



CENTRE
FOR ECONOMIC
STRATEGY

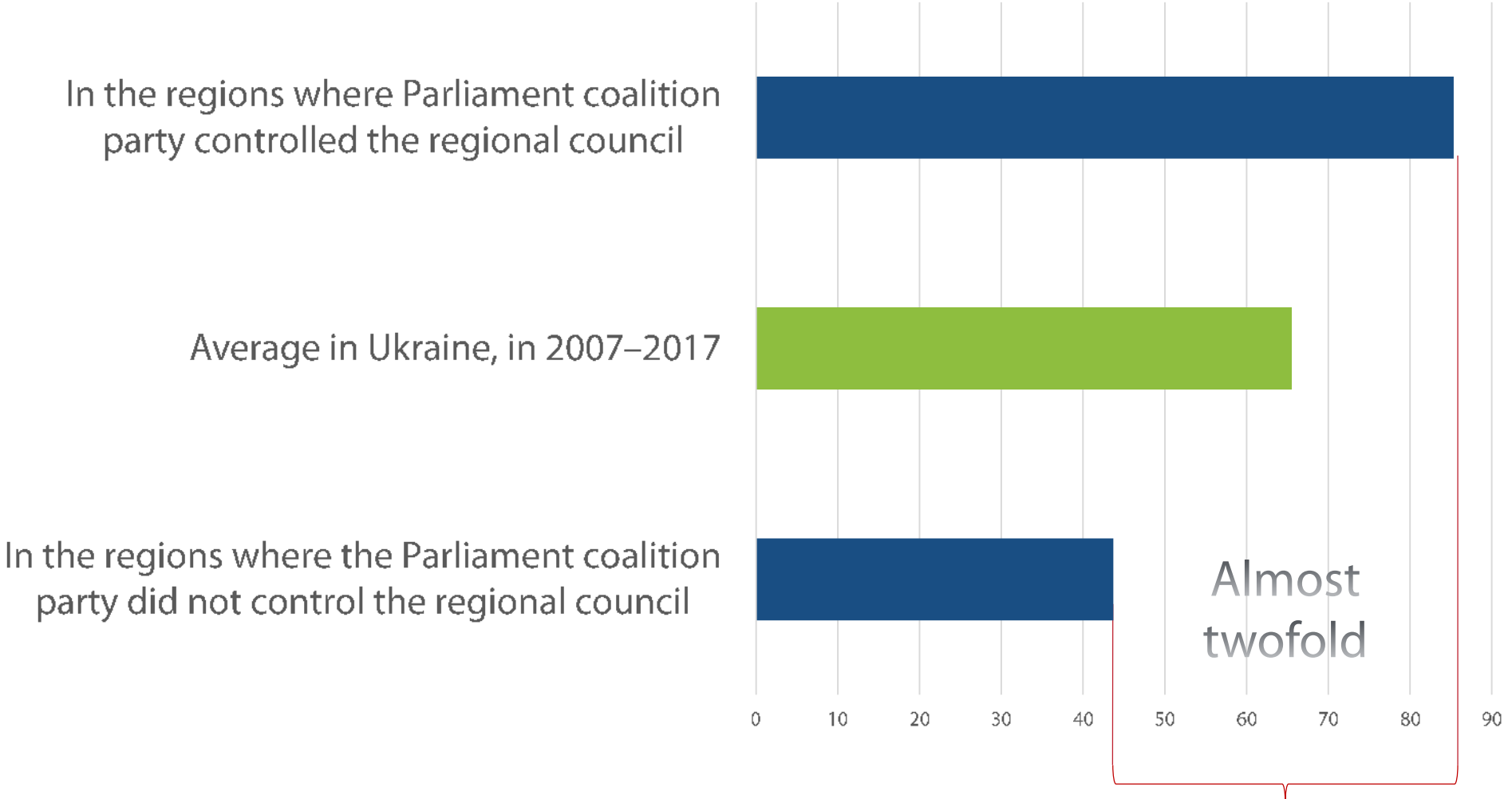
SUBVENTION FOR SOCIAL AND
ECONOMIC DEVELOPMENT: DO WE
REALLY NEED IT?

(No)



Politically influenced subvention distribution

Average subvention per capita in 2017 hryvnias in different political circumstances



Political reasons influencing subvention

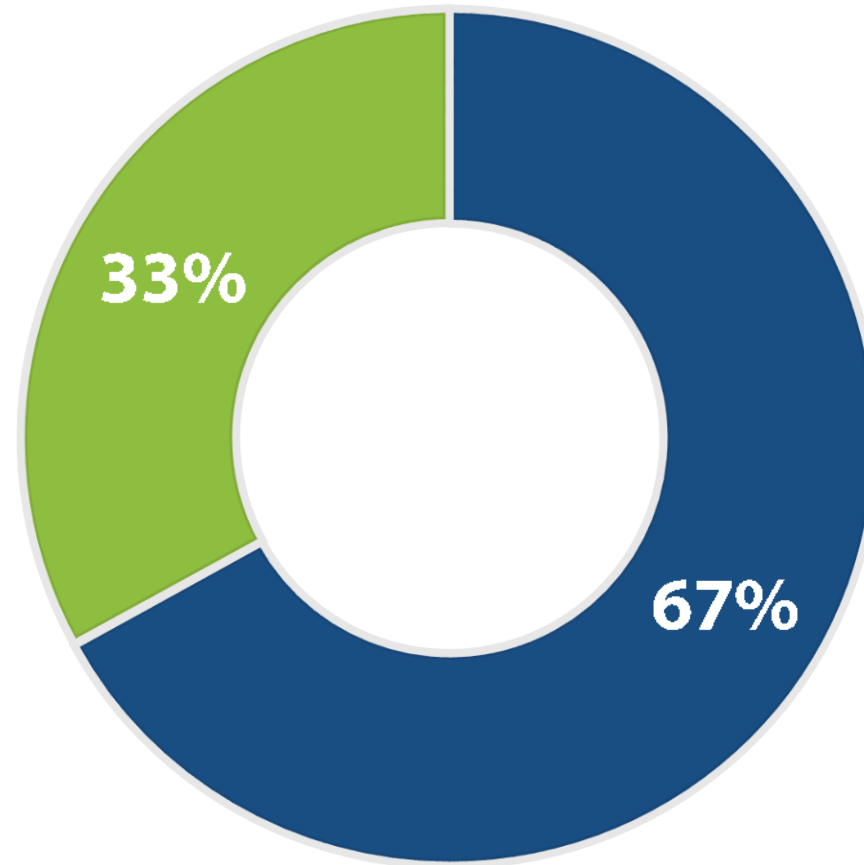
+ 31.69
UAH per
capita

Effect of the regional council
control by the Parliament
coalition party

+ 52.73
UAH per
capita

Election year effect

Subvention distribution by different factors



■ Distributed politically

■ Distributed as per socio-economic factors

Factors influencing the volumes of per capita subvention for social and economic development

Factor

Region council is controlled by the Parliament coalition party at the moment of the subvention approval decision

Ratio

31.685**

Standard error

12.4

Average salary in the region during three months prior to approval of the decision on distribution of the subvention

0.017

0.013

Gross regional domestic product for the previous year (per capita, UAH mln)

-536.06

357.48

Region's area as a percentage of the total area of Ukraine

-8389.4***

2700.5

The year of Parliamentary or local elections

52.73***

21.539

In 2015 (when the decentralization policy came into force) and later, the region council is controlled by the Parliament coalition party at the moment of the subvention approval decision

-16.226

25.239

2015 or later

59.095

84.542

Unemployment in the previous year

-16.621***

5.7051

Donbass, after the start of the military operations

-32.921

31.085

R²

0.12

** Significant effect on 95% confidence interval

*** Significant effect on 99% confidence interval



Roads repair: different fund — the same issue

Political reasons influencing repair and construction works on the Ukrainian roads

84.7 UAH
mln per
1000 km
of roads

Average performed works
volume

+ 36.5
UAH mln
per 1000
km of
roads

Effect of the regional council
control by the Parliament
coalition party

Average cost of the construction and repair works per 1000 km of roads in 2007–2016 in different political circumstances (UAH mln)

Average cost of the road construction and repair works per 1000 km of roads in the regions where the Parliament coalition party did not control the regional council



Average annual cost of the road construction and repair works per 1000 km of roads



Average cost of the road construction and repair works per 1000 km of roads in the regions where the Parliament coalition party controlled the regional council



Factors influencing the volume of the construction and repair works performed on the general use roads

Factor	Ratio	Standard error
Region council is controlled by the Parliament coalition party at the moment of the subvention approval decision	36,538**	16,755
Average salary in the region during three months prior to approval of the decision on distribution of the subvention	71.451***	17.005
Gross regional product for the previous year (per capita, UAH mln)	-1,808,494***	665,496.3
Region's area as a percentage of the total area of Ukraine	-129,340**	53,750
The year of Parliamentary or local elections	2,918,400	3,668,800
In 2015 (when the decentralization policy came into force) and later, the region council is controlled by the Parliament coalition party at the moment of the subvention approval decision	-29,683	30,698
2015 or later	-24,932	45,495
Unemployment in the previous year	103,720	110,110
Donbass, after the start of the military operations	5,757.4	8,857.7
R ²	0.13	

** Significant effect on 95% confidence interval

*** Significant effect on 99% confidence interval



Total political influence effect and how to reduce it

Total political influence effect



Volume of the construction and repair works performed on the motor roads

Subvention for social and economic development

Overall politically influenced distribution

32.5 billion UAH

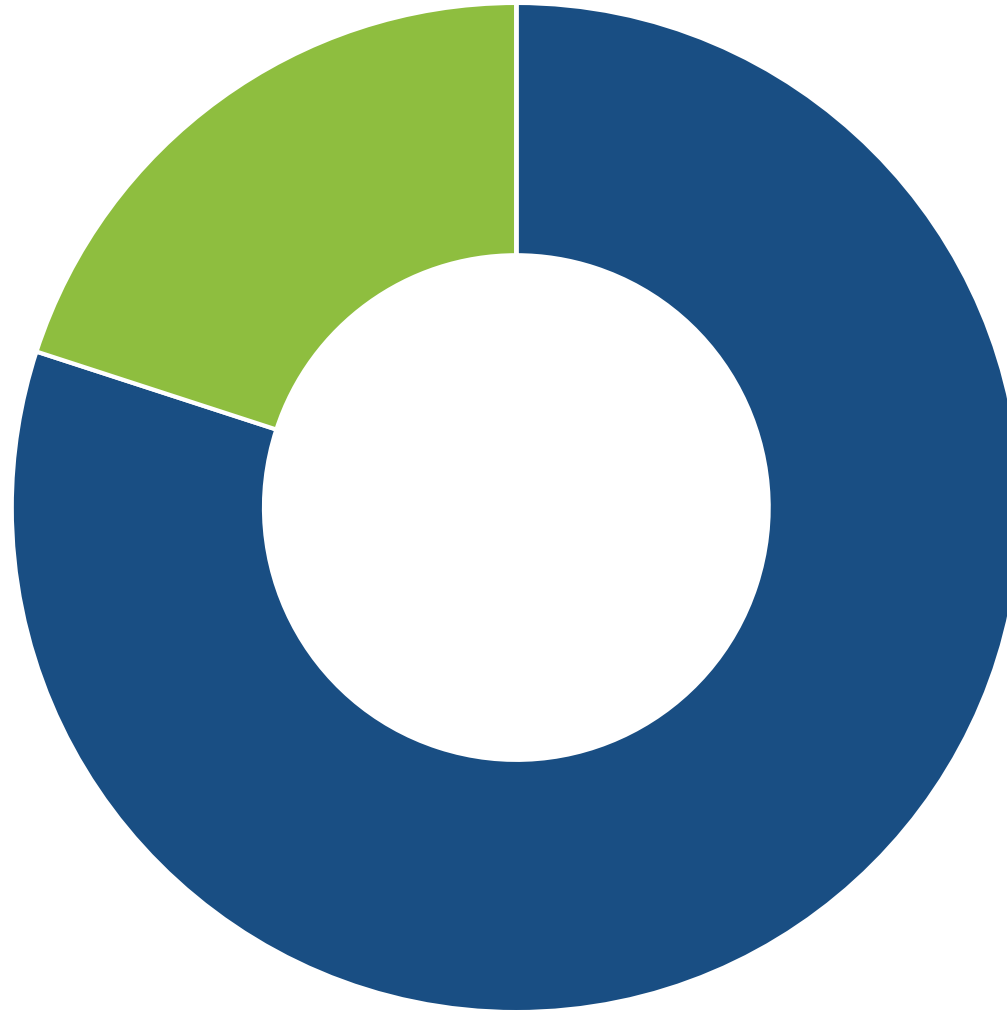
19 billion UAH

The ratio of politically distributed funds to the total amount of the funds

26%

67%

State Regional Development Fund instead of subvention



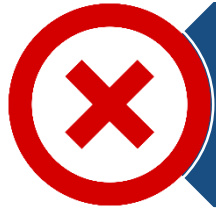
- 80% distributed pro rata to population size
- 20% allocated to the regions with GRP less than 75% of the average

Purpose = Purpose of the subvention for social and economic development

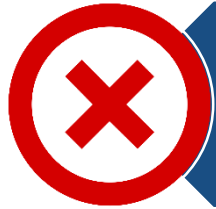
- infrastructure development,
- environment protection measures,
- facilities construction and modernization.

Regional projects are determined on competitive basis

Road Funds' effectiveness should be improved



Funds distribution influenced by a political conjuncture should be eliminated



Pro rata distribution is ineffective and should be avoided



We need a middle-term budget planning instead



Funds allocation should be guided by the economy's needs and roads conditions

Centre for Economic Strategy (CES) — an independent public policy research center founded in May 2015.

CES task — support for reforms in Ukraine to achieve sustainable economic growth.

We do not endorse any political parties or political leaders.



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