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## Participatory budgeting as a tool for the implementation of the fiscal policy of regional development of Ukraine

**Abstract. Introduction.** Ukraine's aspiration to implement the model of sustainable economic development and European standards of living has led to an increase in attention to the mechanisms of formation and implementation of the country's fiscal policy to develop its regions, which is characterised by an excessive degree of centralised budgeting, lack of unified standards for the provision of high-quality public services, instability of revenue sources of local budgets. Such trends have led to initiation and implementation of systemic socio-economic and legal reforms with regard to all public policies. One of the main reforms is to provide decentralisation of power for the adoption of budgetary decisions. Under such conditions, it is impossible to ensure fiscal independence of local budgets and introduce a new budgetary regulation mechanism without involvement of competent public opinion in management and control in different areas of finances.

*The purpose of the article is to analyse modern fiscal policy tools which impact the formation of the revenue base of local budgets, the amount and direction of expenditures, as the implementation of such tools can promote transparent use of public funds. Results.* The authors of the article have considered the essence of the participatory budget, singled out its advantages and risks and determined conditions for its effective functioning based at exploring world and European practices (focusing on France, Spain and Poland). The article deals with modern domestic practices in the implementation of participatory budgets. Also, participatory budgeting in the big cities of Poland and Ukraine were compared. It is argued that improvement of the fiscal policy related to the development of regions by means of introduction of a participatory budget will promote a transparent distribution of budget funds increasing the efficiency and performance of local self-governing bodies. Among the potential dangers of participatory democracy in the budget process, the article highlights populism, loss of time and inability to conceal deficiencies in governance, overestimating citizens' expectations in the face of limited resources and limited freedom of action of local self-governing bodies in matters of budget decision-making. *Conclusions.* The authors have proved the need to introduce participatory budgets into the practice of local government because such a new technology will promote socio-economic development of regions and increase the publicity of local authorities.

**Keywords:** Fiscal Policy; Participatory Budget; Decentralisation; Local Budget; Development of Regions

**JEL Classification:** H61; H72; R58

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### Партисипативне бюджетування як інструмент реалізації бюджетної політики розвитку регіонів України

**Анотація.** У статті розглянуто новітні методи реалізації бюджетної політики розвитку регіонів – партисипативні бюджети. Подано характерні ознаки бюджету участі. Виокремлено переваги застосування учасницької демократії в бюджетному процесі та наголошено на можливих ризиках імплементації світової практики застосування бюджетного забезпечення розвитку регіонів. Розглянуто сучасні вітчизняні практики впровадження бюджету участі. Обґрунтовано доцільність та необхідність застосування партисипативних бюджетів у процесі реалізації бюджетної політики розвитку, оскільки такі технології сприятимуть посиленню прозорості бюджетного процесу та суспільного розуміння планів влади щодо управління бюджетними коштами.

**Ключові слова:** бюджетна політика; партисипативний бюджет; децентралізація; місцевий бюджет; розвиток регіонів.

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### Партисипативное бюджетирование как инструмент реализации бюджетной политики развития регионов Украины

**Аннотация.** В статье рассмотрены новейшие методы реализации бюджетной политики развития регионов – партисипативные бюджеты. Определены характерные признаки бюджета участия. Выявлены преимущества применения участнической демократии в бюджетном процессе и отмечены возможные риски имплементации мировой практики применения бюджетного обеспечения развития регионов. Рассмотрены современные отечественные практики внедрения бюджета участия. Обоснована целесообразность и необходимость применения партисипативных бюджетов в процессе реализации бюджетной политики развития, поскольку такие технологии будут способствовать усилению прозрачности бюджетного процесса и общественного понимания планов властей по управлению бюджетными средствами.

**Ключевые слова:** бюджетная политика; партисипативный бюджет; децентрализация; местный бюджет; развитие регионов.

## 1. Introduction

Ukraine's strategic desire to implement a model of sustainable economic development and introduce European standards of living increases attention to the mechanisms of formation and implementation of fiscal policy of the country and its regions, which can be characterised by increased overregulation, centralisation of financial resources with their gradual reduction in regions and inefficient use of funds of local budgets. These trends have resulted in launching and conducting systematic socio-economic and legal reforms related to all areas of public policies, defining decentralisation of budget decision-making as the most important among them. This is justified by the fact that decentralisation is not a simple transfer of powers or resources; it also envisages creation of conditions for further development.

Development of civil society, self-involvement of the population, engagement and public participation in decision-making that affects interests of inhabitants at different levels and in different spheres of life are prerequisites for improving the fiscal policy at the regional level. It is impossible to provide fiscal independence, financial autonomy of local budgets, expansion their revenue base, decentralisation of expenditure responsibility, clear division of competences by the principle of subsidiarity and introduction of a new mechanism of fiscal adjustment are impossible without involvement of public opinion in the management and control of financial areas. In addition, exceptional attention should be paid to the issues of raising publicity of local government institutions, which affects provision of high quality public services and meets citizens' interests in various areas of life.

## 2. Brief Literature Review

An analysis of recent research and publications shows that the scientific community has had an ongoing debate on the feasibility and effectiveness of involvement of citizens in the process of making financial decisions at the level of territorial entities. A number of studies prove a positive impact of direct democracy on finance support of regional development [1-3]. Nonetheless, P. Ginsborg (2010), professor of the University of Florence, believes that we should be extremely cautious - and even sceptical - to treat this excessive chatter of complicity that catches the eye in the EU member states. Under cover of this favourable trend swarming variety of ideas and projects, some of them can be very dangerous for representative democracy; others are merely attempts to self-preservation, and few serious attempt to strengthen participatory democracy [4].

Nowadays, implementation of an effective fiscal policy of regional development is almost impossible without engagement and active participation of local communities in the public sphere and decision-making.

## 3. The purpose

The purpose of the article is to analyse modern fiscal policy tools which impact the formation of the revenue base of local budgets, the amount and direction of expenditures, as the implementation of such tools can promote transparent use of public funds.

## 4. Results

High quality forecasting and assessment of the process of attracting necessary budgetary resources define the effectiveness of the fiscal policy with regard to regional development. In this case we can rely on international experience, which proves the effectiveness of budgetary tools, based on the process of public involvement in the budgeting process known as participatory budgeting. A participatory budget is a financial plan for common management, which is realised by citizens and local authorities. A participatory budget enables residents of local communities to provide recommendations on the cost structure which should be taken into consideration by local authorities while adopting local budgets [5]. It is believed that local communities are better acquainted with problems, the solution of which is a priority. Therefore, the involvement communities in financing of local development will increase

cost-effectiveness of the implementation and target areas of such projects.

It is considered that participatory budgeting is an effective method of combating corruption and inefficient use of funds. Formation of local budgets on a participatory basis includes prioritising of local expenditures by local residents, selection of representatives of local communities to participate in the budget process at local and regional meetings to discuss and vote on priority spending, which ultimately leads to the implementation of ideas that affect the quality of public services. This results in transparent allocation of budgetary funds, higher level of satisfaction of public services, increasing efficiency of local government. Infrastructure projects initiated by local communities are more popular and more rational than those made at the highest levels of government. Practice shows that development projects based on the direct participation of local residents of and designed to meet their needs are focused on local scale priorities, which ultimately helps to improve both intergovernmental relations and fiscal policies in general.

It should be noted that there exist various forms of joint budgeting from the so-called limited consultation to public disclosure. The European Union has developed six models of participatory budgeting: adapted participation (characterised by social orientation); participation of organised interests (interests of the community are defended by non-governmental organisations and civil society organisations and aimed at funding programs in the area of health-care, education, etc.); joint participation (combining the two models, described above, and includes participation of both citizens and NGOs in the budgeting process. The main feature of the latter model is that the community's special fund made up of contributions from international organisations, non-governmental organisations and the community itself is the source of financial resources, and not a certain percentage of the municipal budget. Local authorities neither approve such projects, nor their implement them, which means formal participation which is advisory and offers direct contact between residents and local authorities by forming advisory platforms on specific issues. Only decisions reflected in the program of the ruling party can be implemented. Raising awareness of local financing is aimed at increasing transparency of the budget process by providing local residents with financial information. Participation of all stakeholders means involvement of all stakeholders in the budgeting process) [6].

It should be noted that such a participatory management style not only creates a sense of engagement, but also increases motivation. Much of participatory governance is based on the importance of improving team interaction. Despite the strengths of participatory democracy in the budget process, there are risks of populism, loss of time and inability to hide defects of management, overstating expectations with limited resources, discretion of local authorities in the adoption of budgetary decisions, monopolisation of the participation process by local elites or organised groups, defending their own interests and so on.

Economic development projects based on the needs of society with its direct engagement and participation have gained wide acceptance across the continents (Figure 1). For example, according to experts' assessment, from 1269 to 2778 cases of the implementation of participatory budgets were recorded worldwide at the end of 2012 [5]. Participatory budgeting is most widely spread in Latin America, where it takes a third part of the total participating budgets of in the world with the number of participating budgets varying from 626 to 1138. For the first time This technology was first introduced in Porto Alegre, the state capital of Rio Grande do Sul in Brazil in 1989. Later this practice spread to European countries, where they implement from 474 to 1,317 participatory budgets, although the governments of Hungary, Romania, Norway, Sweden, Iceland fiercely criticize them).

It should be noted that the most perfect practices among EU countries are implemented in France, Germany,

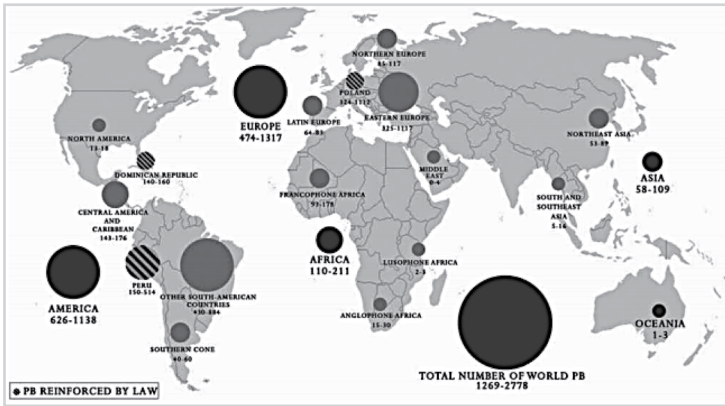


Fig. 1: The number of participatory budgets in the world  
Source: [5]

Poland and Spain. Thus, in France participatory budgets were launched in 2002 in cities with a population of more than 80,000 inhabitants by introducing the so-called budget workshops and «Let us talk frankly», where the main problems of the city were discussed. The key idea of introducing participatory budgets in Germany was encouraging local communities to spend their own financial resources effectively, which should eventually help to reduce the national debt. Interestingly, cities such as Paris, Madrid and Barcelona have the largest participatory budgets among EU cities. One of the main tasks of those cities is the development of direct democracy and deepening interaction between civil society and governments. The cities have the largest budgets per capita, for example, in Paris the index reaches a value of EUR 46.9 per resident, or EUR 18.8 and EUR 22.5 in Madrid and Barcelona, respectively (Figure 2).

The Polish experience is of great importance if we consider similarities of socio-economic development of cities. Unlike Spain, where local authorities spend a significant amount of financial resources to develop participatory democracy, Poland is characterised by an extensive network of participatory budgeting practices which are effective and enable citizens to feel their involvement in development of their cities. Despite its short period of existence (since 2011), the authorities of cities have managed to increase expenditures on public budgets from EUR 2 to EUR 9 million, depending on the city, in contrast to Ukrainian cities, where such charges can be formed in the range from UAH 0.4 to UAH 1.8 million, which is too little for such purposes (Figure 3). In this context, it is important to emphasise that there is no standardised approaches or mechanisms for determining the volume of financial resources required for the formation of a participatory budget of an administrative unit. According to experts, the City of Paris had the biggest participatory budget in history, the volume of which reached EUR 65 million in 2015.

Poland's current legislation does not include the participatory budget concept, which is a major drawback while implementing participatory budgeting by local authorities. However, Article 5 of the Law «On local government» as of 8 March 1990 is a legal basis which provides an opportunity to conduct a public consultation [15].

Formally, a decision made by the community within a participatory budget is not binding for the city mayor, yet participatory budgets in Poland are based on the social contract and implementation of tasks defined by citizens. The document that introduces a participatory budget of on the territory of a city is accompanied by a public statement of the mayor, who is obliged to perform tasks (requirements) set by residents and provides an addendum which covers the amount of money at citizens' disposal, as well as requirements of participation in public meetings and implementation stages of the project.

Finally, we should add that the World Bank provides active participation and support in promoting participatory democracy. It has allocated over USD 280 million in a variety of loans and grants to 15 countries since 2002. Due to the plan, participatory budgets are implemented at the municipal level, however, because of their efficiency and progressiveness, they are currently being used in the formation of local budgets of different levels. This fiscal policy tool attracts international attention due to following reasons: it provides direct democracy in managing of budgets; enables residents to influence distribution of public goods as well as to actively participate in the development of areas; it strengthens financial literacy and more. The UN and the World Bank recognise advantages of tools of common budgeting and include it into the list recommended for usage.

Despite the lack of institutional support for participatory budgeting at the national level in Ukraine, the introduction of this progressive tool in the domestic budgeting practice is uncontested as it will strengthen budget transparency and

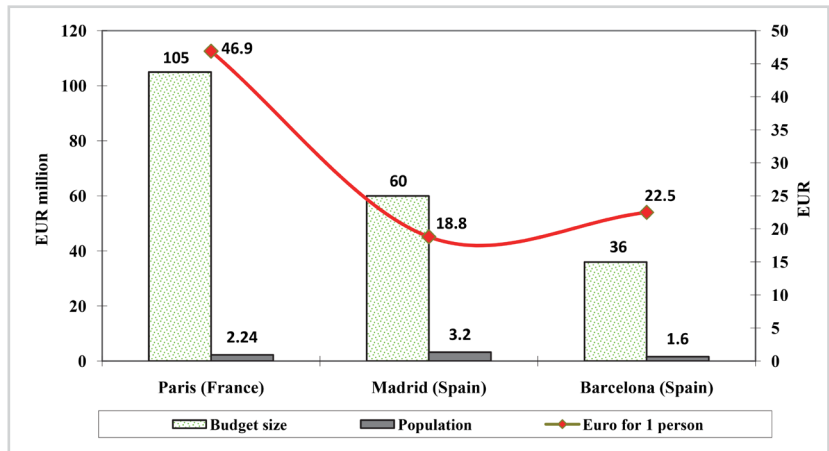


Fig. 2: The largest participatory budgets in the cities of the European Union  
Source: Compiled by the authors based on [8]

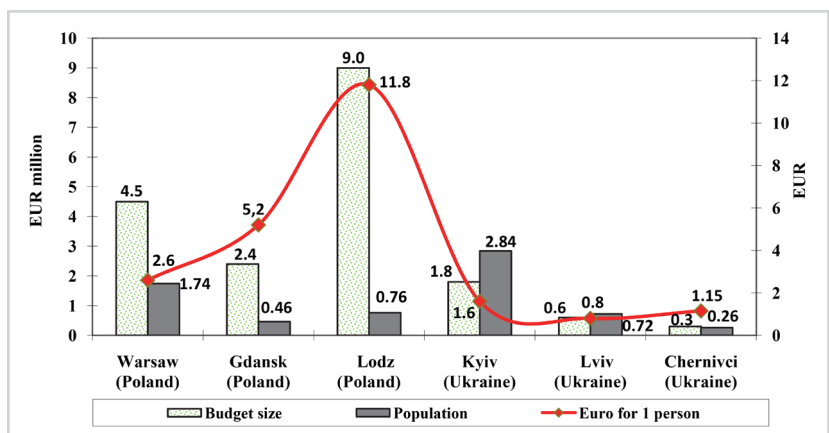


Fig. 3: Participatory budgeting in cities of Poland and Ukraine  
Source: Compiled by the authors based on [9-14]



public understanding of government plans for the management of public funds. In the domestic practice, the tool of fiscal policy is not so largely used, however at the end of 2016, the relevant projects aimed at implementing participatory budgeting were realized in 38 cities with the help of international financial support, including not only Kyiv and many regional centres (Chernihiv, Poltava, Cherkasy, Lviv etc.) but also cities such as Kramatorsk, Mariupol, Pryluky, Obukhiv and others. Furthermore, 4 big and 63 small projects related to participatory budgeting in the total amount of funding equal to UAH 17 million planned to be implemented in Lviv in 2017 [8]. The number of relevant projects is 31, totalling UAH 10 million, in Rivne and 62 major projects totalling UAH 50 million in Kyiv [9]. In fact, the amount provided for the projects within participatory budgeting is minor and accounts for 1% of the budget of the city. For example, cities such as Chernihiv, Lutsk, Ivano-Frankivsk, Ternopil have 1%; Lviv has 1.1% and Cherkasy accounts for 0.7%. In contrast, PLN 26 million was allocated on participatory budgeting in Warsaw in 2015, which is equivalent to UAH 150 million. The largest amount of money for the budgets of participation was allocated in Lodz (PLN 40 million), while from PLN 5 million to PLN 10 million (from UAH 29 to UAH 58 million) is spent for this purpose in small towns of Poland [9].

Almost all cities of Ukraine, where participatory budgets of are implemented, show common trends - a fifth part of projects to be implemented are projects aimed at improving sports infrastructure facilities; more than 10% is projects aimed at improving municipal services. Educational projects

have a significant share (about 15%). It should be noted that the percentage of residents who vote for public budget projects in cities of Ukraine ranges from 1% to 4%. The number of residents of cities who vote for projects is directly proportional to the amount of funds allocated to the city's participatory budget.

Taking into account all the facts mentioned above, we can conclude that spreading of tools of local democracy is a new process that has not yet acquired the publicity. On the other hand, democratisation of the process of management of local finances, improvement of transparency of decision-making and direct participation of citizens in distribution of funds is a boost to qualitative changes.

### 5. Conclusions

The fiscal policy of regional development that is based on principles of participation is a new format of social interaction, where participants of the budgeting process are both classic actors and residents who should be able to express their views on management decisions, important for local development. The implementation of this fiscal policy tool will strengthen budget transparency in Ukraine. Communities' potential should be used in a way to enable their members to make decisions together with local authorities and to form long-term decision support regarding co-financing of projects in the future. Of course, we should not downplay the role of government which continues to perform its functions. At the same time, stimulating tools to encourage residents to finance regional development become dominant.

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