

# REPUBLIC OF AZERBAIJAN

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## ABSTRACT

of the dissertation submitted for the degree of Doctor of Philosophy

### **PERSPECTIVES ON THE DEVELOPMENT OF INSTRUMENTS FOR THE FORMATION, VALUATION AND ENHANCEMENT OF FINANCIAL POTENTIAL**

Specialty: 5308.01- General economy

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## GENERAL CHARACTERISTICS OF THE WORK

**Topic relevance and development rate:** In modern conditions, the circulation and distribution of financial resources requires the implementation of necessary measures in the areas of formation, strengthening and assessment of the country's financial potential. Financial potential is a necessary condition for the activities of existing entities in various sectors of the economy and is the key to their success. At the same time, financial potential conceptually reflects the current and strategic financial activities of industries and entities. In general, the financial position of subjects significantly depends on their financial potential, and its content is associated with the determined parameters of market, resource and production potential. The economic development of not only subjects, but the state and society as a whole depends on the state of financial potential and the efficiency of its use. From this point of view, the process of forming and assessing financial potential is focused on the effective use of the financial mechanism to achieve strategic goals.

Planning the use of financial potential within the framework of the economic growth strategy increases the importance of preparing the basis for the formation of a more effective financial strategy. Effective use of financial resources of individual sectors of the economy and entities requires the use and development of an effective system of tools for implementing the strategy of financial management of sustainable economic development. In fact, it is impossible to achieve the effect of economic growth without an effective system of financing the activities of entities. The foregoing shows that in such conditions there is a need for an effective financial model, in which economic and financial processes are coordinated, and a unified technology for strategic and operational management of financial potential is formed. Thus, the formation of financial potential and a system of strategic financial planning confirms the relevance of the problem of developing a methodology and the concept of its adaptation to important methodological features and economic processes within the framework of the economic growth strategy.

It should be noted that in certain cases, financial potential is formed

and evaluated only within the framework of an operational financial management system. Therefore, to efficiently form and objectively assess financial potential, it becomes necessary to provide theoretical and methodological justifications regarding its characteristics, as well as its classification in both operational and strategic financial management systems. What has been mentioned indicates that it is crucial to evaluate financial resources and the movement of these resources, as well as ensure their efficient management to form a system for the development of financial potential and increase its efficiency. State policy in the direction of efficient formation and management of financial potential is aimed at its long-term development. For this purpose, the "Strategic Roadmap for the Development of Financial Services in the Republic of Azerbaijan" has been developed and approved, with the goal of supporting the "agility, competitiveness, innovation, and economic development of the financial services sector."<sup>1</sup> "Azerbaijan 2030: National Priorities for Socio-Economic Development" sets out the tasks of "financing the real economy" and "accelerating the attraction of long-term investment resources to the economy."<sup>2</sup> The implementation of the strategy for forming financial potential and ensuring efficiency in this area imposes significant tasks on the financial services sector. In this regard, it is crucial to form a system for the development of financial potential and increasing the efficiency of its use, and to assess the available resources and opportunities for improving this potential. Additionally, the search for qualitatively new, innovative solutions is becoming a necessity in this direction.

Since the formation and development of financial potential is accompanied by the interaction of various factors, this ensures the growth of market potential in the financial sector, and by accelerating the frequency of exchange of financial resources, it causes an increase in the economic potential of various sectors of the economy.

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<sup>1</sup> Azərbaycan Respublikasında maliyyə xidmətlərinin inkişafına dair Strateji Yol Xəritəsi // Azərbaycan Respublikası Prezidentinin 2016-cı il 6 dekabr tarixli Fərmanı. – Bakı: – 2016.

<sup>2</sup> Azərbaycan 2030: sosial-iqtisadi inkişafa dair Milli Prioritetlər // Azərbaycan Respublikası Prezidentinin 2021-ci il 2 fevral tarixli Sərəncamı. – Bakı: – 2021.

The methodological aspects of the case show that the methods and tools used in the process of assessing financial potential make it possible to determine the results of the current assessments obtained, as well as the actual state of financial potential. In this regard, the need to ensure a qualitatively higher level of formation and objective assessment of financial potential in the financial management system confirms the relevance of the dissertation topic.

Among the republican economists dealing with the problems of development of means of formation and assessment of financial potential, the following can be noted: Z.A.Samadzade, B.Kh.Atashov, N.M.Muzaffarli (İmanov), A.A.Alekperov, S.M.Mammadov, Z.F.Mammadov, Z.T.Valiyev, M.M.Sadigov, M.M.Bagirov, M.J.Huseynov, M.Kh.Hasanli, E.A.Ibrahimov, E.B.Mammadova, R.A.Bashirov, N.R.Guliyev and others.

E. I. Altman, T. K. N. Baidya, L. M. Ribeirodias, A. I. Borodin, A. L. Kolomiets, A. G. Gryaznova, N. A. Kolesnikova, G. B. Polyak, T. F. Yutkina, E. V. Borovikova, E. A. Isaev and others from foreign scientists conducted research in this direction.

It should be noted that in the studies of local and foreign scientists, the factors affecting the state of financial potential have been determined, analyzed and evaluated in the example of a specific economic subject. Also, the study of financial potential classification problems, methodological aspects of financial potential assessment were reviewed at the enterprise level.

**The object and subject of the research.** The subject of the research is the process of formation and evaluation of financial potential in the Republic of Azerbaijan. The object of the research is the study of various scientific views related to the formation of financial relations and potential, their evaluation, the economic relations emerging in this direction, organizational and economic mechanisms, methods and tools, and the development of evaluation tools.

**Research goals and objectives:** The purpose of the research work is to determine and justify the directions of development in this area based on studying the means of forming and assessing financial potential. In accordance with the purpose of the research work, the

following tasks were identified:

- research and generalization of scientific and theoretical issues related to the formation of financial potential;
- research into the methodology for assessing financial potential, identifying more effective tools used in the assessment;
- determining the role of financial potential in the sustainability of economic development;
- analysis of financial potential at the level of the country's economy and the current state of its use;
- assessment of the state of use of financial potential;
- study of factors influencing the use of financial potential;
- identification of more effective government support measures related to improving financial potential;
- identifying areas for improving the use of financial potential;
- determination of prospects for the development of financial potential assessment.

**Research methods:** Analysis, synthesis, economic-mathematical, economic-statistical, analytical analysis, comparative analysis methods were used in the dissertation work.

**The main provisions defended:** The main provisions submitted to the defense are as follows:

- It is necessary to generalize the theoretical and methodological aspects related to the economic essence and characteristics of financial potential;
- There is a need to characterize the methodological aspects of using existing tools in the evaluation of financial potential;
- Generalizing the main directions of state policy regarding the formation and development of financial potential, as well as the development of financial strategy, is a requirement of the modern era;
- The evaluation of the use of financial potential at the macro level and the factors influencing it, as well as determining the effectiveness of using alternative tools in the evaluation, is of exceptional importance;
- The study of the strategic directions of the policy related to

improving the use of financial potential and the development of evaluation tools is a requirement of the modern era.

**The scientific novelty of the research:** The scientific novelty of the research is characterized by the following:

- Based on the theoretical provisions related to the economic content of financial potential, the goals of financial activities at the micro and macro levels and the sources of financial potential formation have been identified;
- By justifying the role of financial potential in sustainable economic development, the connection between evaluation and alternative methods in terms of value creation has been determined;
- By analyzing the current state of financial potential and its use, a model for strategic evaluation has been developed, and the relationship and dependence between the indicators included in the model have been substantiated;
- By studying the factors affecting the use of financial potential, their quantitative impact on financial potential has been determined using econometric evaluation;
- In line with modern challenges regarding the provision of financial stability, priorities for the application of more advanced mechanisms for managing financial potential, including the consideration of potential opportunities, the formation and optimal use of financial resources, and so on, have been identified;
- The perspectives for improving the use and evaluation of financial potential have been determined, and by using planning and forecasting, the strategic aspects of improving the policy for the efficient use of financial potential have been substantiated.

**Theoretical and practical significance of the study:** The theoretical importance of the study consists in the expansion of the scientific basis of the development of tools for the formation and assessment of financial potential. The results obtained in this direction allow to create the theoretical and methodological basis for research on the problem of formation and evaluation of financial potential. The practical importance of the research is reflected in the development

and use of methods, tools, models and proposals that form the theoretical, methodological and practical basis for the development of tools for the formation and assessment of financial potential. It is also possible to widely use alternative methods and models in practice that provide a reasonable assessment of the efficiency of activities related to the efficient use of financial resources. The obtained results and proposed proposals can be used in the formulation and improvement of the policy of ensuring the financial stability of the economy.

**Research approval and application:** The main provisions of the research are reflected in 7 theses (3 of which are abroad) and 5 articles (2 of which are abroad) published in prestigious international and national journals, as well as conference materials recommended by the Higher Attestation Commission under the President of the Republic of Azerbaijan. Among the published scientific works are the following theses: “Methodology for Assessing the Financial Potential of the Country” (Sumgayit, 2022), “Theoretical Foundations of the Formation of Financial Potential” (Ganja, 2022), “Priorities of State Policy in the Development of Financial Relations” (Sumgayit, 2022), “Ways to Improve the Use of Financial Potential” (Ganja, 2023), “Perspectives of Increasing Financial Potential” (Manchester, 2022), “Modern Aspects of Financial Policy: Efficiency of Using Financial Resources” (Berlin, 2023), “Planning and Forecasting the Use of Financial Potential” (Berlin, 2023). The published articles include: “Financial Potential and Its Formation Mechanism” (Ganja, 2020), “Financial Potential and Its Management Efficiency” (Ganja, 2021), “The Importance of Financial Potential Evaluation in Ensuring Financial Stability” (Baku, 2022), “Factors Influencing the Formation of the Financial Potential of the Economy” (Moscow, 2022), “Opportunities and Problems of Application of Index Insurance Model in Azerbaijan” (Germany, 2022).

**Name of the organization where the dissertation work was carried out:** Azerbaijan State Agricultural University.

**The total volume of the dissertation in characters, indicating the volume of the structural sections of the dissertation separately.**

The dissertation consists of an introduction, three chapters, a conclusion and a list of used literature, and is 235714 characters in



total. The introduction is 12108 characters, Chapter I is 73208 characters, Chapter II is 51239 characters, Chapter III is 59349 characters, a conclusion is 7206 characters, and a list of used literature is 19280 characters. The dissertation consists of 203110 characters, excluding figures, tables, graphs and a list of used literature.

## **SUMMARY OF THE RESEARCH WORK**

In the introductory part of the thesis, the relevance of the topic is justified, the goals and objectives of the research, methods are characterized, the main propositions defended are explained, the scientific innovations, theoretical-practical significance and approval of the work are reflected.

In the first chapter of the dissertation titled “**The Theoretical and Methodological Foundations of the Formation and Evaluation of Financial Potential**”, scientific and theoretical views on the formation of financial potential, approaches to the methodology of evaluating financial potential, and issues related to financial potential and its management as the foundation of economic development are discussed.

In conditions of high uncertainty observed with the deepening of the globalization process, the main element of the process of development of economic systems is directly related to the development and implementation of effective economic strategies. The formation of an economic development strategy creates favorable conditions for achieving set goals, including reducing the operational risks of areas and specific entities, forecasting the prospects of external influences, assessing internal potential and resource capabilities, ensuring their effective use, coordinating all elements and means of economic management. One of the main goals in developing such a strategy is to ensure the long-term competitiveness of the economic system. In modern conditions, the leading role in ensuring competitiveness belongs to the activities of economic entities, based on the coordination of their resources and the implementation of coordinated activities. In the economic sphere, systems accompanied

by such mutual activity are defined as integrated economic systems.

In general, it is impossible to talk about the socio-economic development of the country without ensuring the balanced development of various spheres of the economy. Creating an efficient economic and institutional environment based on the formation of industry, agriculture, transport, housing-communal and other infrastructures, developing social areas that provide favorable conditions for improving the living conditions of the population, and ensuring balance in socio-economic development are considered priorities of the general economic strategy. The implementation of the mentioned measures depends primarily on the possibility of creating financial resources or attracting financial resources to this process. The formation of competitive advantages at various stages of economic processes requires a large amount of financial resources and implies the formation of an effective financial strategy.

Globalization and integration processes of the economy increase the importance of the problems of formation and use of financial resources to rise competitive advantages in various economic processes. Financial potential is the basis of the mechanism of formation of financial resources. The use of this concept in theory and practice makes it possible to determine the financial capabilities of various spheres of the economy and compare financial resources, to evaluate the effectiveness of finance, to reveal the financial security of production areas, to assess financial security, and to determine the direction of structural changes in the economy.

Financial potential is understood as a system of relations reflecting the processes of formation and use of monetary income, savings and funds during the circulation of resources of economic subjects. Financial potential is associated with the activity of funds resulting from the flow and movement of cash. In connection with the formation of market relations, the importance of economic and legal responsibility of economic spheres and specific subjects, as well as financial stability, has increased significantly. Because the financial potential, determining the role of sectors in the national economy, becomes the main factor of competitiveness.

In the current market conditions, financial potential is one of the

fundamental factors of ensuring financial stability and effective development. The basis of the formation of financial stability is the financial situation, which is the most important feature of economic activity. The financial situation provides a basis for drawing general conclusions about competitiveness, level of income, financial stability, investment opportunities, as well as the current and future dynamics of economic development. In turn, what has been shown creates a basis for evaluating the current state of financial potential and development prospects.

Financial potential and efficient use of financial resources is one of the main conditions of financial stability. In general, the development of the economy as a whole, including individual spheres, is impossible without a proper financial policy. This manifests itself initially in the activation of investment activities, as well as in the formation of the innovation base based on investments. As a result, the basis for the improvement of the financial situation, the increase of activity and competitiveness related to the application of technological innovations is created, and a stable environment for economic activity is formed.

It should be noted that financial potential has a significant impact on both the activity of a specific economic entity and the overall economy of the country. This factor is crucial for ensuring the economic security of the country and sectors, and it covers the following issues: the ability of the economic sphere or entity to generate sufficient financial resources; the level of development of the financial and banking system; the effectiveness of the activities of government bodies; coordination of the goals and interests of the state, sectors, and entities; and the ability to respond flexibly to threats, emerging dangers, and risks for socio-economic development, among others. In addition, financial potential encompasses the necessary information system for the implementation of socio-economic development in the spheres of the economy. Thus, the formation and efficient use of financial potential integrate the essential aspects of financial policy implemented at all levels of the economy.

In the second chapter titled **“The Development Level of the National Economy: Evaluation of the Level of Financial Potential and Its Utilization”**, an analysis of the main macroeconomic

indicators of the national economy is conducted, the current state of the economy's financial potential is assessed, and the opportunities for increasing financial potential are evaluated.

The level of development of the country's economy combines components and criteria for the development of different areas, reflecting general trends of change in different directions. In modern conditions, achieving high rates of economic development is considered one of the priorities of economic policy. The state of the national economy determines the long-term development of society. Ensuring economic development is aimed, first of all, at creating a more advanced economic structure, stability in production areas and improving the well-being of the people. It is economic development that creates a reliable basis for the long term from a socio-economic point of view.

Research shows that economic development gives priority to the application of new technologies in terms of solving equilibrium problems and achieving potential growth. Since scientific and technological progress includes the introduction of major technological innovations based on investment, the pace of economic development is dependent on human capital and the speed of technological innovation. This means that economic development presupposes a quantitative and qualitative increase in the results of the use of production resources over a certain period. It should be noted that in the conditions of modern global competition, the economic growth of the state is directly related to the creation of innovations, and the implementation of this process is based on a developed innovation infrastructure. From this point of view, innovation policy, which provides for government incentive measures and the intervention of various structures in scientific and technical research activities, becomes particularly relevant. When determining the priority tasks of economic development in modern conditions, the identification of factors of economic development that reflect the most important patterns and relationships of this process, and indicators characterizing the level of economic development, becomes of particular importance.

One of the key macroeconomic indicators of economic

development is the growth of Gross Domestic Product (GDP). Based on this indicator, the growth rate and level of the national economy are determined, and the efficiency of the economy is analyzed. The growth of GDP is expressed through improvements in the standard of living, increased employment, and higher consumption. GDP also holds particular importance for international statistical activities and the analysis of the country's economic development. In this regard, the analysis of Gross Domestic Product in the Republic of Azerbaijan shows that a dynamic growth occurred from 2018 to 2022. Specifically, compared to 2018, in 2022, GDP grew by 67.1%, in dollar terms by 67.1%, and in euros by 87.3%. A similar situation is observed in GDP per capita. During the period of research, this indicator increased by 62.5%, by 60.7% in dollars, and by 82.2% in euros. Only in 2020, due to the impact of the Covid-19 pandemic, a decrease of 11.4% in GDP per capita was recorded compared to the previous year (Table 1).

**Table 1**

**Gross domestic product of the Republic of Azerbaijan - in manats, dollars and euros**

| Years                          | Total          |                 |               | Per capita |            |          |
|--------------------------------|----------------|-----------------|---------------|------------|------------|----------|
|                                | Million manats | Million dollars | Million euros | In manats  | In dollars | In euros |
| 2018                           | 80092,0        | 47112,9         | 39858,7       | 8156,2     | 4797,8     | 4059,0   |
| 2019                           | 81896,2        | 48174,2         | 43019,5       | 8268,8     | 4864,0     | 4343,5   |
| 2020                           | 72578,1        | 42693,0         | 37407,5       | 7277,4     | 4280,8     | 3750,9   |
| 2021                           | 93203,2        | 54825,4         | 46312,1       | 9278,9     | 5458,2     | 4610,6   |
| 2022                           | 133825,8       | 78721,1         | 74642,1       | 13256,3    | 7707,8     | 7393,8   |
| In 2022 compared to 2018, in % | 167,1          | 167,1           | 187,3         | 162,5      | 160,7      | 182,2    |

*Source: Table prepared by the author based on data from [https://www.stat.gov.az/source/system\\_nat\\_accounts/](https://www.stat.gov.az/source/system_nat_accounts/).*

The leading role in ensuring the competitiveness of various sectors of the economy belongs to enterprises and organizations that carry out coordinated activities based on the efficient use of economic resources. The formation and development of competitive advantages

at different stages of the value chain requires appropriate resource and financial support, as well as the development of an effective financial strategy. The purpose of the financial strategy is to develop and implement specific measures within selected areas of the system to improve the financial parameters of the economic system.

The main source of the state budget's revenues is taxes and non-tax revenues, as well as funds from extra-budgetary sources. It is evident that one of the important indicators of the financial potential of the economy is the state budget's revenues. The financing of various sectors by the state, including the application of subsidies for stimulation purposes, is carried out with these budget revenues. It is known that the state budget's revenues are mainly formed through taxes. Research shows that, compared to 2018, in 2022, the state budget's revenues significantly increased by 29.7%. Specifically, the income tax of individuals increased by 49.1%, the corporate profit (income) tax increased by 2.1 times, property tax increased by 29.6%, value-added tax increased by 33.4%, excise duties increased by 75.2%, mining tax increased by 3.4%, and other revenues increased by 16.3 times. Only land tax decreased by 9.1%. In the structure of the state budget's expenditures, compared to 2018, a decrease in expenditures directed towards the economy was observed in 2022, while an increase was recorded in other areas (Table 2).

Studies show that it is important to analyze the quantitative and qualitative indicators that characterize the financial potential of the economic system both in the current period and in the future in the assessment of financial potential. Accordingly, the indicators used in the comparative assessment of financial potential should be associated with the characteristics of financial activity. In this regard, there is a need to analyze the dynamics of the accumulation of financial assets, which are important indicators characterizing the financial potential.

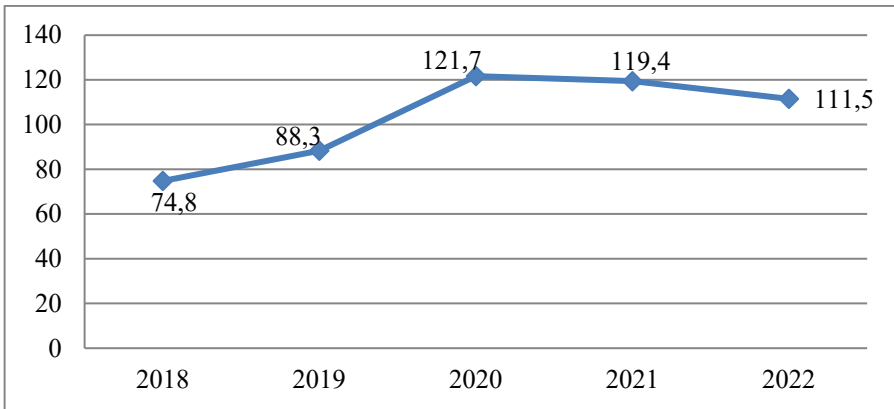
Looking at the index of net accumulation of financial assets, it becomes clear that over the past 2018-2022 changes have occurred in different directions. So, except for 2018-2019, growth was recorded in other years. The growth rate of the financial asset accumulation index was 21.7% in 2020, 19.4% in 2021 and 11.5% in 2022 (Chart 1).

**Table 2**

**Income and expenses of the state budget, million manats**

| Indicators                                                                                    | 2018    | 2019    | 2020      | 2021     | 2022      | In 2022 compared to 2018, in % |
|-----------------------------------------------------------------------------------------------|---------|---------|-----------|----------|-----------|--------------------------------|
| <b>Total profit</b>                                                                           | 22508,9 | 24218,1 | 24 124, 0 | 25 427,0 | 29 197, 8 | 129,7                          |
| Personal income tax                                                                           | 995,9   | 952,1   | 1 130,0   | 1 150,0  | 1 485,0   | 149,1                          |
| Tax on profit (income) of legal entities                                                      | 2499,7  | 2546,0  | 2 267,7   | 2 144,0  | 5 290 ,0  | 2,1 dəfə                       |
| Land tax                                                                                      | 50,6    | 50,0    | 40,0      | 186,0    | 46 ,0     | 90,9                           |
| Property tax                                                                                  | 182,2   | 212,6   | 186,0     | 211,0    | 236 ,1    | 129,6                          |
| Value added tax                                                                               | 4287,6  | 5185,1  | 4 598,4   | 4710,0   | 5 718,7   | 133,4                          |
| Excise tax                                                                                    | 728,6   | 854,7   | 936,4     | 1 059,0  | 1 276,8   | 175,2                          |
| Mineral extraction tax                                                                        | 137,4   | 133,8   | 129,5     | 138,0    | 142, 02   | 103,4                          |
| Other entrances                                                                               | 11,9    | 12,6    | 86,8      | 65, 4    | 193,7     | 16,3 times                     |
| <b>Total costs</b>                                                                            | 22731,6 | 24425,9 | 27 492,2  | 28 543,0 | 32 303,8  | 142,1                          |
| To the economy                                                                                | 7822,7  | 7961,5  | 5 832, 8  | 5 947,4  | 7 067,9   | 90,4                           |
| Education                                                                                     | 1966,6  | 2195,7  | 3 034,7   | 3 277,6  | 3 886,6   | 197,6                          |
| Healthcare                                                                                    | 709,9   | 873,6   | 1 716,5   | 1 378,6  | 1 708,7   | 2,4 times                      |
| Social protection and social security                                                         | 2150,7  | 2281,0  | 3 237,0   | 3 692,7  | 3 728,5   | 173,4                          |
| Activities in the field of culture, art, information, physical education and other categories | 299,5   | 335,8   | 426,0     | 418,1    | 463,1     | 154,6                          |
| the science                                                                                   | 117,8   | 122,3   | 187,3     | 151,8    | 204,9     | 173,9                          |
| Judicial power, law enforcement agencies and prosecutor's office                              | 1316,4  | 1505,1  | 1 936,7   | 2 092,8  | 2 482,2   | 188,6                          |
| content of legislative and executive power, local government bodies                           | 627,4   | 774,5   | 1 051,8   | 1 062,4  | 1 481,8   | 2,4 times                      |

Source: Table was prepared by the author based on data from <https://www.stat.gov.az/source/finance/>.



**Chart 1. Index of accumulation of net financial assets.**

The above indicates that the analysis of financial potential allows for determining the current state of the economy and its sectors, while also enabling the identification of the state's economic priorities for the near and long-term perspectives, including ensuring the efficiency of financial resource management. Thus, there are various methods for analyzing and evaluating financial potential, which, in accordance with economic realities, require identifying new priorities to improve the quality of outcomes.

In the analysis of financial potential, evaluating the use of investment resources is of particular importance. Investments encompass capital investments and measures aimed at improving the efficiency of the production and economic activities of entities in order to achieve economic results. Investment activity has several specific characteristics: differences in capital investments and results obtained; the availability of alternative investment options; the necessity of financial resources; and the impossibility of limiting investment activities within the enterprise framework, among others.

In general, the most important condition for the sustainable development of the economy, its sectors and sectors in a market economy is investment activity. The dynamics of investment in the economy shows that although in 2018-2022 there was an increase in total investment by 12.6%, in dollar terms this growth is also 12.6%.



During the corresponding period, foreign investment increased by 6.3%. There is a significant increase in domestic investment: 20.% in manat, 20.1% in dollar terms (Table 3).

**Table 3**

**Investments directed to the economy**

| Investments           | 2018    | 2019    | 2020    | 2021    | 2022    | In 2022 compared to 2018, in % |
|-----------------------|---------|---------|---------|---------|---------|--------------------------------|
| Total: million manats | 25877,0 | 24986,6 | 22484,0 | 25313,8 | 29135,1 | 112,6                          |
| million dollars       | 15221,7 | 14698,0 | 13225,9 | 14890,4 | 17138,3 | 112,6                          |
| Foreign investments:  |         |         |         |         |         |                                |
| million manats        | 14002,1 | 12119,5 | 10413,2 | 12751,9 | 14879,3 | 106,3                          |
| million dollars       | 8236,5  | 7129,1  | 6125,4  | 7501,1  | 8752,5  | 106,3                          |
| Domestic investments: |         |         |         |         |         |                                |
| million manats        | 11874,9 | 12867,1 | 12070,8 | 12561,9 | 14255,8 | 120,0                          |
| million dollars       | 6985,2  | 7568,9  | 7100,5  | 7389,3  | 8385,8  | 120,1                          |

*Source: Table was prepared by the author based on data from <https://www.stat.gov.az/source/finance/>.*

As it appears, the role of domestic investments is more significant in the formation of the financial potential of the economy. One of the main reasons for foreign investments is, first and foremost, the fluctuations in the international financial sphere and the impacts of the pandemic.

Increasing the financial potential of the economy requires the search for directions and ways to increase investment. In general, financial potential is based on determining the investment opportunities of the sectors and entities of the economy, as well as the development level of the financial infrastructure. This allows for observing changes in individual structural elements, as well as trends in the development dynamics of the sectors' financial potential. As a result, it becomes possible to make decisions on the formation, more efficient use, and management of financial potential.

Currently, ensuring the effective formation, functioning and

improvement of the innovative component of economic development is based on the general principles of its management. This, in turn, determines the effectiveness of innovation policy, the efficiency of using resources to achieve set goals, and the quality of management decisions in accordance with the principles of financial and economic development. It should be noted that the study and assessment of financial and economic potential through models with a high level of sensitivity makes it possible to identify resources to improve the efficiency of its activities and regulate innovative areas of development of subjects. From this point of view, the goal of increasing financial capacity is to ensure sustainable development of the economy as a whole through the continuation of targeted economic activities.

The third chapter is dedicated to "**Directions for improving the use of financial potential and increasing its efficiency**". This chapter reflects the perspectives of planning and forecasting the use of financial potential, improving the management of financial potential, and increasing the efficiency of using financial potential.

Planning and forecasting the use of financial potential is considered as one of the main elements of the financial mechanism and is considered an integral part of socio-economic planning. Planning and forecasting are aimed at achieving sustainable economic development and balancing the activities of all spheres of the economy, ensuring high rates of production growth and social protection of the population. The effectiveness of the financial mechanism and its active influence on social processes depend, first of all, on modeling the movement of financial resources, the formation and distribution of funds at all levels of management. This process requires the creation of a system of mutual coordination of financial indicators in determining the sequence of cash inflows.

The efficiency of indicators characterizing the use of financial potential is mainly achieved through financial planning and forecasting. In practice, the financial forecast is prepared before planning, it determines the possibilities of managing the movement of financial resources at the macro and micro levels. Using financial planning, forecasts are clarified, the sequence of implementation of

specific tasks is determined. Financial planning can be characterized as a process aimed at the preparation of financial tasks and their implementation in the intended period.

The socio-economic development of the country, including the effective functioning of various sectors and economic entities, largely depends on the availability of financial potential, the efficiency of its use and effective management. An increase in income can be achieved through sufficient financial security of territories engaged in one or another type of economic activity, the correct choice of methods and sources of mobilizing financial resources, and determining the most optimal areas for their use.

Research shows that in order to form a high-quality and effective mechanism for managing financial resources, it is necessary to adhere to the principle of consistency, which is of particular relevance. The level of financial potential and conditions of financial markets expand or limit the ability of subjects to generate sufficient financial resources. All this determines the need to develop a policy for the effective management of financial resources as one of the most important elements of the strategy for the activity and development of an economic entity.

Thus, the mechanism for managing the financial resources of enterprises is based on financial methods related to the efficient use of financial resources, as well as the organizational forms of financial relations between enterprises and other economic entities. Naturally, the overall operations of enterprises, their financial stability, and development prospects mainly depend on the effectiveness of managing the financial mechanism. Therefore, it is important to develop a system of indicators to ensure the efficiency of the financial mechanism and to evaluate them systematically in order to improve the effectiveness of financial resource management.

In addition to the availability of financial resources, ensuring the efficient use of financial potential is considered one of the most important issues in both macro- and microeconomics. By increasing the efficiency of using financial potential, the possibilities for strengthening production potential, as well as financing areas of economic activity, increase. The effective use of financial potential is

understood as the relationship between the resources expended and the results achieved over the corresponding period.

From the above, it is clear that the problem of efficient use of financial resources is one of the most important issues for both the state and business entities. The effective development of various sectors of the economy and society as a whole directly depends on the involvement of financial resources and their effective use by subjects. In this regard, the efficient use of financial resources plays a fundamental role in increasing production potential, as well as financing of certain areas of activity.

Thus, financial incentives are a policy of implementing economic laws and effectively using financial potential; it creates conditions for increasing the base for the distribution of financial resources and ensures their redistribution.

## **CONCLUSION**

Research in the direction of formation of financial potential, identification of existing problems using its assessment tools, planning and forecasting of the use of financial potential, improvement of management, determination of prospects for increasing the efficiency of the use of financial potential allows to summarize a number of results. So, based on research, it can be noted that the presence of different theoretical approaches to determining the elements of financial potential makes it impossible to specify the possibilities of its formation and development. In a broad sense, financial potential can be defined as a set of possible financial resources and conditions for their attraction for the purpose of formation, distribution and collection of financial resources of the state's financial sector, economic sectors and entities. Currently, among all elements of economic potential, financial potential is one of the most important. Components such as budget and tax, credit institutions, enterprises and organizations, and investment funds can be distinguished as elements of financial potential.

Based on research, it can be noted that when developing an economic development strategy, it is important to consider its financial

potential. At the same time, taking into account the changes occurring in the external and internal environment, it is important to prepare a mechanism for assessing and managing financial potential, implement planning and forecasting, and determine the prospects for the development of financial relations, including opportunities for more efficient use of financial potential and the improvement of efficiency.

Based on the above, the prospects of improving the use of financial potential and increasing its efficiency by using financial potential assessment tools, the measures that are important to consider and implement in this direction can be summarized as follows:

1. Since financial potential is based on market and economic potential, it is important to define its objectives at both micro and macro levels. Market potential, as a part of economic potential, operates in a competitive environment that develops during the formation and use of various elements. Financial potential is based on the interrelationships between subjects. Therefore, it is crucial to group the factors influencing the formation of financial potential into key factors that determine the potential development of both the sectors of the economy and the entities involved, such as production capacities, demographic and ecological factors, management, external influences, financial flow management, and so on.

2. Evaluation of financial potential in terms of added value creation and selection of alternative methods in this regard increases its role and importance in sustainable economic development. Therefore, the consideration of quantitative and qualitative characteristics, which depend on each other, is one of the main conditions in the assessment of financial potential.

3. In order to increase the financial potential, it can be noted that there is a need for institutional changes at all levels in the financial sector. In particular, the state of regulation of the financial market, which has a negative impact on the financial and banking sector, and at the same time increases the disproportionality in the development of individual areas of the economy, necessitates the formation of new approaches to this area. The feasibility of more effective regulatory measures is related not only to positive results in individual countries, but also to the transition to similar practice at the international

regulatory level. Regulation of the financial-banking sector requires the improvement of financial relations through the expansion of fixed incomes and the stimulation of economic interests. This may allow the coordination of measures in the financial and banking sector with general economic priorities, as well as the harmonization of financial regulation. Ensuring access to credit resources is also based on the improvement of legislation in the field of financial and banking sector regulation.

4. The development of budget relations, the banking sector and the financial market can ensure the formation of financial potential and increase the efficiency of its use by attracting funds to various spheres of the economy and activities of subjects. However, the implementation of measures in this direction requires the improvement of state policy, including the differentiation of the financial component of economic policy, reforms in the mechanism of determining tax rates, and changes in regulatory approaches. Changes in the tax system with the introduction of incentives to less profitable and less financially viable sectors can provide effective results.

5. Since financial potential includes the relationship between liquidity, solvency and financial stability, their combination creates the need to implement a balanced financial strategy aimed at long-term activity. From this point of view, for the evaluation of the policy of formation of financial potential, the following issues can be considered important: establishing the relationship between added value and financial potential; selection of the base of indicators affecting financial potential; determination of resources for improving financial potential based on a comparative assessment of the achieved results.

6. It is necessary to formulate a strategy for effective use of financial potential in accordance with the following interconnected stages: determination of external and internal factors affecting the state of financial potential; selection of methods, methods, means of formation of financial potential; determination of the characteristics of the formation of financial potential based on a comprehensive assessment; setting goals and making alternative strategic financial decisions; organization of execution of decisions; control and evaluation of the effectiveness of the results; determination of strategic

development directions based on the evaluation results; forecasting financial opportunities that provide strategic development paths; determining directions for the formation of sources of financial potential, taking into account financial opportunities and prospects.

7. The interaction of all components of the financial resources management system is the basis for establishing organizational relationships in the financial system. In this regard, the selection of modern models of financial mechanism management depends significantly on the management of the production process chain, internal and external factors affecting it. The efficiency of financial resources management affects its management mechanism and the financial control system built according to this mechanism. Therefore, in the process of improving the management of financial resources, a comprehensive approach to the evaluation of the financial system is necessary.

8. The problem of the efficiency of the use of financial resources is considered an important issue for both the state and economic entities, and the efficiency of the use of financial resources plays a serious role in increasing the production potential, as well as in increasing the financing of these or other areas of activity. From this point of view, financial stimulation as a whole involves the analysis of the factors of efficient use of economic resources and the implementation of the set goals, and it is appropriate to implement them in the following ways: rational use of financial resources; formation of incentive funds; use of financial incentives.

**The following articles and theses of the author have been published on the topic of the dissertation work:**

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