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PARTICIPATIVE BUDGETING AS AN EFFECTIVE APPROACH FOR LOCAL BUDGETS DISTRIBUTION IMPROVEMENT IN UKRAINE

The article discusses the need to develop in Ukraine the participatory budgeting model at the local level. International experience of this model development and its effective implementation in Ukraine is analyzed. The basic mechanisms of participatory budgeting model construction which will meet the requirements of building a modern decentralized distribution of budget funds in Ukraine are proposed.

Keywords: participatory budgeting; local budgets; development budget; participation principles; Ukraine.

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БЮДЖЕТУВАННЯ ЗА УЧАСТЮ ВИКОНАВЦІВ ЯК ЕФЕКТИВНИЙ ПІДХІД ДО РОЗПОДІЛУ МІСЦЕВИХ БЮДЖЕТІВ В УКРАЇНІ

У статті розглянуто необхідність розвитку в Україні моделі бюджетування за участю виконавців на рівні бюджетів місцевого рівня. Проаналізовано міжнародний досвід використання даної моделі й можливості її ефективної імплементації в Україні. Запропоновано основні механізми побудови моделі бюджетування за участю виконавців в Україні, яка відповідатиме вимогам сучасного децентралізованого розподілу бюджетних коштів.

Ключові слова: моделі бюджетування за участю виконавців; місцеві бюджети; бюджет розвитку; дорадчі принципи; Україна.

Табл. 1. Літ. 17.

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БЮДЖЕТИРОВАНИЕ С УЧАСТИЕМ ИСПОЛНИТЕЛЕЙ КАК ЭФФЕКТИВНЫЙ ПОДХОД К РАССПРЕДЕЛЕНИЮ МЕСТНЫХ БЮДЖЕТОВ В УКРАИНЕ

В статье рассмотрена необходимость развития в Украине модели бюджетирования с участием исполнителей на уровне бюджетов местного уровня. Проанализирован международный опыт использования данной модели и возможности ее эффективной имплементации в Украине. Предложены основные механизмы построения модели бюджетирования с участием исполнителей в Украине, которая будет отвечать требованиям современного децентрализованного распределения бюджетных средств.

Ключевые слова: модели бюджетирования с участием исполнителей; местные бюджеты; бюджет развития; совещательные принципы; Украина.

Introduction. In the world economic practice, budgets of local governments are the most effective tools to manage the economic system and an important base of financial balance between state, local authorities and citizens. Building an effective market economy requires theoretical rethinking and practical research of local authorities financial resources distribution and people participation in this process.

Nowadays, the concept of "participatory budget" is dramatically spreading all over the world. In general, participatory budget is "a decision-making process through which citizens deliberate and negotiate over the distribution of public financial resources" (Wampler, 2007: 29).

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Such process can be accomplished on the city level, however it can also be moved down to the level of districts or neighborhoods.

Participatory budgeting may contribute to improvement of equal opportunities and quality of life through budgetary transfers into the right direction – to individual neighborhoods and settlements, on the basis of such indicators as the level of income, level of population and investment priorities.

Participatory budgeting (PB) was started in South America, in Brazil where it has successfully empowered people in extremely deprived communities since the late 1980s (*Bringing budgets alive: PB in practice*, 2006).

Local governments adopt participatory budgeting solutions first of all, because it takes into account the real problems of inhabitants and local community. So in this case local authorities understand that a community member can realize and detect their common problem in a more efficient way.

Moreover, when we are using PB our main attention shifts to the results of implemented projects and programs, and their efficiency. This means that projects funded under local budgets should meet the taxpayers' needs. To evaluate the effectiveness of these programs, certain performance measures can be applied to help assess the actual results of spending. Taxpayers must know how their funds are used, what outcomes will be achieved. Local budget is the most important policy document prepared by local government to satisfy its citizens' needs (*The Local Officials' Guide to Program Based Municipal Budget Management*, 2005). As taxes paid by citizens are a source for local budgets, local government must take into account the community's opinion regarding the use of these funds.

Of course, we have not today an exact answer about an "ideal process" or "model" of such budgeting preparation. Generally speaking, we can mention two main groups of such process – participatory budgeting in Global South and in Global North. The most crucial difference, from our point of view, in such models is the difference in the level of democracy in general and economic management. For example, the level of cooperation between people and local authorities in China would be very different from the cooperation in Poland or in Germany.

In general, taking into account the exciting practices, we need to underline some essential benefits from participatory budgeting:

- 1) it helps to bring diverse people together, supporting community cohesion;
- 2) it helps to raise people's understanding about public budget setting and deciding between competing priorities;
- 3) it can lead to real improvements in the way local people, elected authorities and council officials work together;
- 4) by empowering people, devolving more decisions on spending public budgets in this way, services can be better tailored to local circumstances, and improved resident satisfaction with them.

Implementing the PB model could be very helpful in Ukrainian realities, when we can observe low trust to government authorities, low efficiency of local budget distribution and almost absent cooperation between local community and officials. In Ukraine, the process of the national financial system transformation is extremely important and urgent, both in economic and political terms. An important part of this

process is the transformation of local finance as an objective of economic reality, inherent to developed financial systems.

Moreover, in addition to all mentioned tasks, we need to take into consideration the current Ukrainian realities – extremely inefficient and almost bankrupt management system (central and local), based on the old administrative centrist tradition (legacy of the command economy).

Under these conditions the process of local finance effective distribution is becoming one of the most sufficient stability factors in the economy.

Latest research and publications analysis. The problem of PB organizing, implementing and measuring its effectiveness is sufficiently developed by international (including Polish) scholars, such as C. Souza (2002), P. Jacobi (1999), W. Goldsmith (1999), C. Alexander (2007), B. Wampler (2007) L. Pellizzoni (2001), B. Barber (1984), T. Gnich (2014), D. Dlugosz and J. Wygnanski (2005), M. Gerwin (2013), R. Gorski (2007).

It is worth mentioning that unfortunately the aspect of PB process opportunities is almost absent in Ukrainian economic literature.

Therefore, PB approach and its models require a further detailed research.

The main goal of this article is to analyse best practices in participatory budgeting implementation and propose a relevant model of such process for Ukrainian realities.

Key research findings. The essence of participatory budgeting is to engage people in shaping proportions as a part of discretionary budget.

When we talk about participatory budgeting in case of big budgets, we need to underline that in any case it should not concern the whole amount and funds allocated for specific purposes.

In Porto Alegre case, almost 18% of city budget is using, however the British PB Unit recognizes (www.participatorybudgeting.org.uk) only 1% of the budget as the value of being a good starting point, especially in difficult periods because of financial reasons.

Additionally, we should state that this 1% should be allocated from the discretionary portion of expenses (discretionary spend).

Although 1% represents only a small part of the total budget, it is still a large sum of money for residents, and could have a significant impact on the provision of public services, the quality of life in the community and well-being of people living in it.

One of the best examples of successful participatory budgeting implementation in post-communist realities is Poland. The first attempt to use PB process in municipal budget distribution was made in Sopot (suburb of Gdansk) in 2011 (Martela, 2005).

The residents could decide at the beginning on realization of a small amount, less than 1% of all city budget expenditures. This amount was "safe" to learn the mechanism of budget creation by people, and at the same time sufficient to fund many small projects.

The final list of projects that have been put under voting was constructed as a result of long discussion and voting during forum meetings and with public officials. Projects proposals were placed on the two tables, with their estimated cost and expected date of completion. The first table included small investment, the imple-

mentation of which would be possible in 2012, and the total cost of the realization less than 1 mln PLN (approximately 300 ths USD), such as the construction of new playgrounds, small repairs of engineering systems, putting benches etc.

In the second table more complex projects were placed, for example, to launch a new bus service between Sopot and Gdansk, modernization of an animal shelter and the construction of the Museum of Modern Art. Every city resident could select the 5 most important investments according to their expectation about city's further development.

As a result such approach received strong understanding from city councilors who supported the concept of citizens' proposals implementing. Moreover, the level of support by public officials of other citizens' initiatives increased dramatically; the post-test surveys showed that people interest in PB activities increased too.

After successful experience of Sopot, in 2012 PB process was extended for the next 4 cities: Elblag, Gorzow Wielkopolski, Poznan and Zielona Gora, moreover only after a year, in 2013, almost 16 cities were using this model (Kebrowski, 2013).

In 2014, the first PB has started in Warsaw, here for the first time 26,237,266 PLN² (about 0.6% of the total Warsaw city budget) will be distributed among the projects which will be prepared and evaluated by local inhabitants (Demianczuk, 2014).

In Warsaw the funds for participatory budgeting process will be divided among different districts by conversion (budget matrix), which takes into account such criteria as population, priority issues for each specific area as well as the wealth of inhabitants.

These criteria are subject of annual verification through a vote in the city council and are available for residents, in order to ensure fairness and transparency of the whole process.

There are options of the participatory budgeting model involving the allocation of funds equally to each of the districts, regardless their wealth or population, or the transfer of participatory budget to a higher level – to the whole city (this is justified in the case of larger projects).

Participatory budgeting model is considered as more radical than grants to local communities, when such grants are often referred to as symbolic (tokenistic).

The one-percent system requires the involvement of a relatively larger part of the budget, as well as the introduction of a specific system of checks and balances, enabling proper verification of public expenditures.

Participatory budgeting project must be dynamic in order to motivate local community to "leave a trace" and for active participation.

Projects which can be implemented within the framework of PB process can be very different. In general, for more developed communities we can observe that almost all budget of PB is going to finance ecological, social or sport projects (including infrastructure).

For instance, in one of the most prosperous city of Poland – Poznan, the following projects were selected for financing through PB (www.poznan.pl): 1) Extension of Hospice Palium; 2) Poznan pedestrian and bicycle route along the Warta River; 3) Construction of the Centre for a short stay for disabled persons;

² This is approximately 8,745,755.3 USD.

4) new bike road; 5) family playground on Malta Lake; 6) Installation of high quality public mobile toilets in the central parts of the city; 7) exhibition of beginnings of Polish State at Cathedral Island in Poznan; 8) project for new plantings in the city center; 9) cross-country and Nordic-walking paths; 10) the construction of social houses.

In other cases, such projects include communal enterprise development, health infrastructure and communal management.

In general, taken into account international practice, we can underline such steps of PB. Preparing of the process:

1. Conditions elaborating for efficient PB process running.
2. Informational and educational campaign.
3. Preparing and submitting of project proposals.
4. Projects evaluation.
5. Discussion of the projects.
6. Selection of the project for realization.
7. Monitoring the project realization.
8. Evaluation of the whole process.

If we are talking about Ukraine, we propose to use for distribution through PB about 1% of local development budgets.

Development budget of local budgets, which includes investment planning for the current period, is an extremely important part of local finance, as the investment program are the basis for economic development of territories.

Therefore, development budget should be one of the main instruments for regional development. However, according to the analysis of the dynamics of volume and structure of local revenues it is suggested that development budgets include only a minor financial resources allocated for regional development.

For instance, according to budget monitoring, which is carried out by the Institute for Budgetary and Socioeconomic Research, the sum allocated in development budgets of local budgets (including funds from general funds of the budget) in 2012 was 14.1 bln UAH (Zubenko et al., 2013).

However, the unit weight of development budgets income in the total revenues of local budgets for the last two years did not exceed 15% (Zubenko et al., 2013).

We are recommending to use 1% from the development budget in Ukraine. Even in our economic realities, it could be a sufficient amount for such distribution.

The author has analysed the development budgets³ of the biggest Ukrainian cities and potential funds for distribution through PB.

According to our calculation, the most optimal option – to start PB in Kharkiv, Kyiv and Lviv, in 3 cities with the biggest potential amount for distribution per voter.

Main steps which should accompany the effective implementation of participatory budgeting model are the following:

1. Participatory budget should be a part of the general administrative reform where local communities will receive more power, including economic one.
2. Participatory budgeting should be a multi-level process – it should allow citizens discuss not only the best or least desirable projects on the district level, but

³ According to cities budgets for 2014.

also the general municipal investment priorities, which are affecting the development of the whole city. Moreover, participatory budgeting must have a cyclical character, this is not a one-off initiative.

Table 1. Potential funds for distribution through PB process

City	Budget for development, 2014, UAH	Potential amount for PB, ths UAH	Population, people		Per 1 voter, UAH
			total	voters ¹⁾	
Kyiv	2403458700	24034587	2869900	2173420	11.06
Kharkiv	1797600000	17976000	1442561	1121333	16.03
Donetsk	238500000	2385000	965800	707117	3.37
Lviv	352123700	3521237	758400	600820	5.86
Odessa	300000000	3000000	1016743	735261	4.08
Dnipropetrovsk	239800000	2398000	995 500	814068	2.94

¹⁾ Data from State Register of Voters (www.dr.v.gov.ua).

Source: Developed by the authors, according to the data from the cities' budgets (Kyiv, Kharkiv, Donetsk, Lvov, Odessa, Dnipropetrovsk).

3. Participatory budget should have a strong educational character. It is not only about helping residents prepare investment proposals, but to create an environment where residents and officials can cooperate and also learn from each other, how the city is running. Moreover, in the framework of participatory budgeting, participants should receive skills and knowledge in city management; therefore, they will become coresponsible for city's further development.

4. Funds distribution should be made by "inversion priorities" – to allocate more resources proportionately to the most needy social groups and areas of the city (or where city can achieve the biggest revenues).

5. Participatory budget must be legally binding and produce visible effects. Investment proposals selected by the residents must be implemented, and residents must receive feedback about selected projects, as well as about those which were rejected.

6. Part of the investment should be completed before the start of the next round of participatory budgeting process – it is important, that within the framework of participatory budgeting will be created as long-term projects, as those that can be implemented within a few weeks or months.

7. High impact on the participatory budgeting transparency has the monitoring of projects' implementation by participants. Citizens should also be able to evaluate results on the annual basis (or more frequently) and change if they need the procedures of participatory budgeting.

Conclusions. It has become evident, that the process of participatory budgeting after its first steps in Brazil, is dramatically spreading in the world during the last few decades. Taking into consideration international examples and experience, we need to underline that participatory budgeting can be an effective instrument to solve local problems, increase cooperation between authorities and citizens (improve a democracy in some way) and as a result to achieve the real goals of local communities.

The experience of developed countries confirms the reasonability of extending the practice of participatory budgeting (PB) which is an effective mechanism of local authorities influence on territorial development. Therefore, international experience in participatory budgeting implementation into local budgets distribution system,

especially of other post-communist countries (such as Poland, for instance) will be very helpful and important for Ukraine's transformation.

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