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**EVALUATION OF THE CULTURAL SPHERE BUDGETARY FINANCING  
AT THE SUBNATIONAL LEVEL IN THE CONTEXT  
OF SUSTAINABLE DEVELOPMENT IN UKRAINE**

**Abstract.** Given the reform of state policy in the field of culture and the implementation of sustainable development strategy in Ukraine, there is a need to analyse the state of budgetary providing in this area in the regional context. The purpose is to determine the peculiarities of state budgeting of the cultural sphere at subnational level and to substantiate practical recommendations for improving its financing in the context of implementing the strategy of sustainable development of the Ukrainian economy. Such scientific and methodological tools as induction and deduction, comparison, synthesis, factor analysis by the method of principal components and econometric modelling are used. In 2003—2018, the tendencies of changes of local budgets expenditures on the sphere of culture in Ukraine are estimated. The author has determined that the dynamics of local budget expenditures on culture and art was fluctuating, but due to the implementation of the strategy of sustainable development «Ukraine — 2020» recorded weak positive changes in approaches to budgetary providing in this sphere at the regional level. A comparative analysis of the state of this sphere financing from local budgets in Ukraine and EU countries was carried out, it is identified that in our country the expenditures of local budgets on this sphere are lower than in these countries. The following scientific approach to the assessment of trends in budget funding for cultural sphere at the subnational level is proposed: specification of the main factors influencing the amount of local budget expenditures on culture and art by region; carrying out factor analysis by the method of principal components for structuring factors and their ranking by regions; finding a sample regression function to determine the peculiarities of the influence of the studied factors on the expenditures of local budgets on culture and art in the regions of Ukraine. It is substantiated that the improvement of budgetary financing of cultural sphere of Ukraine at the subnational level is based on a clear definition of approaches to the allocation of budgetary resources to this sphere, related to strengthening the fiscal capacity of local budgets, measures concerning stimulation of business activity and improvement of socio-demographic situation.

**Keywords:** cultural sphere, local budgets, subnational level, budgetary financing, sustainable development, factor analysis.

**JEL Classification** C10, H72, O18, Z10

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**ОЦІНКА БЮДЖЕТНОГО ФІНАНСУВАННЯ СФЕРИ КУЛЬТУРИ УКРАЇНИ  
НА СУБНАЦІОНАЛЬНОМУ РІВНІ В КОНТЕКСТІ СТАЛОГО РОЗВИТКУ**

**Анотація.** З огляду на реформування державної політики у сфері культури і реалізацію стратегії сталого розвитку в Україні виникає потреба проаналізувати стан бюджетного забезпечення цієї сфери в регіональному розрізі. Метою є визначення особливостей державного бюджетування сфери культури на субнаціональному рівні та обґрунтування практичних рекомендацій з поліпшення її фінансування в умовах реалізації

стратегії сталого розвитку економіки України. Застосовано такий науково-методологічний інструментарій, як індукція і дедукція, порівняння, синтез, факторний аналіз методом головних компонент та економетричне моделювання. Оцінено тенденції змін видатків місцевих бюджетів на сферу культури в Україні у 2003—2018 рр. Визначено, що динаміка видатків місцевих бюджетів на культуру і мистецтво мала флуктуаційний характер, але завдяки реалізації стратегії сталого розвитку «Україна — 2020» фіксували слабкі позитивні зміни в підходах до бюджетного забезпечення цієї сфери на рівні регіонів. Здійснено порівняльний аналіз стану фінансування цієї сфери з місцевих бюджетів в Україні та країнах ЄС, встановлено, що в нашій країні видатки місцевих бюджетів на цю сферу є нижчими, ніж у цих країнах. Запропоновано такий науковий підхід до оцінювання тенденцій бюджетного фінансування сфери культури на субнаціональному рівні: специфікація головних чинників, які впливають на обсяг видатків місцевих бюджетів на культуру і мистецтво за регіонами; проведення факторного аналізу методом головних компонент для структурування факторів та їхнього ранжування в розрізі регіонів; побудова багатофакторної економетричної моделі для визначення особливостей впливу досліджуваних факторів на видатки місцевих бюджетів на культуру і мистецтво в регіонах України. Обґрунтовано, що вдосконалення бюджетного фінансування сфери культури України на субнаціональному рівні ґрунтується на чіткому окресленні підходів до розподілу бюджетних ресурсів на цю сферу, пов'язане з посиленням фіскальної спроможності місцевих бюджетів, заходами, спрямованими на стимулювання ділової активності та поліпшення соціально-демографічної ситуації.

**Ключові слова:** сфера культури, місцеві бюджети, субнаціональний рівень, бюджетне фінансування, сталий розвиток, факторний аналіз.

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**Introduction.** One of the components of the sustainable economic development strategy of Ukraine is the reform of the state policy in the cultural sphere (CS). The implementation of a set of measures in this direction involves modification of the current model of budgetary financing of cultural activities at the national and subnational levels. In view of this, there is a need to evaluate the budgeting situation of the CS in a regional context and identify its peculiarities in the context of modern requirements that arose in connection with the realization of the sustainable development strategy of the Ukrainian economy. This involves the formation of scientific and methodological approaches to assessing the budgetary financing of the CS at the subnational level from the point of view of changing the imperative of Ukraine's development.

**Literature review and the problem statement.** The special theory-methodological and practical problems concerning to the character of the CS governmental budgeting have investigated by the cohort of Ukrainian and foreign scientists-economists. Peculiarities of financing regional cultural programs from the point of view of investing were identified by O. Golovchenko and M. Golovchenko [1, p. 110—115]; the main regularities of the development of financial relations in the CS were determined by I. Molchanov [2, p. 122—130]; the budgetary financing situation in the context of the development of social infrastructure of Ukraine was analysed by V. Novikov [3, p. 57—65]; institutional principles of financial providing for the CS taking into account intergovernmental were worked out by Yu. Petrusenko [4, p. 4—6]; conditions of reforming the existing model of the CS financial providing were characterized by V. Tropina [5, p. 219—221]; the typology of financing the CS in foreign countries was carried out by M. Chizhikov [6, p. 90—91].

Due to the improvement of the state regulation for the CS development in the region O. Yevseyeva has formed theoretical and methodological approaches to the development of socio-cultural partnership [7, p. 24—27]; in terms of strengthening the influence of the socio-humanitarian sphere on ensuring the implementation of the sustainable development strategy V. Kutsenko has substantiated the scientific principles of its modernization [8, p. 90—91]; V. Muzychuk has structured the modernization potential of this sphere in order to increase the effectiveness of the mechanisms of the CS state financing [9, p. 195—247]; B. Sorochkin and A. Rubinstein have determined factors of enhancing the cultural activities [10, p. 19—20, 35—38];

K. Nabuko has specified the main directions of the decentralization as a significant component of cultural policy [11, p. 120—134].

In EU countries, from the standpoint of sustainable development, they form effective financial instruments to stimulate cultural activities, which involve direct and indirect state support of this sphere, decentralization of cultural policy measures [12, p. 3, 9, 14—27]. Innovative is the fact that the peculiarities of the CS financing on systemic principles began to be represented in European statistics [13]. From the theoretical and methodological point of view D. Trosby raised the question of the role and place of cultural capital in ensuring sustainable development [14]. Available researches of the CS financing on macro- and regional levels, the institutioning of national models of cultural policy undoubtedly have the scientific value. However, it is appropriate to step up scientific investigations aimed at developing a comprehensive approach to the disclosure of specific budgetary support of the CS of Ukraine in the regional context in view of the sustainable development strategy.

**The purpose** is to determine the peculiarities of governmental budgeting of the CS at the subnational level and to ground practical recommendations for improving its financing in the context of implementing the sustainable development strategy of the Ukrainian economy. To do this, we use the following scientific methodological approach: we evaluate the dynamics of changes in the expenditures of local budgets (LB) on culture and arts (C&A), structure the factors that influence on the subnational budgeting of this sphere, by factor analysis and factor ranking, the determination of correlation-regressive dependencies.

**Research results.** In 2003—2018, the budgetary financing of the C&A of Ukraine at the subnational level showed mixed ambiguity (*Tabl. 1*). In 2003—2013, in the allocation of the consolidated budget (CB) on the cultural and physical development there was the trend to greater fiscal decentralization, which caused the transfer from the national to subnational level of assignment for this sphere, in 2014—2015 — a weak reverse trend, in 2016—2018 — resumption of the fiscal decentralization process in the CS. The fact that in 2003—2018 there is a wavelike increase in the share of the LB expenditures on the C&A in the structure of the CB and LB expenditures. In the period under review, the LB expenditures on the C&A are increased per capita. Moreover, an increase in the corresponding volumes of the LB expenditures is faster than the growth of the CPI (except for 2009, 2014—2015).

If by 2014 the share of the LB expenditures on the C&A in GDP was gradually increased, then in 2015—2016 it was reduced and fixed at 0.48 % of GDP, in 2017—2018 it was built up. This indicates that the CS is sensitive to the current socio-economic situation in Ukraine, as the elasticity of the LB expenditures on the C&A mainly exceeds 1.0. In the years of the deployment of crisis phenomena in the national economy, this causes tensions in allocating the budgetary expenditures at the subnational level to this sphere. The dynamics of the change index in the structure of the LB expenditures on the C&A in 2003—2018 has a sinusoidal character, which makes it possible to consider such a trend as evidence of the unreliability of approaches to the formation of cultural policy measures in the context of regions.

From the point of view of the sustainable development strategy, this points to the blurriness of priorities, principles and directions of the national policy implementation in the CS at the subnational level.

However, in the medium term, it is appropriate to expect positive changes in the CS budgetary financing by the regions, due to the adoption of the national agenda («Long-term strategy for Ukrainian culture — reform strategy» [15]) and the participation in the «Creative Europe» programme [16]. It should be noted that in the EU countries from 2002 to 2018, the LB expenditures on cultural and physical development remain practically unchanged, on average they make up 0.6—0.7 % of GDP, while in Poland, accordingly, 0.8—1.1 % GDP [17].

Compared to Ukraine (*Tabl. 1*), they are higher, which testifies to the importance of the government support of this sphere at the regional level in the EU countries, the basis for which is the need to preserve the national cultural identity, cultural and historical values. If we take into account the possibility of adapting the experience of the EU budgetary financing of the CS at the

subnational level, it is important for Ukraine to ensure sustainability of approaches to allocation of the budgetary expenditures for cultural and physical development in terms of the state and regions, decentralized governing of the CS and clearly delineate local strategic objectives development of culture. Taking into account the practice of the EU countries and the sustainable development strategy for Ukraine, it is important to continue the reorientation of the CS budgetary financing to the subnational level in order to ensure positive changes in the socio-economic development of our country's regions.

Table 1

**Tendency of the local budgets expenditures on the culture and art in Ukraine\***

Indicator	2003	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	
CB expenditures allocation on cultural and physical development, % CB**	SB	30	31.2	37	36.9	32.1	35	36.9	38.6	44.8	35.6	40.2	37.4	35.2	32.5	34.9
	LB	70	68.8	63	63.1	67.9	65	63.1	61.4	55.2	64.4	59.8	62.6	64.8	67.5	65.1
LBE for C&A, % CB expenditures	1.37	1.43	1.3	1.31	1.4	1.45	1.5	1.70	1.67	1.65	1.69	1.74	1.78	2.30	2.32	
LBE for C&A, % LBE	3.21	3.46	3.23	3.12	3.34	3.76	3.94	3.81	3.75	4.01	4.13	3.35	3.26	3.31	3.31	
LBE for C&A, % GDP	0.44	0.42	0.45	0.45	0.49	0.56	0.58	0.53	0.57	0.58	0.59	0.48	0.48	0.55	0.53	
Elasticity of LBE for C&A to GDP	2.94	14.6	4.42	4.25	18.37	-0.68	5.65	1.79	105.57	AE***	-0.88	-0.14	8.69	14.88	4.35	
Growth rate of LBE for C&A, % to p.y.	131.4	139.4	132.3	133.6	142.3	110	123.2	109.3	121.1	105.7	105.8	101.4	120.9	137.7	114.8	
Surplus of the growth rate of LBE for C&A above CPI, % to p.y.	26.2	25.9	20.7	17.0	20.0	-2.3	14.0	4.7	21.3	5.2	-19.1	-41.9	8.5	24.0	5.0	
LBE for C&A, UAH per capita	22.9	39.6	52.7	70.8	101.2	111.8	138.3	151.6	183.9	194.9	218.2	222.1	269.6	387.9	448.0	
Structure changes Index of LBE for C&A	1.08	1.05	0.93	0.97	1.07	1.12	1.05	0.97	0.99	1.07	1.03	0.81	0.97	1.02	1.00	

\* Cumulatively on the local budgets.

\*\* Consolidated budget — CB; SB — state budget; LBE — local budget expenditures; C&A — culture and art; p.y. — previous year.

\*\*\* AE — absolute elasticity.

Source: calculated based on [18; 19].

To determine the impact of the socio-economic factors on the volume of the LB expenditures on the C&A by factor analysis means, we use the official statistics of Ukraine for 2018, for example:  $Y$  — the LB expenditures on the C&A by region, mln UAH;  $X_1$  — resident population by region, persons;  $X_2$  — gross regional product, mln UAH;  $X_3$  — the employed population of worked age by regions, thsd people;  $X_4$  — disposable population income by region, mln UAH;  $X_5$  — number of enterprises by regions, units;  $X_6$  — volume of products (goods, services) sold by the enterprises by region, mln UAH;  $X_7$  — volume of construction works accomplished by region, mln UAH;  $X_8$  — capital investments by region, mln UAH;  $X_9$  — tax revenues to the LB by region, mln UAH;  $X_{10}$  — deficit / surplus of the LB by regions, mln UAH;  $X_{11}$  — the LB revenues with intergovernmental transfers (IGT) by regions, mln UAH;  $X_{12}$  — the IGT by region, mln UAH;  $X_{13}$  — the LB revenues without IGT by regions, mln UAH. As a grouping variable we take  $y$ , variables of analysis —  $X_1$ — $X_{13}$ .

Further, we carry out the factor analysis using the principal component method to distinguish the types of factors that are important for them when allocating the LB expenditures on the C&A. Taking as a base the recommendations on formation of a «simple structure» of the factor solution and taking into account the main components not less than 90 % of the explained variation, we use the first four factors for analysis (99.1 % of total variation).

The eigen values of the correlation matrix for the first factor are 10.62; the second — 1.40; the third — 0.59; fourth — 0.26; cumulatively — 12.87. Every one of the variables  $X_1$ — $X_{13}$  is counted to one of the factors based on the definition of the maximum value taken by the modulus in the corresponding column of the factor coordinates matrix (Table 2). The first factor is the variables  $X_1$ — $X_{13}$ , which define the general conditions of the region socio-economic development and forming of the LB revenues.

Table 2

**The factor coordinates matrix of variables based on correlations\***

Indicator	X <sub>1</sub>	X <sub>2</sub>	X <sub>3</sub>	X <sub>4</sub>	X <sub>5</sub>	X <sub>6</sub>	X <sub>7</sub>	X <sub>8</sub>	X <sub>9</sub>	X <sub>10</sub>	X <sub>11</sub>	X <sub>12</sub>	X <sub>13</sub>
Factor 1	-0.734	-0.967	-0.900	-0.993	-0.934	-0.899	-0.965	-0.913	-0.993	0.652	-0.976	-0.742	-0.995
Factor 2	0.485	-0.234	0.332	-0.093	-0.343	-0.411	-0.133	-0.376	-0.017	-0.461	0.160	0.556	-0.027
Factor 3	-0.239	-0.045	0.258	-0.037	0.014	-0.124	0.143	-0.112	0.043	0.544	0.129	0.321	0.033
Factor 4	0.410	0.009	-0.006	0.025	-0.005	0.001	0.070	-0.026	-0.029	0.253	-0.059	-0.124	-0.025

\* Data for 2018.

Source: calculated based [18; 19].

This can be summarized as follows: the first factor relates to the existing socio-economic environment in terms of regions and the situation of the LB revenue part; the second, third and fourth factors — situational, accidental and unpredictable events. Moreover, the coordinate values for the variables belonging to the first factor are negative (except X<sub>10</sub>). This indicates the existence of an inverse relationship between the budgetary financing of the CS and the current socio-economic situation in the regions of the country, the existing redistributive intergovernmental relations, which to a certain extent confirms the tendencies to perceive this sphere as a secondary measure for regional policy. Taking into account the implementation of the sustainable development strategy, the improvement of the conditions of the CS budgeting in the context of the regions of Ukraine implies consideration of the influence of such factors as: demographic situation, employment and income level of the population, economic activity of business entities, fiscal capacity of the LB and the practice of financial resources redistribution through the IGT.

Our research interest is the definition of the first priority of impact factors on the LB expenditures on the C&A in the regions of Ukraine (Table 3).

Table 3

**The factors values matrix based on correlations and their ranks for Ukrainian regions\***

Region	Factor 1		Factor 2		Factor 3		Factor 4	
	V	R	V	R	V	R	V	R
Vinnitsya region	0.120	3	0.206	2	0.727	1	-0.021	4
Volyn region	0.616	1	-0.398	3	-0.111	4	-0.424	2
Dnipropetrovsk region	-1.885	2	2.011	1	0.057	4	-1.260	3
Donetsk region	-0.537	4	1.906	3	-2.819	1	2.237	2
Zhytomyr region	0.459	1	-0.110	4	0.172	3	-0.304	2
Zakarpattia region	0.574	1	-0.185	4	0.489	2	0.217	3
Zaporizhzhia region	-0.157	4	0.663	3	-1.172	2	-1.569	1
Ivano-Frankivsk region	0.385	2	0.127	4	0.553	1	-0.146	3
Kyiv region	-0.453	4	0.501	3	-1.001	2	-1.753	1
Kirovohrad region	0.663	2	-0.700	1	-0.174	4	-0.194	3
Luhansk region	0.778	3	-0.350	4	-1.392	2	2.381	1
Lviv region	-0.719	3	1.665	1	0.743	2	-0.594	4
Mykolaiv region	0.507	2	-0.581	1	-0.199	3	-0.017	4
Odesa region	-0.701	3	0.646	4	0.979	1	0.770	2
Poltava region	0.080	4	-0.394	2	0.874	1	0.321	3
Rivne region	0.531	2	-0.039	3	0.020	4	-0.544	1
Sumy region	0.547	1	-0.300	3	-0.273	4	-0.497	2
Ternopil region	0.667	1	-0.389	2	0.028	4	-0.197	3
Kharkiv region	-0.817	4	0.873	3	2.763	1	1.961	2
Kherson region	0.649	1	-0.567	2	-0.137	3	-0.062	4
Khmelnitskyi region	0.417	1	-0.068	4	0.073	3	-0.347	2
Cherkasy region	0.450	1	-0.382	3	0.450	2	0.090	4
Chernivtsi region	0.821	1	-0.685	2	0.038	4	0.082	3
Chernihiv region	0.611	1	-0.467	2	-0.111	4	-0.383	3
Kyiv city	-3.604	1	-2.985	2	-0.578	3	0.251	4

\* Data for 2018; V — value; R — rank.

Source: calculated based on [18; 19].

This process is iterative and involves ranking the regions by the influence power of each of the factors on the LB expenditures on the C&A (taken by modulus). According to this, we highlight

11 regions in which the first factor for the CS budgetary financing is of great importance; 4 regions for which the impact of the second factor is important; 6 regions, in which the third factor mainly manifests itself; 4 regions in which the fourth factor is dominant. Since the second, third and fourth factors determine situational, accidental and unpredictable events, 14 regions of Ukraine fall into the cumulative impact of this group of factors. This points to the weakness of the CS position in the regional policy system and the conjuncture of actions in determining the LB expenditures on the C&A, adversely affecting the implementation of the sustainable development strategy in Ukraine. Because it does not allow to ensure the integrity of the cultural environment and change the system of human values. Therefore, in view of the state policy reform in the CS, it is appropriate to create proper conditions for reducing the dependence of this sphere on the conjunctive measures action of the local authority. We believe that a change in approaches to shaping the priorities of the state policy in this sphere is just starting.

On the basis of the specific dependent variable  $Y$  and independent variables  $X_1—X_{13}$  we specify the types of factors that impact on the LB expenditures on the C&A using multiple regression analysis. To construct the multiple regression model, we apply a stepwise regressive method. Initially, we calculated the correlation coefficients of the factor characteristics  $X_1—X_{13}$  with the resulting variable  $Y$  and their ranking was made (Fig.). Then, at each stage, the sample regression function was constructed, a change in the coefficient of determination  $R^2$  was analysed, the partial  $F$ -criterion were calculated and compared with the determined critical value, depending on the inspection results, the explanatory variable is either left or removed from the model. As a result, we obtained such multiple regression model (Table 4). The model is adequate according to Fisher’s test [ $F_{cr}(4; 70; 0.95) = 2.45$ ] and statistically significant for the Student’s  $t$ -test ( $t_{cr}(0.05; 70) = 1.980$ ). In the specific function and there is no autocorrelation in the residuals ( $DW = 1.656$ ; 1 % critical value ( $k = 4, n - k - 1 = 70$ )  $d_1 = 1.343$ ;  $d_u = 1.578$ ;  $d_u \leq DW < 4 - d_u$ ).

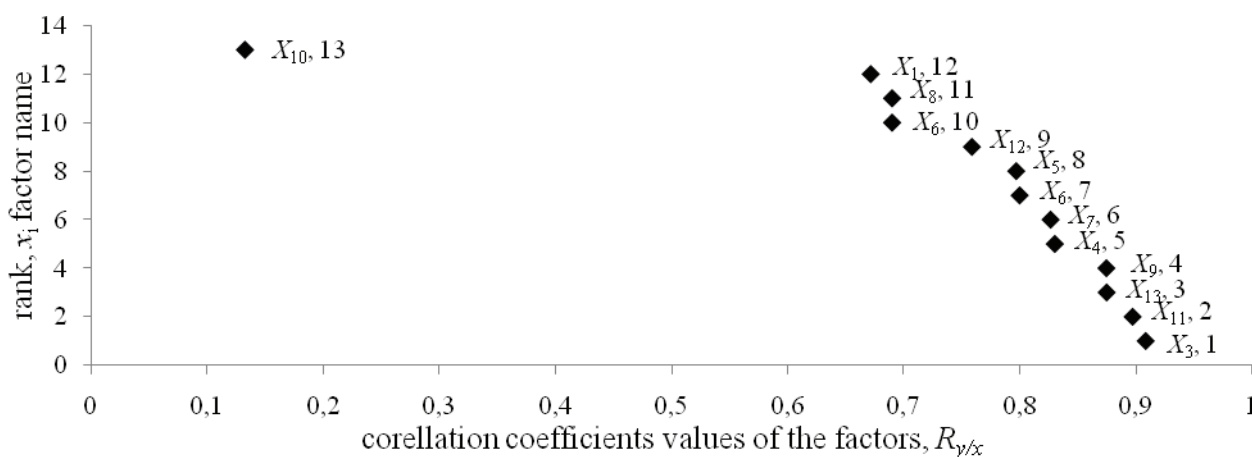


Fig. Ranks of correlation coefficients of the factors  $X_1—X_{13}$

Source: calculated based on [18; 19].

With a probability of 91.48 % (Table 4), the change in LB expenditures on the C&A by region of Ukraine ( $Y$ , mln UAH) can be explained by changes in the number of resident population by region ( $X_1$ ), the amount of disposable population income by region disposable income by region ( $X_4$ ), the number of enterprises by region ( $X_5$ ); the volume of the IGT by region ( $X_{12}$ ). It is possible to economically interpret the multiple regression model as follows: when the resident population by region grow for 1.000 people, the average LB expenditures on the C&A by region will increase by 0.093 mln UAH; as the disposable population income grows up for 1 mln UAH, the average amount of the LB expenditures on the C&A will reduced to 0.0055 mln UAH; an increase in the number of enterprises by 1 unit will lead to an average increase in the LB expenditures on the C&A by 0.0271 mln UAH; if the volume of the IGT by region build up for 1 mln UAH, the average amount of the LB expenditures on the C&A will increase by 0.0532 mln UAH.

Table 4

**The sample regression function and reporting regression results**

Variables	Intercept and slope parameters	Standard error*	t-statistic	Confidence interval, 95 %		
				Low-level	Low-level	
Y- meet	-88.5290	31.7889	-2.7849	-151.4709	-25.5870	
variable $X_1$	0.000093	0.000016	5.8116	0.000061	0.000124	
variable $X_4$	-0.0055	0.0007	-7.5571	-0.0070	-0.0041	
variable $X_5$	0.0271	0.0025	10.6382	0.0221	0.0322	
variable $X_{12}$	0.0532	0.0043	12.2970	0.0446	0.0618	
Regression statistics			Analysis of variance			
R	0.9112		df	SS	MS	F
R <sup>2</sup>	0.9148	Regression	4	4468889	1117222	187.9453
Normalized R <sup>2</sup>	0.9869	Residue	70	416108	5944	
Standard error**	77.0999	Total	74	4884997		

\* The slope parameters and intercept;

\*\* The regression.

Source: calculated based on [18; 19].

**Conclusions.** So, from the standpoint of the sustainable development, the situation of the CS budgetary financing of Ukraine at the subnational level indicates the uncertainty of the priorities in the national policy reform in this sphere. It is appropriate to use the following scientific approach to evaluate trends in budgetary funding for the CS at the subnational level: to specify the major factors that affect the amount of LB expenditures on the C&A by region; to carry out factor analysis by the method of principal components for structuring factors and their ranking by region; to identify a sample regression function in order to determine the peculiarities of the impact of defined factors on LB expenditures on the C&A in the regions of Ukraine. According to the results of the factor analysis by the principal components method and correlation-regressive analysis the LB expenditures on the C&A mainly were influenced by situational, random and unpredictable events, economic relations in the allocation of the IGT and existing social and economic situation in the regions. In our point of view, the improvement of budgetary funding for the CS in Ukraine at the subnational level should be based on a clear definition of approaches to the allocation of budgetary resources to this sphere, be related to strengthening the fiscal capacity of local budgets, measures concerning stimulation of business activity and improvement of the social and demographic situation. Prospects for further research are related to the social and economic factors evaluation of the integration of the national CS into the EU.

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