

**Financial and Banking Services Market**

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**BUDGET'S UNIQUE ROLE
IN POVERTY PROBLEM SOLVING
IN UKRAINE****Abstract**

Budget expenditures aimed at poverty solving of Ukrainians are investigated. Budget's role in solving poverty problem is explored; ways of budget expenditures improvement connected with most vulnerable and poor groups of society are demonstrated.

Key words:

Poverty, budget expenditures, social protection, public services, citizens' transfers.

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In present conditions of country's market instruments in social and economic processes dominating, budget performs exceptionally important role in the process of correction of value establishment and division. Poverty phenomenon, being one of the key humanitarian problems, forms essential social expectations regarding its overcoming. Development of democratization processes in Ukraine is an objective precondition for making poverty problem a priority of fiscal policy.

Taking into consideration importance of poverty problem solving for harmonious social development and normal economy functioning maintenance, attention in scientific articles is paid to the problem of financial supply regarding this phenomenon overcoming. Among Ukrainian scholars who investigated poverty occurrence and financial instruments using for its minimizing are H. Volynsky, V. Heiets, M. Karlin, O. Kyrylenko, V. Kravchenko, A. Krysovaty, Y. Libanova, I. Lunina, O. Savenko, V. Symonenko, M. Skrypnychenko, L. Cherenko, M. Shavaryna, N. Shamanska, S. Yuriy, O. Yaremenko. Financial component of poverty overcoming was analyzed by such Russian scholars, as V. Bobkov, I. Buzdalov, M. Horshkov, B. Zhykharevych, Y. Krasin, K. Kuziaiev, M. Liborakina, V. Miedviediev, D. Moskvin, D. Petrosyan, A. Razumov, I. Sinitsyna, Y. Khyzhny, A. Sheviakov, M. Yahodkina. Among Western scholars it's important to point out T. Besli, Sh. Blankart, Dzh. B'iukenen, O. Havrylyshyn, R. Musgrave, Dzh. Mordukh, K. Noiburg, M. Ravaion, I. Rasul, Dzh. Rowles, Dzh. Stiglitsa.

Important reason in favor of primary importance of poverty problem solving is dominating of European tendencies in Ukrainian society. Obligations regarding poverty overcoming are clearly defined in a number of international agreements signed by Ukraine. Their implementation demands from Ukraine taking a number of measures regarding citizen's level standard improvement, when budget resources are defined as a source of financing. Besides, a number of incurred obligations presuppose budget process reforming, that may cause an essential social effect.

Efficiency of a social mechanism's structure depends strongly on taking into account peculiarities of modern fiscal system functioning and present tendencies of financial and material resources of households forming. First of all, it's important to take into consideration the fact, that a prevailing part of economy is represented by its informal sector, whereby it's very difficult or even sometimes impossible to define households' expenditures amount, as well as to be accurate in measuring of level and depth of the country's poverty. Households' income forming is highly influenced by self-employment. It's important to mention generally low level of people's awareness of their rights about social protection and limited opportunities to defend them in Ukraine.

Prospects of the problems solving in budget sphere form an essential potential for poverty phenomenon overcoming in Ukraine. Today a mechanism of

each of the budget functions implementation needs improvement in poverty problem solving. Development of budget factors in poverty overcoming strategy implementation will also have positive results for the country's economy. Consequently, today there are sufficient preconditions for fiscal policy betterment concerning the problem of level standard improvement of unsecured ranks of people.

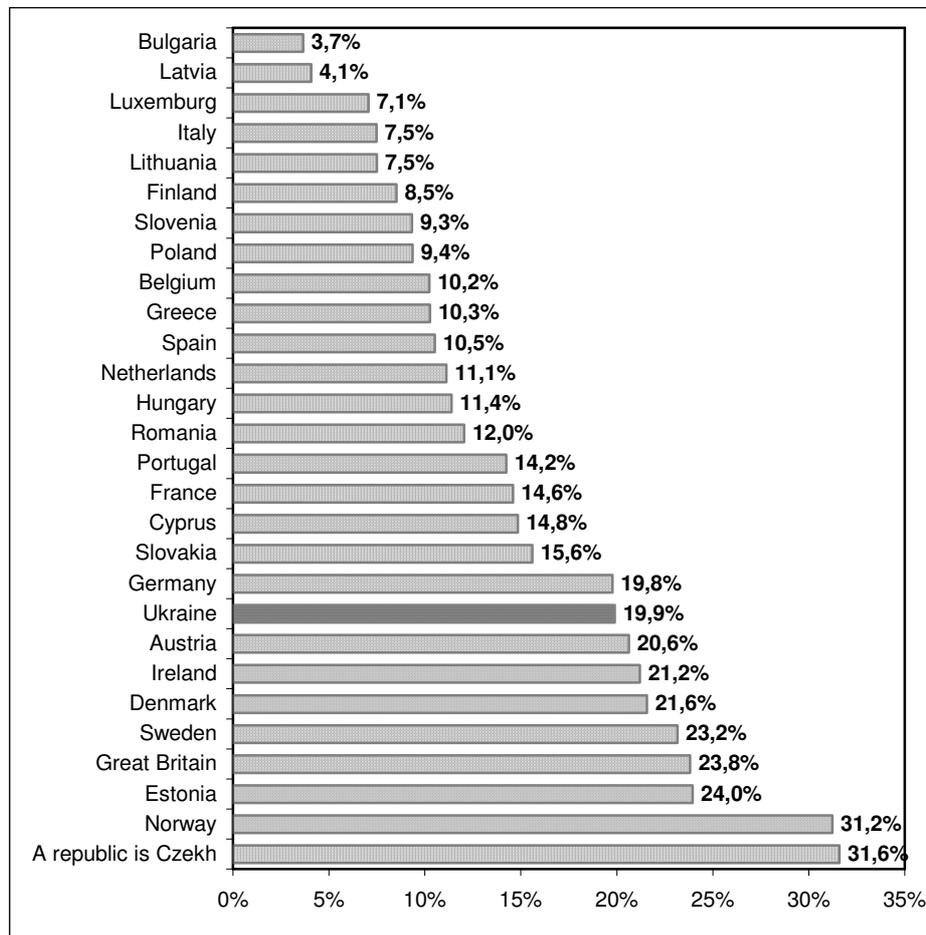
Taking into account complexity of poverty phenomenon, taken measures, concerning the role of budget in its solving, should also have a complex character. Variation of present programs, enacted by the authorities regarding level standard improvement of unsecured people's ranks, will make a big contribution. First of all, it makes sense to introduce instead of a narrow treatment of poverty notion, which involves lack of money, a scientifically substantiated treatment of this socially important phenomenon, which lies in failure to achieve wellbeing by a person, which causes impossibility to maintain a standard level, characteristic of a definite society and in a definite time. Broad interpretation of a poverty notion in official documents will give an opportunity to advance envisaged measures with such essential types of activity, as access to important public services and the most necessary social infrastructure. It will give an opportunity to shift preferences in financial providing of poverty overcoming from a short-term policy of financial support of the poor to creating of equal opportunities for all citizens for their self-actualization that will cause positive results for improvement of social development indicators in the future.

Unique role of budget in solving the problem of economic inequality in society brings to the forefront measures concerning extra disproportions of material condition of households and simultaneous providing with vital resources those people who can't do it independently due to objective causes. Important point in poverty problem solving is a deep reforming of a system of citizens' budget transfers providing.

Potential of poverty problem solving using citizens' transfers' enlargement is rather limited. Expenditures fraction of state and local budgets for relief actions for Ukrainian citizens is one of the biggest in Europe. In 2007 ratio of budget citizens' transfers with overall costs of budgets in Ukraine made 19.9%, whereas bigger index number was only in eight highly developed countries of the European Union, which are being investigated. Almost in all countries, new members of the European Union (except Czech Republic), amount of citizens' transfers in budget expenditures is substantially smaller, than in Ukraine: in Bulgaria – 3,7%, Latvia – 4,1%, Lithuania – 7,5%, Slovenia – 9,3%, Poland – 9,4%, Hungary – 11,4%, Romania – 12,0%, Slovakia – 15,6% (fig. 1). Taking into consideration the fact, that part of state and local budgets for relief actions for Ukrainian citizens is one of the biggest in Europe, it makes sense to find provisions of transfers influence strengthening in order to decrease poverty situation above all in improvement of the mechanisms of their providing.

Figure 1.

Fraction of citizens' transfers in collective budget expenditures of the countries members of the European Union and Ukraine in 2007¹



Results of made investigation show that in Ukraine influence of money transfers and transfers in kind on poverty differs greatly. In the process of analysis it is determined that bigger part of relief actions is presupposed for the poor, and greater amount of non-monetary transfers is presupposed for an advantaged ranks of society. Taking into consideration the point, that citizens' transfers in kind are detrimental to economy's efficiency, it is important to optimize a structure of

¹ Made up according to the data of Department of the Treasury of Ukraine [1].

budget transfers to the citizens. In general, extension of money transfer amount and simultaneous reduction of transfers in kind amount will cause a positive effect on diminishing of the level and depth of poverty in Ukraine.

Taking into account amount of accumulated problems, there is a need today in improvement of major money transfers payments to the population – public assistance to the families with children and disadvantaged families. As far as the biggest poverty risk is preserved in households with children, to solve the problem of poverty is impossible without strengthening protection of these families from poverty.

First of all, problem of lack of providing with the resources of primary necessity of definite categories of people, those who are not able to work before and after childbirth, needs to be solved. In conditions of big problems existence in the sphere of medical services providing, pregnant women including, level of material security is very important. Taking this fact into account, there all preconditions for rising financial aid for the citizens uninsured in the system of social protection on account of pregnancy and childbirth. In our opinion, its amount should be raised for unemployed citizens from present amount of 25% of subsistence level to the amount of subsistence level. Except positive results for poverty overcoming in households, where children are born, this measure will contribute to improvement of infant and mother's health.

National practice certifies that, notwithstanding the fact that essential increase of financial support for childbirth has made a positive impact on childbirth dynamics, it was not able to influence fundamentally poverty problem solving in families with children. In spite of this, mechanism of social help payment presupposes sum's sharing during one-two-three years, depending on alternate of a born child. After this period finishes households are left without state support.

Experience of developed European countries proves that more essential result in poverty overcoming can be achieved by comparatively not big one-use payment providing when the child is born and providing families with payments for a longer period that is foreseen in Ukraine. For instance, in Great Britain, Ireland, Portugal social care expenditure is paid to children under 16, in Netherlands and France – under 17, and in other countries of Western Europe – under 18. Besides, those children who study may be provided with payments until they reach 21–27 [2: 204]. In some of the European countries money is paid, notwithstanding amount of families' income, and in definite countries in such a case material support of a family with children is taken into consideration. However, it's important to state, that amount of incomes of families, which exclude them from the list of payments receivers, is usually very high, much higher of a poverty level.

Taking into consideration foreign experience, as well as some negative consequences of big payments for a child during a short period of time, it's possible to make a conclusion that providing with payments children during a long period of time with simultaneous one-use payments shortening will cause positive effect on absolute and relative poverty phenomenon decrease. Today there are preconditions for double increasing of the period payment with simultaneous

correction of one-use payments. In our opinion, offered measures will give an opportunity to reduce essentially the risks of irrational using of big amounts of received payments and decrease the need in common monitoring of such budget payments. Longer period payments for children will enable to correct the mistake of some state social payments assignment that will positively influence the poverty level and the depth of official poverty of households with children. For poverty problem solving in modern understanding of this phenomenon, it makes sense to provide households with children with important social services, primarily with medical and educational services. Only taking this measure will essentially improve standard level of families with children.

While solving the problem of poverty in Ukraine, it's important to take into consideration material condition of receivers of transfers for further identifying of payments' amount. It's essential to take measures for division of payments into two parts – fixed and changeable, amount of which depends on households' incomes. For the purpose of increasing influence of these payments on reducing amount and depth of poverty, it's important to keep developing in the future dynamics of standard level increasing, which is taken into consideration while payment is assigned. Taking into account the fact, that families with children are considered to be the most vulnerable category of households regarding poverty issue, in the near future instead of using a definite level of subsistence minimum for assigning payment for child care under 3, it's necessary to take into account its full amount. Taking into consideration the fact, that those groups who suffer from poverty include not only households with children under 3, but also with older children, it's advisable to use above mentioned mechanism of payments assigning in relation to older children.

Besides the facts, that systems of social care, which function in developed countries, differ greatly, approaches of budget support providing of the poor have a number of common features. Common characteristics of providing disadvantaged households with social payments from budget are the point that its aim is financial support of the people, who are not included in functioning systems of social assurance. Besides, primary task of the systems of social support providing is creation of necessary preconditions for activation of personal attempts of payments receivers in order to overcome difficult financial situation [3: 34–35]. Taking into consideration these points will contribute to the development of social support system in Ukraine.

Improvement of public awareness of their rights and social support will be very important for poverty solving in Ukraine. Improvement of financial situation of disadvantaged population will take place, while taking into account increasing of a number of applicants for payments receiving and, as a result, social support level rises, as well as judicial awareness of the population increasing. Taking into account these factors, primary task of information policy of the country and local authorities is explaining to people conditions of budget transfers receiving. Effective means for above mentioned plan implementation in present conditions are social advertisements, Internet technologies, using opportunities of state and municipal mass media, brochures and booklet distribution. It's inappropriate to

distribute only regulatory legal acts that regulate rights of people for social support, but it's important to inform people in an approachable way.

Amount of payments increasing and making them more available for disadvantaged families should be supported by control of social payments. It's not easy to implement this task in present conditions of informal sector of economy and, respectively, a big amount of "shadow" incomes, as well as corruption of state power. The point of taking into account above mentioned factors is necessary for creating ways of control optimization in the sphere of formation and division of budget transfers for the population. International experience regarding budget transfers of the population will contribute a lot, for it was formed during a long period of functioning of state finances in conditions of market economy and democracy in society.

Social support providing in foreign countries is preceded by financial situation analyzing of the potential recipients. For example, in Germany not only incomes of households are taken into account, but also savings and non-financial assets availability. In case when amount of the last exceeds established minimal level, these citizens are excluded from the list of budget transfers receivers. In Sweden legislature demands from population informing state and local authorities about their incomes, property, expenditures, connected with apartment maintaining, and in some cases about other expenditures. One of the severest measures for social support receiving is taken in Japan. Besides regulating minimal incomes that give right to get budget transfer, a person should sell personal property, except defined property. However, receivers should not possess valuables and financial assets [4: 14–15; 39, 70].

Above mentioned facts give us an opportunity to recommend establishment of strict limitation of financial support receiving by disadvantaged families in case of having in their possession household of a definite value. Financial support should be restricted not only for people owning more than one car [5], but also for families having in their possession expensive car or other vehicles. As far as it enables its owner to get money by selling the vehicle and buying less expensive one. In our opinion, people who have in their disposal commercial real estate objects also should be excluded from the list of potential social support receivers.

Mechanism of housing conditions checking by a social inspector needs to be improved. General information on conditions of wellbeing of the family, which is stated in the acts, should be supported by more detailed information on nature of valuable objects. In order to reduce subjectivity, typical form of the act should include a detailed list of the most important means of extra income receiving, as well as valuable objects. It makes sense to include extra space, where evaluation of available valuable objects in scores should be stated. Using these results of investigation in the process of financial monitoring of household's condition will enable also to analyze real financial resources, which are in the disposal of social support receivers. In order to exclude mistakes in providing disadvantaged families with financial support it's important to establish the mechanism of

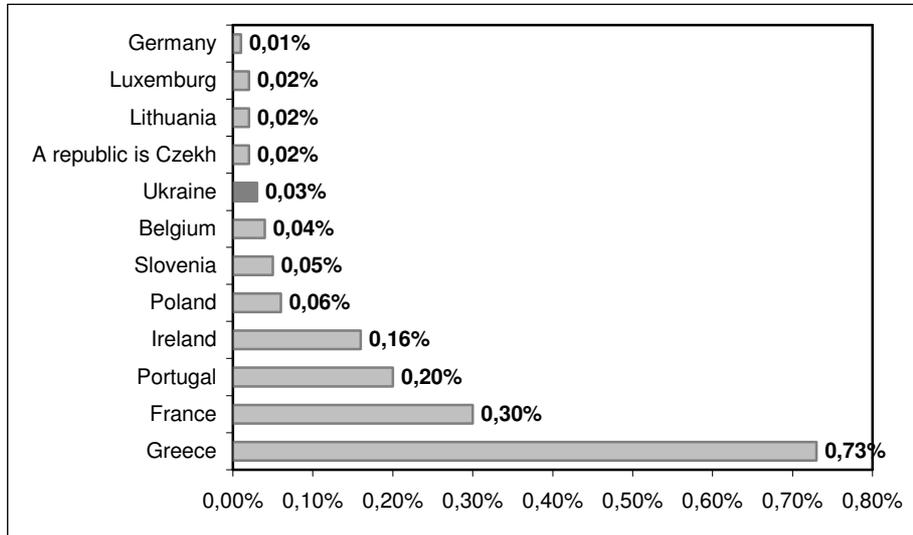
social inspector's responsibility for alteration of objective data in investigation acts. For this purpose check-ups should take place in order to check probability of indicated in the acts information about financial situation of the families, who have the status of disadvantaged. Taken measures will provide with opportunity to improve social transfers' mistakes and in such a way rise role of budget influence on poverty phenomenon overcoming in Ukraine.

Control of budget transfers for the poor households will create positive conditions for extension of social support types. It will enable to provide with broader budget support those people, who are in a very difficult financial situation. Positive social effect will cause providing with extra payments those disadvantaged families who are taking full-time treatment in the hospital, or whose children study in specialized schools or higher educational establishments, that are situated in another district. Besides, essential support in payments for disadvantaged families will cover one-use payments (for example, in case of a severe disease or trauma, graduating from or entering educational establishment etc). In order to create a perfect mechanism of financial support of the disadvantaged, first it makes sense to try its implementation on the local level. It will be useful to create on the state level clear recommendations of extra payments for disadvantaged people and providing them with extra one-use payments. It's important to encourage local authorities for this activity by partial financing of necessary expenditures for an account of state budget.

One more priority way of budget transfers activation, while overcoming poverty in Ukraine, is essential rising of budget role in solving housing problems of people. First of all, it's necessary to increase budget expenditures on housing programs financing. Taking into account big challenges of objective division of financial resources of individuals through budget, especially in the countries with a high corruption level and weak public institutions, advantage should be given to budget resources in the form of mortgage credit. Ratio of budget expenditures to mortgage credits providing in Ukraine is very small, whereby in a number of European countries with less problems in this sphere, above mentioned ratio is essentially bigger (fig. 2).

Necessity of primary solving of housing problems can be certified by the fact, that according to social investigation results, made by Russian scholars, the most important need of disadvantaged citizens, as well as the poor, is connected with the condition of housing [6, p. 46]. In this research it's stated that 1/3 of disadvantaged people in case of possessing needed sum of money would buy a flat. Since we lack social investigations of this kind in Ukraine, we may take into consideration a lot of common social-economic characteristics of Russian and Ukrainian citizens, and make a suggestion, that the same priorities are typical of Ukrainian poor citizens. In conditions of rather limited commercial mortgage crediting, budget resources form the only available source of buying an apartment for those, who need it. Except extreme increase of budget resources that are used for mortgage credits, mechanism of their providing needs further improvement. Taking into account risks of poverty of different households, priority of budget mortgage credits receiving should be given to families with children, especially with many children.

Figure 2.

**Ratio of budget expenditures on mortgage credits to GDP
in European countries and in Ukraine in the beginning of XXI century, %²**

An important reserve for finding resources for social support increasing is saving expenditures by annulling numerous facilities, first of all, for advantaged ranks of society. These measures should form one of the tools of poverty problem solving in Ukraine. First step in providing with budget transfers in kind could be monetary policy. This fact would give an opportunity to reduce economic inefficiency of budget expenditures. Using mechanism of money support, according to which dependence of amounts of payments on financial situation of the receivers is established, will cause increasing of social effectiveness of budget expenditures. To solve the problem of sharp social inequality in the country, that causes the problem of poverty, it's necessary to reform acting system of taxing of citizens' incomes. Need in shifting tax measures from the poor to the rich in Ukraine appeared long time ago. Confirmation of this fact is the results of public opinion investigation. In order to satisfy them, some state and local authorities try to solve this problem within their power. In Ukraine tariffs for used gas are established in such a way, that those who use bigger amount of it pay higher tariffs, and vice versa – fewer amounts is used – smaller tariff is paid. One more example of this fact can be proved by establishment of differentiated types of tariffs for citizens, who live in elite and other buildings. These actions for sure

² Made up according to the data of Department of the Treasury of Ukraine. [7: 100].

can't form an effective way of solving the problem of social inequality, for not always the rich follow these rules.

Taking into account the aim of budget division, taxation should deal mostly with the rich and minimize payments of the poor. To achieve this aim it's necessary to establish the scale of taxation of physical persons and, simultaneously, establish untaxed minimum on subsistence level. It's necessary to annul using simplified systems of taxation by the people who refuse paying established amounts of fiscal payments. Taking these measures will cause decrease of official poverty in the country, social consensus building, social tension reducing. Besides, the reform will create an effective protection of necessary financial resources of households from taxation.

Availability of high quality budget services is as important for poverty problem solving as improvement of transfer policy of the country. Taking into account problems of equal access of all people to basic social services, its solving should be a primary task for state policy regarding poverty phenomenon overcoming in the country. It should be aimed at increasing of physical availability of budget services, as well as at the radical improvement of financial availability of important social services for all citizens of the country.

Essential precondition for solving this difficult task is strict monitoring of citizens' deprivations, connected with lack of opportunity to receive budget services. Solving of above mentioned task needs providing of registration of each case of social services availability, primarily education and health care. Physical unavailability of this process can be certified by dissatisfied people's applications about children's enrolling in educational establishments, registration of complaints about remoteness of state establishments, results of social investigations. Anonymous questionnaire of people may also serve as important source of information about financial availability of essential social services. These procedures should take place regularly depending on budget services qualities. For this purpose, it's necessary to organize process of applications providing in state establishments, analysis of filled applications and generalization of received results, as well as confidentiality and integrity of applications providing. In order to use single approach in monitoring of availability of social services for population, the whole process should be coordinated by one state body, orders of which should be obligatory for all bodies of money division on a definite territory. In such a way, functions of monitoring coordination should be performed by local state administrations or executive bodies of city councils.

One of essential means of providing availability of important public services is establishment, implementation and keeping on appropriate level scientifically proved social norms. Social norms of providing people with important social services should presuppose satisfying people's minimal needs, notwithstanding their place of living and financial situation. It's necessary to take into consideration amount of social services availability, place of living of services' receivers, dynamics of demographic processes development in the country, as well as, fiscal ability of state establishments and necessity of services' economic

results stimulating. According to these conditions it's possible to improve not only the level of living of disadvantaged people, but transparency of budget process, receive objective division of budget resources between individuals and increase budget expenditures effectiveness. Implementing social norms in budget sphere will contribute to improvement of inter-budgetary relations and increase of social effectiveness of payments division between different types of local budgets. Taking into account problems of social norms implementation in mechanism of calculation of inter-budgetary transfers, this process will be rather long and gradual. Priority, in our opinion, should be given to expenditures on providing population with those services that have the most important influence on poverty overcoming.

Increasing of financial availability of important social services for consumers is also very important. Taking into account essential negative social consequences caused by using eleemosynary payments of people and comparatively not big positive fiscal effect received from such an activity of state establishments, we offer to restrict receiving of such incomes by establishments that provide services of education and health care. Besides, it's important to improve the mechanism of prices establishment for paid services which are provided by state establishments. It's necessary to establish public control of pricing, exclude monopoly, and limit profitability of such services. Taken measures will enable to reduce people's expenditures, connected with important social services receiving, increase their availability, primarily for disadvantaged people, raise level of social development and decrease poverty in the country.

Measures connected with social services availability can't be implemented without correction of budget expenditures. As data of table 1 show, essential reserve of expenditures increase can be noticed in medicine, as far as ration of budget expenditures on health care to GDP in Ukraine is the lowest among European countries, and amount of such expenditures in general budget expenditures is one of the smallest. Taking into account low standard living of Ukrainians, weak development of private medicine and lack of medical assurance, level of budget expenditures on health care sphere in Ukraine should be not lower than average European index. Increase of expenditures on health care sphere should be supported by establishment of clear list of medical services, which should be provided for free for every person, not taking into consideration his or her place of living. Without taking these measures it's impossible to solve the problem of limited access of people to necessary social services.

Essential social expenditures influence on poverty overcoming in Ukraine lies in radical increase of effectiveness of these expenditures. It makes sense to minimize expenditures, connected with social services producing, as well as improve qualitative characteristics of these very services. Taking measures of the first group will cause positive influence on poverty overcoming, since this extra money can be used for state establishments range expanding that will make available physical access to services. Importance of quality improvement of these services is caused by need of individuals and increase of standard level of living in the country.

Table 1

Expenditures on health care and education in general budget expenditures and their correlation with GDP in countries of the European Union and Ukraine in 2005

Country	Health care		Education	
	Budget expenditures, %	Correlation with GDP, %	Budget expenditures, %	Correlation with GDP, %
Belgium	14,3	7,1	12,3	6,1
Czech Republic	13,9	6,1	11,0	4,8
Denmark	10,5	6,9	12,1	7,9
Germany	18,0	6,2	12,0	4,1
Estonia	12,0	4,0	17,3	5,8
Greece	12,5	4,6	7,3	2,7
Spain	16,3	5,7	12,6	4,4
France	21,2	7,3	17,8	6,1
Italy	16,3	6,9	11,2	4,7
Latvia	12,5	3,8	19,9	6,1
Lithuania	15,1	4,3	19,2	5,5
Luxemburg	15,3	5,5	14,2	5,1
Malta	14,5	6,8	12,5	5,8
Netherlands	10,2	4,4	12,0	5,1
Austria	14,7	6,9	12,7	6,0
Poland	11,9	4,5	16,4	6,2
Portugal	19,0	7,2	19,7	7,4
Romania	20,4	5,8	14,4	4,1
Slovak Republic	16,4	6,5	16,5	6,6
Slovakia	18,0	5,1	14,2	4,0
Finland	15,0	6,8	13,2	6,1
Sweden	12,2	7,0	12,7	7,3
Great Britain	13,2	7,1	10,8	5,8
Norway**	15,5	7,2	12,5	5,8
Ukraine**	11,8	3,7	19,6	6,2

** Note: data on Ukraine of 2007.

Experience of forming and using budget in developed countries proves, that important tool in achieving high results in budget expenditures is program-oriented method. Substantial implementation of this method of planning budget and implementing it in national practice will cause orientation of budget resources on solving the most important social problems, essential increasing of budget transparency, aiming activity of state establishments at satisfying differ-

ent human needs, optimizing expenditures on social services producing. In terms of implementing program-oriented method in budget process of Ukraine, appropriate opportunities are being created for analysis of influence of budget expenditures on poverty overcoming.

Many problems connected with a low standard level of population in Ukraine can be solved with the help of social infrastructure development. Solving this important task needs essential increasing of village budgets expenditures on improvement of highways of local importance and households. Taking into account peculiarities of functioning of local finances in market countries, as well as present condition of forming and using village budgets money, to solve the problem of poor condition of social infrastructure is impossible without using purpose transfers of state budget. It makes sense to establish the practice of providing village budgets with subventions for social infrastructure development. In order to achieve high results with the help of such expenditures in poverty overcoming, it's advisable to use division of subventions on the basis of formalized methodologies, which presuppose taking into account the most important deprivations of villagers, as well as dynamics of demographic situation development and level of economic activity.

Level of population's wellbeing is determined by development of its national economy. Individuals, enterprises, cities and countries become marginalized in the light of present conditions, in case they are not competitive [8, p. 163]. Using budget in economic development stimulating has its aim to form favorable situation for personality's self-realization, according to the level of civilized countries. Taking into account contemporary problems in national economy, priorities of budget regulation of economic problems in order to minimize poverty should be the following:

- Expanding official economy and reducing informal economic sector;
- increasing employment level, primarily legal one, of economically active population;
- increasing labor productivity;
- minimizing prices increase for socially important goods and services;
- developing small entrepreneurship;
- territorial and field balancing of economic development;
- liquidating depression of the territories by encouraging entrepreneurial activity.

To sum up, necessity of poverty problem solving in Ukraine demands essential activation of budget policy. First of all, mistakes in forming and using budget that make negative influence on level of living of disadvantaged ranks of society, should be corrected. Measures regarding further optimization of budget implementation in overcoming poverty should be taken, taking into account best foreign experience in this sphere and substantial scientific researches. Budget

role increasing in social processes regulating in the country should be implemented with simultaneous rising of economic productivity and effectiveness of budget expenditures. However, it's important to state, that taking only budget measures won't reduce poverty substantially. For this purpose it's necessary to use other financial tools, able to influence social processes in the country.

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