedings\\_esdZagreb2023\\_Online.pdf#page=220](https://esd-conference.com/upload/book_of_proceedings/Book_of_Proceedings_esdZagreb2023_Online.pdf#page=220)

31 JOAQUIM, I.M., ARMANDO, R., TUNDUMULA, E. 2022. Theoretical approach of growth poles and export base theories in economic development of Mozambique. *Asian Journal of Management, Entrepreneurship and Social Science*, 2(3), 70-98. <https://mail.ajmesc.com/index.php/ajmesc/article/view/31>

32 SPANOV, M., NURGALIEVA, K., USSENOVA, A. 2019. Theoretical and methodological bases of formation of petrochemical clusters. *Espacios*, 40(14). <https://www.revistaespacios.com/a19v40n14/a19v40n14p10.pdf>

nancial assistance, governments strive to create a more balanced and cohesive economic landscape<sup>33</sup>.

Conversely, the growth pole theory, developed by French regional economists François Perroux and Jean Boudeville in the 1950s, advocates for the concentration of resources in strategically selected regions or “growth poles”<sup>34</sup>. This approach emphasizes the role of dynamic centres in driving regional and national economic development. The theoretical foundation of growth poles lies in the belief that economic growth in these hubs will generate positive spill over effects, ultimately benefiting the broader regional structure. This approach aligns with modern concepts of regional competitiveness and innovation-driven development, where investments in advanced industries and infrastructure catalyse broader economic progress.

The study of European experience provides invaluable insights into the design and implementation of effective territorial policies. Regional policy within the European Union operates on multiple levels, engaging stakeholders at the European, national, and regional tiers<sup>35</sup>. This multi-level governance framework fosters collaboration among experts, policymakers, and practitioners, ensuring that regional strategies reflect both localized needs and overarching European objectives. European regional policy emphasizes cohesion, aiming to reduce disparities between member states and regions. Initiatives such as the European Regional Development Fund<sup>36</sup> and the Cohesion Fund<sup>37</sup> support investments in infrastructure, innovation, and human capital. These programs exemplify the integration of equalization and growth pole approaches, combining targeted support for underdeveloped regions with the promotion of competitiveness in leading economic centres.

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33 ABBASOVA, S., İSMAYILOV, V., TRUSOVA, N. 2023. Problems of financing the state budget deficit. *Scientific Bulletin of Mukachevo State University. Series Economics*, 10(4), 9–19. <https://doi.org/10.52566/msu-econ4.2023.09>

34 PERROUX, F. 1950. Economic space: theory and applications. *The Quarterly Journal of Economics*, 64(1), 89-104. <https://doi.org/10.2307/1881960>

35 DĄBROWSKI, M., BACHTLER, J., BAFOIL, F. 2014. Challenges of multi-level governance and partnership: Drawing lessons from European Union cohesion policy. *European Urban and Regional Studies*, 21(4), 355-363. <https://doi.org/10.1177/0969776414533020>

36 European Regional Development Fund. 2024. [https://ec.europa.eu/regional\\_policy/funding/erdf\\_en](https://ec.europa.eu/regional_policy/funding/erdf_en)

37 Cohesion Fund. 2024. [https://ec.europa.eu/regional\\_policy/funding/cohesion-fund\\_en](https://ec.europa.eu/regional_policy/funding/cohesion-fund_en)

By adopting and adapting these methodologies, countries can enhance the effectiveness of their territorial policies, addressing both immediate challenges and long-term development goals. The integration of diverse approaches and best practices ensures that territorial policy remains a dynamic and responsive tool for achieving sustainable and inclusive regional development<sup>38</sup>.

The European Union employs a comprehensive framework of mechanisms to promote balanced regional development, primarily through the application of four structural funds. These are the European Regional Development Fund<sup>39</sup>, the European Agricultural Guarantee Fund<sup>40</sup> and the Financial Instrument for Fisheries Guidance<sup>41</sup>. Each of these funds is designed to address specific regional, social, and sectoral challenges, with a focus on ensuring cohesion and sustainable growth across all member states. The structural funds target various objectives, including: structural reconstruction and development of disadvantaged territories, revitalization of industrially declining regions (special attention is given to areas severely impacted by a reduction in industrial production, promoting diversification and innovation to reintegrate these regions into the broader economy), support for sparsely populated regions (assistance is directed toward regions with extremely low population densities to mitigate depopulation challenges and enhance socio-economic resilience) and reduction of long-term unemployment<sup>42,43</sup>. Through initiatives aimed at job creation, vocational training, and retraining programs, the funds address systemic unemployment and provide opportunities for marginalized groups such

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38 NARZULLAEVA, O., MUKASHEVA, A., SADIKOVA, D. 2025. Ensuring Legal Protection of Biological Diversity Regulations for Safeguarding Ecosystem. *Journal of Human Rights, Culture and Legal System*, 5(2), 531–553. <https://doi.org/10.53955/jhcls.v5i2.515>

39 European Regional Development Fund. 2024. [https://ec.europa.eu/regional\\_policy/funding/erdf\\_en](https://ec.europa.eu/regional_policy/funding/erdf_en)

40 European Agricultural Guarantee Fund. 2024. [https://commission.europa.eu/funding-tenders/find-funding/eu-funding-programmes/european-agricultural-guarantee-fund-eagf\\_en](https://commission.europa.eu/funding-tenders/find-funding/eu-funding-programmes/european-agricultural-guarantee-fund-eagf_en)

41 Council Regulation No. 1263/1999 “On the Financial Instrument for Fisheries Guidance”. 1999. <https://eur-lex.europa.eu/EN/legal-content/summary/fifg-financial-instrument-for-fisheries-guidance.html>

42 HASANOVA, J., NAJAFOVA, K. 2024. Development of Trade-Economic Relations between Azerbaijan-EU Countries in the Field of Natural Gas Supply. *WSEAS Transactions on Business and Economics*, 21, 1104–1114. <https://doi.org/10.37394/23207.2024.21.92>

43 HASANOVA, J., & NAJAFOVA, K. 2025. Research and analysis of opportunities for regional economic integration among the countries of the Organization of Turkic States. *Economics of Development*, 24(2), 54-67. <https://doi.org/10.63341/econ/2.2025.54>

as youth and displaced workers.

Structural transformations in agriculture are supported to enhance productivity, ensure food security, and foster the sustainable development of rural areas. These mechanisms exemplify a balanced approach to addressing the diverse needs of regions, highlighting the EU's commitment to equitable development across its territory.

### **3.2. Development of a comparative model of state regulation integrating the experiences of developed and transitioning economies**

State regulation of economic and regional processes is a universal practice, implemented in all countries to varying degrees and at different stages of development. While the extent and focus of state intervention depend on the socio-economic context, global experience underscores the indispensability of state involvement in ensuring sustainable and balanced development. The role of the state becomes particularly critical during periods of radical economic reform and when new territorial policies are being implemented.

Market mechanisms, although efficient in resource allocation, often fail to address several fundamental aspects of regional and national development. Key limitations of the free market in this regard include inadequate macroeconomic stability and territorial balance, because market forces alone cannot ensure an equitable distribution of resources or balanced economic growth across regions, leading to spatial disparities. The market does not inherently prioritize societal goals such as education, healthcare, and social welfare, nor does it adequately support scientific, technical, and economic innovation critical for long-term growth, besides market mechanisms often exacerbate income inequalities and social disparities, undermining societal cohesion and economic security. Rapid global changes require proactive legal and institutional frameworks, which market-driven systems are not equipped to implement effectively, so without state intervention, regions may experience uncontrolled growth or decline, leading to socio-economic and environmental imbalances.

The consequences of non-intervention by the state in regional and macroeconomic processes are profound. They include widening income disparities, increased social instability, depletion of natural resources, and growing inequities

in socio-economic development across regions. These challenges necessitate a robust framework of state regulation that integrates macroeconomic and territorial policies.

The experiences of both developed and developing nations demonstrate that a balanced and sustainable approach to regional development is unattainable without active state regulation. Effective state policies address the inherent shortcomings of the market, ensuring that development initiatives are inclusive, equitable, and aligned with national priorities. For instance, state intervention facilitates the establishment of mechanisms to promote macroeconomic stability through fiscal and monetary policies tailored to regional needs; ensure a balanced distribution of resources to reduce regional disparities and foster territorial cohesion; implement strategic planning frameworks that align socio-economic development with scientific, technical, and environmental objectives and safeguard economic security by addressing vulnerabilities in critical sectors and regions<sup>44,45</sup>.

By leveraging tools such as structural funds, strategic planning, and targeted interventions, governments can mitigate disparities, enhance economic resilience, and ensure the long-term socio-economic stability of their regions. This interplay of market and state mechanisms remains essential for achieving cohesive and equitable development in a rapidly evolving global landscape.

In scholarly discourse, significant attention has been devoted to elucidating the role of the state in economic regulation through the development of various theoretical models. Among these, the classical model, articulated by A. Smith<sup>46</sup>, emphasizes the principles of free-market self-regulation, minimal state intervention, and the efficient allocation of resources through the “invisible hand” mechanism. This approach advocates for a limited role of the state, primarily confined to ensuring property rights, upholding contracts, and providing

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44 ARACHI, G., BUCCI, V., LONGOBARDI, E., PANTEGHINI, P.M., Parisi, M.L., Pellegrino, S., Zanardi, A. 2012. Fiscal reforms during fiscal consolidation: The case of Italy. *FinanzArchiv*, 68(4), 445–465. <https://doi.org/10.1628/001522112X659574>

45 KANNIAINEN, V., PANTEGHINI, P.M. 2013. Tax neutrality: Illusion or reality? The case of entrepreneurship. *FinanzArchiv*, 69(2), 167–193. <https://doi.org/10.1628/001522113X666926>

46 SMITH, A. 2002. *An inquiry into the nature and causes of the wealth of nations*. London: Methuen & Co. <https://www.econlib.org/library/Smith/smWN.html>

public goods that the market cannot efficiently supply.

Contrasting the classical view, the Keynesian model, advanced by J. Keynes<sup>47</sup>, underscores the necessity of active state intervention, particularly in times of economic downturns. Keynes posited that market economies are prone to inefficiencies such as unemployment and underutilization of resources, which require corrective measures by the state. Through fiscal and monetary policies, including government spending and regulation of interest rates, the Keynesian model aims to stabilize economic cycles and ensure sustained growth. Further diversifying the theoretical landscape is the monetarist model, associated with economists such as B.M. Friedman and M. Woodford<sup>48</sup> and its application by policymakers like R. Reagan. This model prioritizes controlling the money supply to manage inflation and maintain economic stability, advocating for a reduction in state intervention in favour of free-market mechanisms. Monetarists emphasize the importance of predictable and rule-based monetary policies, as opposed to discretionary fiscal interventions.

In addition to these foundational models, the study of new conservative approaches has emerged, focusing on reducing state roles, deregulating economies, and emphasizing privatization as key components of economic governance. These approaches advocate for the minimization of state interference to foster market efficiency and individual entrepreneurship. Foreign scholars further classify economic regulation models into distinct typologies based on the degree and nature of state involvement: Ethos model characterized by a highly significant role of the state in regulating economic processes, where the government actively directs socio-economic development, often through centralized planning and intervention<sup>49</sup>. This model is prevalent in economies where state mechanisms are deeply integrated into economic management.

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47 KEYNES, J.M. 2018. The general theory. In: J.M. Keynes (Eds.), *The General Theory of Employment, Interest, and Money* (p. 3). Cham: Palgrave Macmillan. [https://doi.org/10.1007/978-3-319-70344-2\\_1](https://doi.org/10.1007/978-3-319-70344-2_1)

48 FRIEDMAN, B.M., WOODFORD, M. 2010. *Handbook of monetary economics*. London: Elsevier. <https://shop.elsevier.com/books/handbook-of-monetary-economics/friedman/978-0-444-53454-5>

49 MERZLYAKOVA, D.R., MIROSHNICHENKO, A.A., BARANOV, A.A., POPKOV, A.V., IVANOVA, N.P. 2022. Human and the foodnet market: On the formation of the agricultural producer ethos (psychological and pedagogical aspect). *IOP Conference Series: Earth and Environmental Science*, 949, 012042. <https://doi.org/10.1088/1755-1315/949/1/012042>

The liberal model reflects a predominance of market mechanisms, with the state assuming a minimal role in economic regulation<sup>50</sup>. In this framework, the market's self-regulatory capacity is considered sufficient for addressing economic challenges, with the state intervening only in exceptional circumstances. Mixed model integrates state-driven socio-economic management with market-based mechanisms, creating a hybrid approach<sup>51</sup>. This model seeks to balance state intervention and market autonomy, leveraging the strengths of both to address complex economic dynamics effectively. The scientific literature highlights that effective state regulation of regional development requires the integration of macroeconomic principles with localized strategies, recognizing the unique socio-economic characteristics of regions<sup>52</sup>. Theoretical foundations in this domain explore mechanisms for addressing regional inequalities, optimizing resource distribution, and fostering sustainable development through coordinated efforts between central and regional authorities.

Research on state regulation of regional development highlights the necessity of implementing diverse measures tailored to the unique needs of different regions. While state regulation is universally significant, it cannot adhere to a uniform methodology, as goals, priorities, and implementation strategies vary across socio-economic contexts. Priority directions for state regulation in regional development include establishing a comprehensive framework of legal, enforcement, and control measures involving state, private, and public organizations, aimed at adapting regional socio-economic units to market conditions. Additionally, actions must be refined to align with objective economic laws and legal criteria, utilizing regulatory mechanisms to mitigate market economy risks and promote resilience. Targeted regulation should focus on areas with concentrated production and capital, while regulation can occur at both a “narrow” scale, such as financial aid and subsidies, and a “broad” scale, creating favourable conditions for market

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50 FERNÁNDEZ-LOMBAO, T., BLASCO-BLASCO, O., FREIRE, F.C. 2024. Politicisation persists and is increasing in European public service media in the digital society. *Media and Communication*, 12, 7759. <https://doi.org/10.17645/mac.7759>

51 ZHONG, X., ZHOU, S., YU, X. 2024. Land market misallocation, regional integration, and economic growth: Evidence from the Yangtze River Delta Region, China. *Public Administration and Development*, 44(1), 17-31. <https://doi.org/10.1002/pad.2033>

52 LISOVETS, I.S. 2023. Economic analysis of regional development in Ukraine. <https://ir.kneu.edu.ua/items/3d22987c-4430-4e07-9577-16d9f6906577>

mechanisms. Furthermore, state regulation encompasses targeted actions by central authorities to foster economic advancement in individual regions, often described as “territorial economic policy.” Key principles of this policy include imposing restrictions on growth in economically advanced regions to address imbalances and stimulating development in less advantaged areas through targeted interventions like encouraging migration, establishing state-owned enterprises, and providing incentives. These strategies collectively emphasize the importance of a flexible and differentiated approach to regional development, ensuring balanced growth and effective integration of market and state mechanisms.

Market and state regulators are not used separately, but they complement each other. In this case, state regulation should be based on specific conditions for achieving the set goal, taking into account the parameters of the external environment. State regulation of regional development means a system of measures and actions aimed at ensuring the sustainable and balanced development of the country's territorial units in order to increase the efficiency of economic growth and the standard of living of the population<sup>53</sup>. State regulation should be aimed at strengthening the economic foundations of independent socio-economic development of all regions of the country by clearly separating their powers and responsibilities between the central and territorial state administration bodies. The development of regional independence and self-governance in regional development management processes requires strengthening and improving the role of central bodies. For example, the functions of central management bodies should consist of developing regional development strategies for productive forces and their phased implementation using new economic management methods, managing and forecasting regional development.

Effective use of this experience based on the study of advanced foreign experience in the comprehensive socio-economic development of regions, state regulation, improvement of territorial governance, and effective solution of problems in this area is of great importance. Based on the study of global experience, it can be said that the development and implementation of regional poli-

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53 NUREKESHOV, T., MUKASHEVA, A., BEKISHEVA, S., KHASSENOV, M. 2018. The problem of providing legal groundwork for the balance of traditional and alternative energy development in the context of kazakhstan's shift to green energy. *Journal of Advanced Research in Law and Economics*, 9(5), 1716–1728. [https://doi.org/10.14505/jarle.v9.5\(35\).25](https://doi.org/10.14505/jarle.v9.5(35).25)

cy, ensuring the comprehensive socio-economic and balanced development of regions, is entrusted to one or two coordinating bodies. For example, in the Czech Republic – to the Ministry of Territorial Development, in Latvia – to the Ministry of Environmental Protection and Territorial Development. The list of coordinating bodies is shown in Table 1.

**Table 1.** Organizations responsible for the development and implementation of state territorial policy in foreign countries

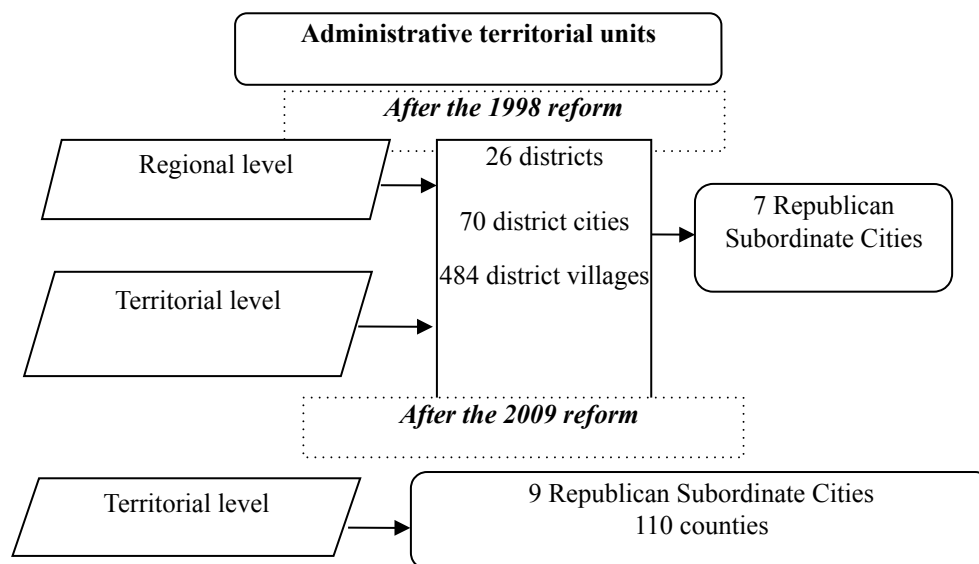
No.	Country name	State body	Powers for integrated territorial development
1	Latvia	Ministry of Environmental Protection and Territorial Development	Implementation and evaluation of territorial policy at the state level, determination of methodological principles for regional development planning and control over this process, development of local government bodies in accordance with the country's sustainable development goals and control over their activities.
2	Czech Republic	Ministry of Regional Development	Development and implementation of territorial policy, determination of housing policy, development of the housing stock, rental of residential and non-residential premises, territorial planning, determination of building rules, implementation of investment policy, development of tourism.
3	Germany	Committee for territorial organization of the economy	Development of proposals and recommendations for improving the territorial organization of the economy, preparation of analytical reports on regional development, examination of regional projects, development of proposals and recommendations for the development of regions.
4	Bulgaria	Ministry of Territorial Development and Improvement	Comprehensive development of the country's regions, development of infrastructure networks, development and implementation of development and cooperation programs, etc.
5	Italy	Ministry of regional affairs	Development of proposals on the draft budget, provision of state assistance to underdeveloped regions, organization and conduct of the conference "State - Regions".
6	Tajikistan	Committee for Regional	Development and implementation of regional policy, development and implementation of regional

No.	Country name	State body	Powers for integrated territorial development
		Development	development strategies and programs, coordination of the activities of local authorities, etc.
7	Republic of Kazakhstan	Ministry of Territorial Development (until 2014)	Implementation of intersectoral and interregional coordination in the process of developing and implementing state policy in the field of regional development, coordination of entrepreneurship, including the activities of socio-entrepreneurial corporations.

Source: created by the authors.

It is considered effective to utilize the advanced experience of the Czech Republic in comprehensive socio-economic development and management of regions. In the Czech Republic, the Ministry of Regional Development is responsible for the development and management of this sector. It is part of the central government system of the Czech Republic and plays an important role within its mandate for managing financial resources. The Ministry was established in 1996 and is the central body for: developing and implementing regional policy; determining housing policy; developing the housing stock; leasing residential and non-residential premises; territorial planning; establishing construction regulations; conducting investment policy; developing tourism. The Ministry of Regional Development of the Czech Republic is responsible for the management of financial resources allocated to housing and regional policy. It coordinates the activities of other ministries and state bodies for the effective implementation of this policy. It carries out the work of the National Coordination Service, which manages financial assistance from structural and regional funds, ensures the reduction of territorial disparities in the Czech Republic, promotes the country's participation in EU territorial programs. It also provides informational and methodological support to local self-government bodies. In addition to the Ministry, there are other structures operating in the Czech Republic. These include the Association of Cities and Communities, the Association of Czech Territorial Development Agencies and the Center for International Municipal Consultations, which perform tasks determined by the priorities of the Ministry.

It is also important to study the best practices of Latvia in comprehensive and balanced regional development. The government of this state has repeatedly reformed territorial administration during the years of independence, which is shown in Figure 1.



**Figure 1.** Classification of administrative-territorial units in the Republic of Latvia

Source: created by the authors.

The Ministry of Environmental Protection and Regional Development is responsible for the development and implementation of regional policy in Latvia, and its activities include: environmental protection; regional development; information and communication technologies. In the field of regional development, the Ministry implements and evaluates regional policy at the state level, defines methodological principles for regional development planning, and oversees this process. In addition, it develops local government bodies in accordance with the country's sustainable development goals and monitors their activities.

The State Regional Development Agency<sup>54</sup>, which is under the management of this ministry and known as a regulatory body that promotes territorial development in the regions of Latvia, operates. The Agency manages state support programs and the activities of the structural funds of the European Union. State Agency for Territorial Development annually develops and expands its tasks and functions and began its activities with the implementation of entrepreneurship development programs in underdeveloped areas. It implements various structural funds and state-funded programs to support local municipal authorities and plays an important role in regional development. Another important area of activity of this agency is the preparation and publication of an analytical material entitled “Regional Development in Latvia” based on the analysis and assessment of regional development.

State Agency for Territorial Development cooperates with government agencies, local municipalities, and other organizations involved in regional development to promote and coordinate regional development and achieve common goals. The Latvian government is constantly reforming its administrative-territorial units. The following three directions were chosen in the Concept of Self-Government Reform adopted in 1993<sup>55</sup>.

One of the key milestones in the legal dimension was the adoption of the Law on Self-Government Bodies, which provides a clear delineation of responsibilities and functions assigned to local authorities<sup>56</sup>. Under this framework, territorial self-government bodies are tasked with 18 specific functions, while cities of republican subordination are entrusted with 23 functions. These legal provisions aim to ensure clarity in governance roles, reduce duplication of responsibilities, and enhance accountability in service delivery. The law has established a structured approach to decentralization, empowering local bodies to address the unique needs of their respective communities.

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54 State Regional Development Agency. 2007. Development of Regions in Latvia. [https://www.varam.gov.lv/sites/varam/files/content/files/developments20of20regions\\_20071.pdf](https://www.varam.gov.lv/sites/varam/files/content/files/developments20of20regions_20071.pdf)

55 Institute of Civil Society. 2015. How the reform of the administrative-territorial system and local self-government was carried out in Latvia. <https://www.csi.org.ua/publications/yak-provely-reformu-administratyvno-t/>

56 FRECON, J.-C., LEUBA, P. 2011. Local and regional democracy in Latvia. <https://rm.coe.int/168071a836>

Between 1995 and 1998, significant financial reforms were undertaken to provide a sustainable economic foundation for self-government bodies. The enactment of the Law of the Republic of Latvia No. 41 “On Budget and Financial Management”<sup>57</sup> and the Law of the Republic of Latvia No. 118 “On Financial Adjustment of Municipalities”<sup>58</sup> marked critical steps in this direction. These laws facilitated the equitable distribution of financial resources, ensuring that economically weaker regions received adequate funding to meet their developmental needs. The reforms also sought to enhance fiscal autonomy for local governments, enabling them to generate and manage financial resources efficiently while adhering to national economic priorities. As a result of these reforms, Latvia transitioned to a single-tier system of territorial governance in 2009. The administrative division was streamlined to consist of nine cities of republican significance and 110 counties. This structural reorganization aimed to reduce administrative fragmentation, improve governance efficiency, and foster balanced regional development.

### **3.3. Innovative strategies for state regulation to reduce regional disparities and ensure sustainable development**

Modern challenges in regional development require states not only to utilize traditional regulatory mechanisms but also to implement innovative strategies aimed at overcoming disparities in the socio-economic development of regions. Disparities between regions are often driven by historical, economic, social, and geographical factors, and are exacerbated by globalization processes, structural reforms, and uneven resource distribution. Therefore, the development of innovative regional management strategies is a key element in achieving sustainable development.

Innovative strategies for state regulation of regional development encompass a range of tools that combine modern technologies, intersectoral partnerships, scientific research, and integrated management approaches. These strategies aim to effectively utilize regional potential, minimize the negative externali-

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57 Law of the Republic of Latvia No. 41 “On Budget and Financial Management”. 2005. <https://likumi.lv/ta/id/58057-likums-par-budzetu-un-finansu-vadibu>

58 Law of the Republic of Latvia No. 118 “On Financial Adjustment of Municipalities”. 2010. <https://likumi.lv/ta/id/274742-pasvaldibu-finansu-izlidzinasanas-likums>

ties of market mechanisms, and ensure the integration of regions into national and international economic systems.

One of the leading directions is the implementation of smart specialization as a foundation for developing regional strategies. Smart specialization involves identifying key sectors with the highest potential for innovative development and concentrating resources on their support. This approach enables regions to adapt to the challenges of the global market, reduce dependence on traditional sectors of the economy, and create new jobs in promising industries. For instance, in EU countries, the introduction of smart specialization strategies has significantly increased the effectiveness of utilizing structural funds, contributed to reducing regional disparities, and acted as a catalyst for innovation.

Another important component of innovative regulation is the use of digital technologies in the planning and management of regional development. The creation of digital platforms for monitoring and analysing regional disparities allows for informed decision-making based on current data. These platforms can be utilized to gather information on demographic trends, economic activity, infrastructure status, and environmental risks. Successful examples of implementing such systems can be observed in Scandinavian countries, where digital technologies have become the foundation for integrated solutions in regional management. The development of clusters plays a significant role in reducing regional disparities. The clustering of economic activities fosters synergy between businesses, research institutions, and government authorities, allowing for more effective resource utilization and enhancing regional competitiveness. For example, in Ukraine, a promising direction could be the development of agro-industrial clusters that take into account the natural advantages of regions and ensure sustainable resource use.

One of the key tasks of state regulation is to provide financial support to regions facing significant economic difficulties. Innovative approaches to this include the use of financial instruments such as regional bonds, venture capital funds, and public-private partnership mechanisms. These instruments enable the mobilization of private capital for the implementation of socially significant projects, thereby reducing the burden on the state budget.

Innovative regulation also entails strengthening the role of local communities in decision-making processes. Decentralization of governance is a crucial element in fostering local initiative, engaging citizens in addressing socio-economic issues, and enhancing the accountability of local government bodies. An important component of this process is increasing the transparency and accountability of government authorities through the implementation of e-governance.

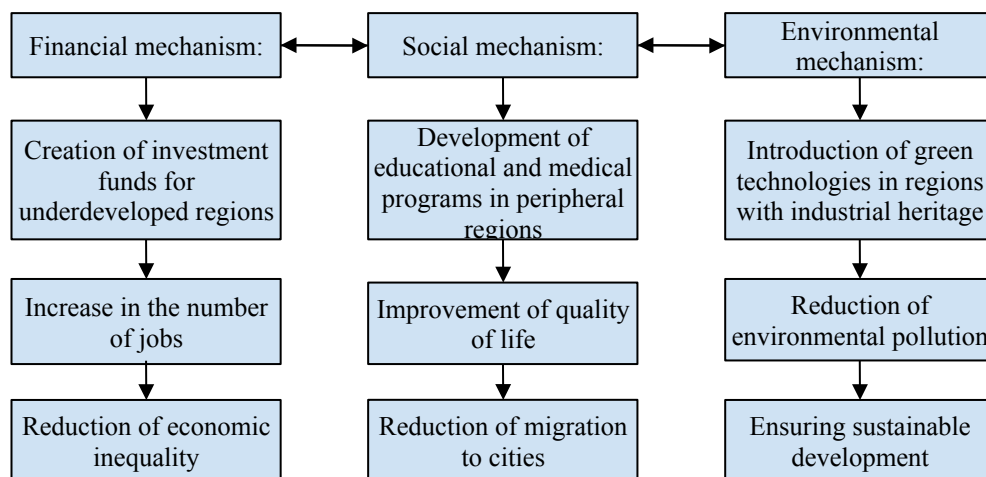
In the context of ensuring sustainable development, particular attention should be paid to the environmental aspects of state regulation. The integration of environmental standards into regional policies promotes the rational use of natural resources, prevents ecosystem degradation, and ensures the ecological safety of the population. An effective tool in this regard is the adoption of “green” technologies and encouraging enterprises to reduce their carbon footprint by providing tax incentives and access to preferential financing.

To mitigate disparities between regions, it is also essential to develop mechanisms for adaptation to global changes, such as climate challenges, demographic shifts, and increasing migration flows<sup>59</sup>. Innovative approaches in this area involve creating flexible response strategies that take into account the specific characteristics of each region, as well as implementing cutting-edge forecasting methods based on big data analysis.

The application of modelling in state regulation allows for the assessment of potential scenarios regarding the impact of proposed strategies on reducing regional disparities and achieving sustainable development. In this context, important aspects include forecasting possible outcomes, integrating multifactorial relationships, and visually representing the mechanisms for implementing strategies. The results of the modelling are illustrated in Figure 2.

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59 Smoilov, S.Z., Mukasheva, A.A., Syrlybayev, M.K. 2015. The legal mechanism of economic regulation of environmental protection and natural resources management: The concept notion, the legal support system. *Indian Journal of Science and Technology*, 8(Specialissue10). <https://doi.org/10.17485/ijst/2015/v8iS10/84870>



**Figure 2.** Model for forecasting the impact of innovation strategies on regional development

Source: created by the authors.

Regarding the financial mechanism, the development of national state funding programs for regions with a high level of economic vulnerability is crucial. For instance, the introduction of grants for small and medium-sized enterprises with preferential conditions specifically designed for regions experiencing significant population outflow can help stimulate the local economy. Additionally, optimizing the interregional income redistribution system is of paramount importance, particularly by increasing the share of tax revenues retained at the local level to finance infrastructure projects. This approach not only enhances the financial autonomy of local authorities but also ensures that resources are directed toward addressing the unique needs of economically distressed areas.

**Social Mechanism:** Investments in the development of modern medical facilities in rural areas are essential for improving health outcomes. This includes creating training programs for healthcare professionals and ensuring their employment in these regions upon graduation. Such initiatives can reduce the shortage of medical personnel and enhance the quality of healthcare services available to local populations. Furthermore, it is vital to launch pilot educational programs that incorporate innovative teaching methodologies aimed at developing the human resource potential of the regions. These programs should focus on

equipping students with skills that align with the specific economic and social contexts of their communities.

The establishment of green industrial parks that integrate environmentally friendly technologies is critical for ensuring sustainable economic growth in the regions. These parks can serve as centres for innovation and sustainable development, promoting the use of clean technologies that minimize environmental impact while fostering economic advancement. Additionally, the implementation of state programs for waste management and the reclamation of historically polluted areas is necessary to address environmental degradation. The use of innovative energy efficiency methods in these programs will not only improve ecological conditions but also contribute to the overall sustainability of regional development initiatives.

Through these coordinated efforts across financial, social, and environmental mechanisms, a comprehensive approach to regional development can be achieved, addressing the multifaceted challenges faced by vulnerable areas. In conclusion, innovative strategies for state regulation are based on the integration of scientific approaches, modern technologies, and intersectoral cooperation. They aim to reduce regional disparities, stimulate economic growth, and ensure sustainable development, thereby creating a foundation for integrated and balanced regional progress.

#### **4. Discussion**

The conducted research aligns with several prominent works in terms of its focus on regional development, the role of institutional and human factors, and the integration of economic and governance models to ensure stability and sustainability. This alignment underscores the importance of understanding the multifaceted nature of regional development and highlights how various elements interact to create a conducive environment for growth. In particular, the emphasis in the study on the human factor as a critical element for regional stability aligns closely with the findings of J. Martinez-Vazquez and F. Vaillancourt<sup>60</sup>.

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<sup>60</sup> Martinez-Vazquez, J., Vaillancourt, F. 2008. *Public policy for regional development*. London: Routledge. <https://www.routledge.com/Public-Policy-for-Regional-Development/Martinez-Vazquez-Vaillancourt/p/book/9781138805279?srsltid=AfmBOoqGNcYQzNYLkJnRdMPBrpJBwkk9sB8dMtp9EUqUaYvO5Qy7r8Ws>

Their work underscored the significance of fostering human capital as a central mechanism for ensuring regional equilibrium and economic resilience. They argued that investing in human capital not only enhances individual capabilities but also contributes to collective regional strength, thereby promoting sustainable development.

R. Kaplan and D. Norton<sup>61</sup> highlight the transformation of balanced scorecards into strategic management tools, emphasizing the integration of financial and non-financial indicators to enhance organizational efficiency. Similarly, the study underscores the importance of balancing centralized policies with localized implementation, leveraging both financial instruments (such as the European Regional Development Fund) and intangible factors like institutional capacity and governance quality. Both works emphasize the need for coherent strategies to align resources and objectives effectively, although conducted research focuses more on the governance of regions rather than corporate entities. W. Cochrane and J. Poot<sup>62</sup> discuss export-led regional growth models influenced by Keynesian economics, highlighting the interplay between income generation, resource utilization, and institutional conditions. Conducted research complements this perspective by analysing how state regulation can mitigate regional disparities and optimize resource distribution. While their work explores macroeconomic dependencies and the Verdoorn effect, the study delves into the mechanisms by which legislative frameworks and funding instruments can support regional economic cohesion and sustainability, addressing disparities between urban and rural areas.

R. Harris<sup>63</sup> explored the evolution of regional growth models, from neo-classical to modern theories emphasizing knowledge spill overs and firm heterogeneity. Similarly, the study reflects an interdisciplinary approach, analysing governance structures alongside economic growth strategies. While R. Harris focu-

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61 KAPLAN, R.S., NORTON, D.P. 2001. Transforming the balanced scorecard from performance measurement to strategic management: Part 1. *Accounting Horizons*, 15(1), 87-104. <https://www.scirp.org/reference/referencespapers?referenceid=2278299>

62 COCHRANE, W., POOT, J. 2021. Demand-driven theories and models of regional growth. In: M.M. Fischer, P. Nijkamp (Eds.), *Handbook of Regional Science* (pp. 661-678). Berlin, Heidelberg: Springer. [https://doi.org/10.1007/978-3-662-60723-7\\_15](https://doi.org/10.1007/978-3-662-60723-7_15)

63 HARRIS, R. 2011. Models of regional growth: Past, present and future. *Journal of Economic Surveys*, 25(5), 913-951. <https://doi.org/10.1111/j.1467-6419.2010.00630.x>

ses on agglomeration economies and micro-level factors like entrepreneurship, work emphasizes the systemic and structural analysis of institutional hierarchies and their role in regional development. Both approaches underscore the importance of tailored policies to address unique regional challenges. P. Vellala et al.<sup>64</sup> emphasize the role of macroeconomic policy in achieving balanced regional development through efficient resource allocation and human potential enhancement. This perspective resonates with analysis of legislative and policy measures aimed at reducing regional disparities and promoting sustainable growth. While P. Vellala et al. focus on the theoretical underpinnings of macroeconomic policies, the conducted study integrates these principles with practical governance tools, such as administrative-territorial reforms and fiscal adjustment laws.

The analysis by O. Balan et al.<sup>65</sup> emphasized the importance of balanced resource allocation and economic specialization as drivers of regional development. This aligns with the research focus on legislative frameworks aimed at addressing regional disparities through targeted investments and specialized economic policies. While O. Balan et al. emphasize infrastructure investments and the establishment of economic zones to promote equity and reduce inequalities, the conducted study extends this perspective by analysing the interplay between these measures and broader legislative reforms at the European level.

The work of A. Calai<sup>66</sup> discussed Azerbaijan's socio-economic reforms and the formation of an innovation-oriented economy, emphasizing integration into the global economic system and enhancing regional competitiveness. The conducted research parallels these themes by exploring the integration of regional economies into broader national and European frameworks, facilitated by regulatory instruments and funding mechanisms. Both studies underscore the critical

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<sup>64</sup> VELLALA, P., MADALA, M., CHHATTOPADHYAY, U. 2014. A theoretical model for inclusive economic growth in Indian context. *International Journal of Humanities and Social Science*, 4(13), 229-235. [http://www.ijhssnet.com/journals/Vol\\_4\\_No\\_13\\_November\\_2014/27.pdf](http://www.ijhssnet.com/journals/Vol_4_No_13_November_2014/27.pdf)

<sup>65</sup> BALAN, O.S., VOITENKO, M.V., PULCHA, D.O. 2024. Public regulation of regional development. *Economics: Time Realities*, 71(1), 14-21. <https://doi.org/10.5281/zenodo.10914542>

<sup>66</sup> CALAI, A.T. 2021. The concept of sustainable development and the problem of socio-economic development of regions. In: S. Yagubov, S. Aliyev, M. Mikic (Eds.), *70th International Scientific Conference on Economic and Social Development* (pp. 778-787). Baku: Azerbaijan State University of Economics. [https://www.esd-conference.com/upload/book\\_of\\_proceedings/Book\\_of\\_Proceedings\\_esdBaku2021\\_Online.pdf](https://www.esd-conference.com/upload/book_of_proceedings/Book_of_Proceedings_esdBaku2021_Online.pdf)

role of infrastructure development and local market strengthening, but the research also highlights the importance of policy coherence across different administrative levels to achieve sustained growth. D. MacKinnon et al.<sup>67</sup> investigate the challenges of neglected regions in the context of social discontent, advocating for neo-endogenous development approaches that prioritize income generation, social infrastructure, and innovation. The conducted research similarly addresses the issue of marginalized territories but frames it within the context of European cohesion policies and the development of underperforming regions. While D. MacKinnon et al. focus on social innovation and economic fundamentals, the research complements these insights by examining how state-regulated frameworks can operationalize such strategies at regional and local levels. A. Diemer et al.<sup>68</sup> introduced the concept of “regional development traps”, analysing regions in Europe facing structural challenges to economic recovery and improved well-being. The conducted study resonates with this analysis, particularly in identifying regions vulnerable to economic stagnation and inequality. In contrast to A. Diemer et al., who propose quantitative indicators, the research incorporates qualitative dimensions such as governance and administrative reform as critical tools for overcoming structural limitations.

The findings of the conducted research underscore the significance of institutional frameworks and strategic governance in mitigating regional disparities and fostering sustainable development. The emphasis on aligning centralized policies with local implementation resonates with the conclusions of R. Kaplan and D. Norton<sup>69</sup>, who highlighted the integration of diverse performance indicators for strategic effectiveness. By adapting these principles to regional governance, the study demonstrated how a balanced approach that includes both tangible resources and intangible factors, such as institutional capacity and human capital,

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<sup>67</sup> MACKINNON, D., KEMPTON, L., O'BRIEN, P., ORMEROD, E., PIKE, A., TOMANEY, J. 2022. Reframing urban and regional “development” for “left behind” places. *Cambridge Journal of Regions, Economy and Society*, 15(1), 39-56. <https://doi.org/10.1093/cjres/rsab034>

<sup>68</sup> DIEMER, A., IAMMARINO, S., RODRÍGUEZ-POSE, A., STORPER, M. 2022. The regional development trap in Europe. *Economic Geography*, 98(5), 487-509. <https://doi.org/10.1080/00130095.2022.2080655>

<sup>69</sup> KAPLAN, R.S., NORTON, D.P. 2001. Transforming the balanced scorecard from performance measurement to strategic management: Part 1. *Accounting Horizons*, 15(1), 87-104. <https://www.scirp.org/reference/referencespapers?referenceid=2278299>

can yield results. This alignment suggests that incorporating multi-level governance strategies is critical for addressing the unique challenges faced by urban and rural regions.

Moreover, the research complements the macroeconomic perspectives of W. Cochrane and J. Poot<sup>70</sup>, particularly regarding the role of resource utilization and institutional conditions in regional growth. However, while their analysis focuses on export-driven dynamics and macroeconomic dependencies, this study extends the discussion to include the role of funding instruments, legislative frameworks, and local governance quality in shaping development outcomes. The divergence in focus highlights the broader applicability of the study's findings in crafting targeted interventions for regions facing socio-economic inequalities and structural deficiencies. In summary, the conducted research complements the referenced works by bridging theoretical frameworks and practical applications, particularly through its emphasis on European legislative and institutional contexts. It expands upon existing models by integrating governance and economic strategies, highlighting the interplay between policy instruments, institutional capacities, and human factors in fostering regional stability and development.

## **5. Conclusions**

The conclusions emphasized the necessity of active state regulation to achieve sustainable and balanced regional development. Regional policy must be multidimensional and integrated, encompassing economic, social, and administrative aspects. The successful implementation of such policies depends on the ability of governments to adapt strategies to the specific characteristics of each region, including its socio-economic structure, cultural heritage, and environmental conditions. To ensure sustainable development, states must consider existing regional disparities, applying various approaches such as convergence policy and growth pole theory, which have demonstrated effectiveness under different circumstances. State policy should be flexible and adopt a differentiated approach for each region, particularly through financial support, investments in infrastructure, and the creation of favourable conditions for development in less developed

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<sup>70</sup> COCHRANE, W., Poot, J. 2021. Demand-driven theories and models of regional growth. In: M.M. Fischer, P. Nijkamp (Eds.), *Handbook of Regional Science* (pp. 661-678). Berlin, Heidelberg: Springer. [https://doi.org/10.1007/978-3-662-60723-7\\_15](https://doi.org/10.1007/978-3-662-60723-7_15)

areas.

The study of foreign countries' experiences shows that effective state regulation of regional development is ensured through the establishment of specialized bodies responsible for the development and implementation of territorial policy. For example, in the Czech Republic, this is the Ministry of Regional Development, which manages financial resources comprehensively and coordinates the activities of other state bodies to ensure balanced regional development. This model has helped reduce territorial disparities and promote the integration of the country into European development programs. In Latvia, the implementation of regional policy is carried out through the Ministry of Environmental Protection and Regional Development, which is also responsible for creating methodological principles for regional development planning and monitoring their implementation. Systematic reforms of administrative-territorial units that have taken place in the country have led to the optimization of management structures, a reduction in administrative burdens, and an increase in the efficiency of regional governance, positively affecting regional development. The joint use of classical and neoclassical development theories allows for effective results in managing regional development and contributes to an innovative approach to the industrial modernization of remote areas and the improvement of institutional foundations for regional development.

The modelling and forecasting model simplify the decision-making process for management, as well as assesses the long-term consequences of implementing the proposed strategies. This enhances the justification of governmental decisions and contributes to the gradual achievement of sustainable development in the regional dimension. The visualization demonstrates the impact of each mechanism on key factors: economic balance, social justice, and environmental sustainability. The data illustrate that the financial mechanism has the greatest influence on economic balance, the social mechanism reinforces social justice, and the environmental mechanism ensures environmental sustainability.

Expanding the geographic scope of the analysis, including regions outside Eurasia, could also provide a more comprehensive understanding of global patterns in regional development. For example, analysing the approaches adopted by countries in North America, Latin America, and Africa could offer valuable in-

sights into how different socio-political and economic contexts shape regional development strategies. Additionally, further comparative studies on the effectiveness of regional development models in both developed and developing countries could reveal how diverse governance structures influence outcomes in terms of reducing inequalities, fostering growth, and promoting social cohesion. Furthermore, the incorporation of a wider range of data sources, including both quantitative and qualitative data, could enhance the precision of forecasting models and improve the ability to tailor strategies to specific regional needs. Future research could also focus on the intersection of regional development and emerging global challenges, such as climate change, digitalization, and migration, to provide a more holistic framework for sustainable regional development policies.