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### **INCLUSIVE BUDGETING: THEORETICAL ASPECTS, PREREQUISITES AND NECESSITY FOR ITS IMPLEMENTATION IN UKRAINE**

**Abstract.** In order to ensure the socio-economic development of Ukraine on the basis of the concept of inclusive sustainable growth, the necessity of introducing technology of inclusive budgeting, which would take into account the benefits of practical use of program-targeted, participatory and gender-based budgeting, has been proved. The main features of inclusive budgeting include: existence of legislatively approved rules, norms and procedures that maximally involve citizens into filling budgets of different levels on the basis of the principle of progressive taxation and provide them with equal access possibilities to public services; maximize the involvement of society members in formulation of the budget programs on the basis of which budget expenditures are determined, as well as in monitoring their implementation, including the reporting procedure.

Interpretation of the terms «budgetary inclusion» and «inclusive budgeting» is proposed. In particular, budgetary inclusion is interpreted by the authors as comprehensive access for all stakeholders to formation and use of budgetary resources through the introduction of innovative budgeting technologies. Inclusive budgeting is defined as a technology of budgetary resources management, which reflects the way of influence of the methods, forms, tools, key factors of the budgetary mechanism on distributive relations, is to ensure that the results of formation and use of budgetary resources are priorities of the socio-economic development of the state, based on equal opportunities of population access to public services, active involvement of all stakeholders in budgetary procedures and harmonization of interests of the state and citizens. The main elements of inclusive budgeting include: budget programs; performance indicators for evaluating the implementation of budget programs; budget program executors; initiative, active, financially competent citizens; participatory budgeting.

The main stages of integration of inclusive aspects in the budget process are defined: carrying out inclusive budget analysis (analysis of budget requests, budget programs and the state of their financing, budgets in order to identify problems of unequal access of citizens to budgetary resources and public services); formulation of the goals and recommendations to enhance inclusion; making changes to budget requests, budget programs, budgets; monitoring and evaluation of the results of changes made to budget requests, budget programs, budgets.

**Keywords:** budgetary inclusion, budgeting, budgeting technologies, program-targeted budgeting, participatory budgeting, gender-based budgeting, inclusive budgeting.

**JEL Classification** H61; H79; H83

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## **ІНКЛЮЗИВНО ОРІЄНТОВАНЕ БЮДЖЕТУВАННЯ: ТЕОРЕТИЧНІ АСПЕКТИ, ПЕРЕДУМОВИ ТА НЕОБХІДНІСТЬ ЗАПРОВАДЖЕННЯ В УКРАЇНІ**

**Анотація.** Для забезпечення соціально-економічного розвитку України на основі концепції сталого інклюзивного зростання доведено необхідність запровадження технології інклюзивно орієнтованого бюджетування, яка би враховувала переваги практичного використання програмно-цільового, партиципаторного та гендерно орієнтованого бюджетування. Серед основних ознак інклюзивно орієнтованого бюджетування виокремлено: наявність законодавчо затверджених правил, норм і процедур, які дозволяють максимально повно залучити громадян до наповнення бюджетів різних рівнів на основі принципу прогресивного оподаткування та забезпечити їм рівні можливості доступу до отримання суспільних послуг; максимально можливе залучення членів соціуму до формування бюджетних програм, на основі яких визначаються видатки бюджетів, а також до контролю за їхнім виконанням, включаючи процедуру звітування.

Запропоновано трактування понять «бюджетна інклюзія» та «інклюзивно орієнтоване бюджетування». Зокрема, бюджетна інклюзія трактується як усебічний доступ усіх стейкхолдерів до формування та використання бюджетних ресурсів через впровадження інноваційних технологій бюджетування. Інклюзивно орієнтоване бюджетування визначено як технологію управління бюджетними ресурсами, яка відображає спосіб впливу методів, форм, інструментів, важелів бюджетного механізму на розподільні відносини, полягає у забезпеченні відповідності результатів формування і використання бюджетних ресурсів пріоритетам соціально-економічного розвитку держави, ґрунтується на рівних можливостях доступу населення до суспільних послуг, активній участі усіх зацікавлених сторін у бюджетних процедурах та гармонізації інтересів держави і громадян. До основних елементів інклюзивно орієнтованого бюджетування віднесено: бюджетні програми; результативні показники оцінювання виконання бюджетних програм; виконавців бюджетних програм; ініціативних, активних, фінансово грамотних громадян; бюджет участі (партиципаторний бюджет).

Визначено основні етапи інтеграції інклюзивних аспектів у бюджетний процес: проведення інклюзивного бюджетного аналізу (аналізу бюджетних запитів, бюджетних програм та стану їхнього фінансування, бюджетів із метою визначення проблем нерівномірного доступу громадян до бюджетних ресурсів і суспільних послуг); формування цілей та рекомендацій щодо посилення інклюзії; внесення змін до бюджетних запитів,

бюджетних програм, бюджетів; моніторинг і оцінювання результатів внесених змін до бюджетних запитів, бюджетних програм, бюджетів.

**Ключові слова:** бюджетна інклюзія, бюджетування, технології бюджетування, програмно-цільове бюджетування, партиципаторне бюджетування, гендерно орієнтоване бюджетування, інклюзивно орієнтоване бюджетування.

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## **ИНКЛЮЗИВНО ОРИЕНТИРОВАННОЕ БЮДЖЕТИРОВАНИЕ: ТЕОРЕТИЧЕСКИЕ АСПЕКТЫ, ПРЕДПОСЫЛКИ И НЕОБХОДИМОСТЬ ВВЕДЕНИЯ В УКРАИНЕ**

**Анотация.** Замедление темпов экономического роста, распространение деструктивных демографических и экологических процессов, усиление неравенства в доступе к участию в экономической, социальной и политической жизни страны обуславливают потребность в поиске инновационных технологий бюджетирования, которые включали бы элементы инклюзии. Аргументирована целесообразность совершенствования технологий бюджетирования и рекомендовано введение на базе программно-целевого, партиципаторного и гендерно ориентированного бюджетирования технологии инклюзивно-ориентированного бюджетирования. Предложено определение понятий «бюджетная инклюзия» и «инклюзивно ориентированное бюджетирование», а также определены основные этапы интеграции инклюзивных аспектов в бюджетный процесс, признаки и составляющие инклюзивно ориентированного бюджетирования.

**Ключевые слова:** бюджетная инклюзия, бюджетирование, технологии бюджетирования, программно-целевое бюджетирование, партиципаторное бюджетирование, гендерно ориентированное бюджетирование, инклюзивно ориентированное бюджетирование.

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**Introduction.** The effectiveness of the impact of budgetary mechanism on the socio-economic development of a country largely depends on the validity and harmonization of its elements within the selected management budgeting technology used in a particular country at a certain stage of its development.

Program-targeted budgeting technology is considered to be the most progressive in the world for a long time. It, like other technologies (zero-based budgeting, program analysis and review, on the base of budget decisions selection rationalization, conjunctural-neutral budgeting), is result-oriented but less costly.

New challenges caused by current trends in the economy, necessitate permanent improvement of existing budgeting technologies, including program-targeted one. This led to the emergence of participatory and gender-based budgeting. However, they are also not able to meet all the needs of society under conditions of digital economy and increasing social inequality. This necessitates the development of a new budgeting technology based on the concept of inclusive growth.

**Analysis of research and setting objectives.** The works of scientists R. Allen, V. Andrushchenko, D. Brooke, V. Gamukin, K. Arrow, O. Lavrov, K. McKenzie, J. Harris, R. Hemming, B. Potter, A. Sen, V. Fedosov, O. Shyshkin and others deals with the study of theoretical and applied principles of budgeting technologies. Despite the considerable scientific and practical value of the mentioned scientists' achievements, ensuring the socio-economic development of society based on the concept of inclusive growth requires justification of proposals for improving budgetary resources management technologies.

**The aim of the article** is justification of the theoretical foundations of inclusive budgeting, determination of preconditions and necessity of introduction of this technology into budgetary practice of Ukraine. In the course of research systematic approach to study widespread budgeting technologies, used in foreign and domestic practice, and the following methods of scientific cognition: induction and deduction, analysis and synthesis, comparison, generalization, associations, analogies and others, were used.

**Results of research.** There is no consensus on the definition of budgeting in the economic literature. Some economists identify this concept with budget planning, which, to our opinion, somehow narrows its meaning. We are of one mind with those scholars, who believe that budgeting covers far more stages of a budget process, so it can be included into budgetary resources management technologies, but not just their planning.

Economists R. Allen, R. Hemming, B. Potter [1, p. 216], K. Arrow, A. Sen, and K. Suzumura [2, p. 321] define budgeting as a management technology that reflects a set of techniques and methods used in budget management to improve information technology in budget work and improve the efficiency of public finance management.

Thus, D. Brooke [3, p. 34], J. Harris, K. McKenzie, and R. Rentfro [4], considering budgeting as a technology and component of budgetary management, believe that budgeting procedures make it possible to reconcile budgetary resources income with their spending and determine the range of payers and beneficiaries, resulting from a complex set of budgetary decisions.

Investigating the use of the most advanced budgetary management technology in the world — program-targeted budgeting — in Ukraine, it is determined that one of its key benefits is development and implementation of budget programs, oriented on the final result (according to the strategic goals), using assessing criteria of their effectiveness and efficiency in the use of budgetary resources, based on transparency of managerial decision-making.

Despite the rather long-term application of the program-targeted method in Ukraine with the gradual improvement of each of its components, the use of effective indicators in many cases is of formal character. Most programs have a significant quantitative predominance of cost and product indicators over performance and quality ones (according to the budget programs of the State Administration of Affairs of the total number of performance indicators, the quality and efficiency indicators make 36.2% only, Ministry of Education and Science of Ukraine — 34.1% only, the State Committee for Television and Radio — 29.9% only), which, in our opinion, reduces effectiveness of the overall assessment of budget programs implementation. Moreover, in terms of their economic content, these indicators do not reflect the result of spending budgetary resources, although they are auxiliary to calculating performance and quality indicators. Therefore, in our opinion, it is incorrect to consider them as indicators of budget programs implementation performance, and it would be advisable to call them «input indicators for effectiveness determination».

Also, individual performance indicators do not sufficiently reflect the results of the budget program implementation, and sometimes are contradictory. For example, in the health sector

indicator «occupancy of the bed fund» complicates the assessment of the budget programs implementation, since its increase, on the one hand, indicates an increase in the use of existing bed fund by the appropriate health care institution, and on the other — an increase in the morbidity of population, hospitalization. Also, this indicator contradicts another productive quality indicator — «reduction of morbidity level».

The use of these indicators from year to year was partly made possible by the lack of an effective system for monitoring and analyzing budget programs.

Based on the above, we note the fragmentation of use of the program-targeted method components and necessity to improve this technology of budgeting in modern conditions.

Insufficient informativeness of the performance indicators, as well as global trends of wider application of the program-targeted method into the budget process, have led to the emergence of technologies such as participatory and gender-based budgeting.

Participatory budgeting is a management technology based on citizen participation in budgetary resources decision-making. Its characteristic features as an innovative management technology are the following: determination of the part of the administrative-territorial unit budget, over spending of which will be discussed by citizens at the relevant period; possibility for citizens to submit projects according to the established requirements for consideration by the committee and subject to confirmation of compliance with the requirements — for voting; obligation to comply with decisions made by residents during voting; the ability of residents of the administrative territory to vote for projects (ideas), implementation of which will meet the needs of the entire local community; implementation of investment projects exclusively within the jurisdiction of the relevant local government body; an opportunity to strengthen the community by creating conditions for its members to debate, discuss major issues, and make joint decisions.

A prerequisite for successful implementation of participatory budgeting technology is a high level of initiative, activity and financial competence, including awareness in the area of participatory budgeting of citizens of the administrative territory and availability of sufficient budgetary resources to implement the project of participatory budgeting.

Analyzing the experience of applying different budgeting technologies, we also look at gender-based budgeting. It is, in fact, a tool aimed at integrating of gender component into the budget process. It should be considered as an influential element of managerial activity related to the development of budgets at different levels, which provides important information to decision-makers on allocation of budgetary resources [5, p. 6], and creates preconditions for the implementation of the principle of equal rights and opportunities for women and men in all spheres of life and ensures sustainable development of society.

Development of gender-based budgeting makes it possible to trace the impact of state budget revenues and expenditures on the socio-economic status and opportunities of different groups of women and men, as well as on aspects of gender equality in the country. As a management technology, gender-based budgeting helps to assess how and to what extent government policy on allocation of budgetary resources affects women and men as consumers of services, infrastructure users and taxpayers.

Considering the essence of the concept of «gender», the use of gender-based budgeting implies reducing inequalities in society by changing approaches to formation and use of budgetary resources by gender (men, women), but other manifestations of this phenomenon are not emphasized (inequality in access to basic services, income, allocation of budgetary resources depending on age, socio-economic status, place of residence, educational level, etc.).

The aforementioned necessitates the development of a new budgeting technology that will enhance the ability of citizens to participate in the budget process, replenish the budget and ensure their equal access to public services provided through budgetary resources based on the principles of rule of law, fairness and transparency. In other words, this technology should include inclusivity characteristics.

The issue of inclusion is also relevant to other social processes. In particular, consideration of the range of problems associated with the slowdown in economic growth, spread of poverty among

the population, destructive demographic and environmental processes, social rejection, gender inequality in access to economic, social and political life, development and implementation of the measures based on the concept of inclusive sustainable growth by the state is appropriate.

The basic provisions of this concept were developed by the scientists D. Acemoglu, D. Robinson, E. Reinert, J. Podesta, Z. Beddoes, S. Hollander and were used in the work of the Committee on Growth and Development, headed by M. Spence, B. Solow, based on the results of which there is prepared «The Growth Report. Strategies for Sustained Growth and Inclusive Development» [6].

Inclusion is to ensure the active involvement of all stakeholders into the system to achieve a positive outcome with equal opportunities and to adapt the system to human needs. Within an inclusive model, people adapt, change, and take an active part in economic, social and political life of the country, taking into account necessity to meet the needs of each member of society. The concept of inclusive sustainable development implies that every economic entity is important, unique and valuable to society and has the capacity to meet its needs. Inclusive economic growth is a multifactorial and multilevel process, the basis of which is economy of maximum employment and interaction of all subjects in the context of humane development of society [7, p. 85].

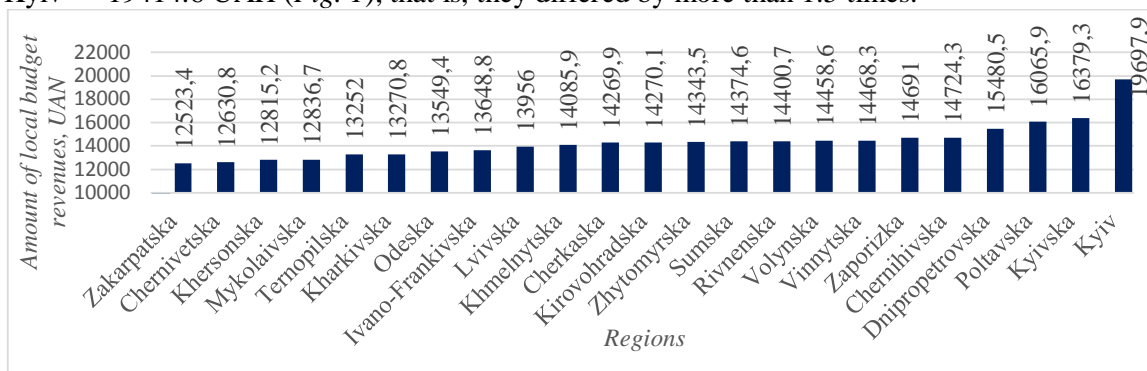
The importance of securing inclusive economic growth has been confirmed by the decisions of many international organizations and necessity of introducing inclusive budgeting in Ukraine is induced with the insufficient level of inclusion of the national economy.

The results of calculation of the Inclusive Development Index (IDI) — an integral indicator, which is determined based on 12 different indicators (IDI is proposed in 2017 at the World Economic Forum in Davos to comprehensively reflect the level of socio-economic development of the country), show that among 106 (2017) and 103 (2018) countries of the world Ukraine ranked the 76<sup>th</sup> place in 2017 with an index value of 3.67, and the 78<sup>th</sup> place in 2018 with an index value of 3.42, and among 79 (2017) and 74 (2018) developing countries — the 47<sup>th</sup> and 49<sup>th</sup> places, respectively. During the last five years, inclusive development of Ukraine has decreased by 6.8% [8].

One of the reasons for the decline in the inclusive development level of the Ukrainian economy is the increase in stratification of society by distribution of wealth and demographic burden, poverty level, decrease in labour productivity, employment, which results in unequal access of population to public services and budgetary resources.

At the same time, the differences in socio-economic development of the regions, tax potential of the administrative territories, which depend on the revenue base of local budgets, unequal need in budgetary resources to exercise the powers of the local governments, and different cost of public services they provide, complicate solution of the problem of social inequality.

As a result of the analysis of the local budget revenues volume, taking into account transfers from the state budget to one person in the regions of Ukraine, regional asymmetry on this indicator was revealed. For example, the amount of local budget revenues per person in Zakarpattia Region in 2018 made 12,751.6 UAH. At the same time, in Poltava Region it made 16499.5 UAH, and in Kyiv — 19414.6 UAH (Fig. 1), that is, they differed by more than 1.5 times.



**Fig. 1. Local budget revenues, including transfers from the State Budget of Ukraine per person in 2018, UAH**

Source: compiled by the authors based on the data [9].

We do not state that in all the regions of Ukraine the amount of local budget revenues per person should be the same. However, Ukrainian citizens should have equal access to all public goods provided on the expense of budgetary resources.

Confirmation of uneven distribution of budgetary resources is the amount of local budget expenditures on education per student. Comparative analysis of expenditures on secondary education, the number of classes and pupils, filling of classes [10] made it possible to conclude that, as a rule, at higher filling of classes, expenditures per student are smaller. However, quite often, with the same number of classes (for example, graduate one) and practically the same filling, difference in budgetary resources expenditures per student is up to 16 thousand UAH at schools of Vinnytsya Region, up to 23.17 thousand UAH in Dnipropetrovsk Region, up to 9.62 thousand UAH in Lviv Region, up to 7.72 thousand UAH in Ternopil Region, up to 29.06 thousand UAH in Poltava Region. In other words, some schools receive significantly higher budgetary resources, enabling them to upgrade their facilities faster, and students in these schools can study in better conditions than others. This causes widespread inequalities in access to qualitative educational services.

The situation is even worse with the allocation of budgetary resources in higher education. For example, in 2018 (according to the data of the Ministry of Finance of Ukraine [11]), the cost of preparing of one student on government order ranged from 19.2 thousand UAH at Taurida National V.I.Vernadsky University to 142.6 thousand UAH in Flight Academy of the National Aviation University (Kirovograd). Of course, training an aviation specialist is more costly than training a manager or a lawyer, but the aforementioned academy is a separate unit of the National Aviation University, where the cost per student enrolled on government order in 2018 was 43.5 thousand UAH. At the same time, the amount of similar expenses at Kyiv National University of Trade and Economics, where training of specialists in the field of services, economy and law is mainly performed, was 42.6 thousand UAH. Average expenditures at agricultural Universities in Ukraine ranged from 20.9 thousand UAH (Lugansk National Agrarian University), 30.2 thousand UAH (Bila Tserkva National Agrarian University) to 61.3 thousand UAH (The National University of Life and Environmental Sciences of Ukraine) and 60.4 thousand UAH (Odessa State Agrarian University).

From the above, we can conclude that practice of planning and implementation of higher education expenditures needs improvement. In our opinion, it is advisable to finance higher education institutions, taking into account the approved estimated cost of training of one specialist and the specialty and the degree, according to the existing principle of «money follows the student». This cost should be the same for all educational providers, who are authorized to carry out such activities.

A slightly better situation in the context of inclusive budgeting was observed in the volume of local health care expenditures per person. In the regions where this figure is the highest, the ratio of health care expenditures and expenditures for local government authorities per person is also the highest. In particular, in Zaporizhzhya Region it makes 3.9, in Cherkasy — 4.96, and in Kiev — 5.6. Therefore, in the regions, where the local government spends fewer resources on its maintenance (per capita), more resources remain to provide public services to all residents of the respective administrative and territorial units. This increases the level of inclusive sustainable development of Ukraine.

Based on the above, we can say that Ukraine has all the prerequisites for development and implementation of new innovative technology for managing budget resources — inclusive budgeting.

The main features of inclusive budgeting are the following:

- maximal participation of citizens in formation of budget programs, on the basis of which budget expenditures are determined, as well as in control over their implementation, including the reporting procedure;
- existence of legislatively approved rules, norms and procedures that allow to involve citizens as fully as possible in filling the budgets of different levels on the basis of progressive

taxation principle;

- existence of legislatively approved rules, norms and procedures, on the basis of which equal opportunities for access to qualitative public services (educational, medical, social, etc.) are provided.

Thus, inclusive budgeting can be considered as a technology of budgetary resources management, which reflects the way of influence of the methods, forms, tools, key factors of the budgetary mechanism on distributive relations, is to ensure that the results of formation and use of budgetary resources are priorities of the socio-economic development of the state, based on equal opportunities of population access to public services, active involvement of all stakeholders in budgetary procedures and harmonization of interests of the state and citizens. Practical application of the proposed management technology will help to improve the well-being of population in the context of ensuring inclusive sustainable growth.

The main elements of inclusive budgeting are: budget programs; effective indicators for evaluating the budget programs implementation; budget program executors; initiative, active, financially competent citizens; participatory budgeting (Fig. 2).

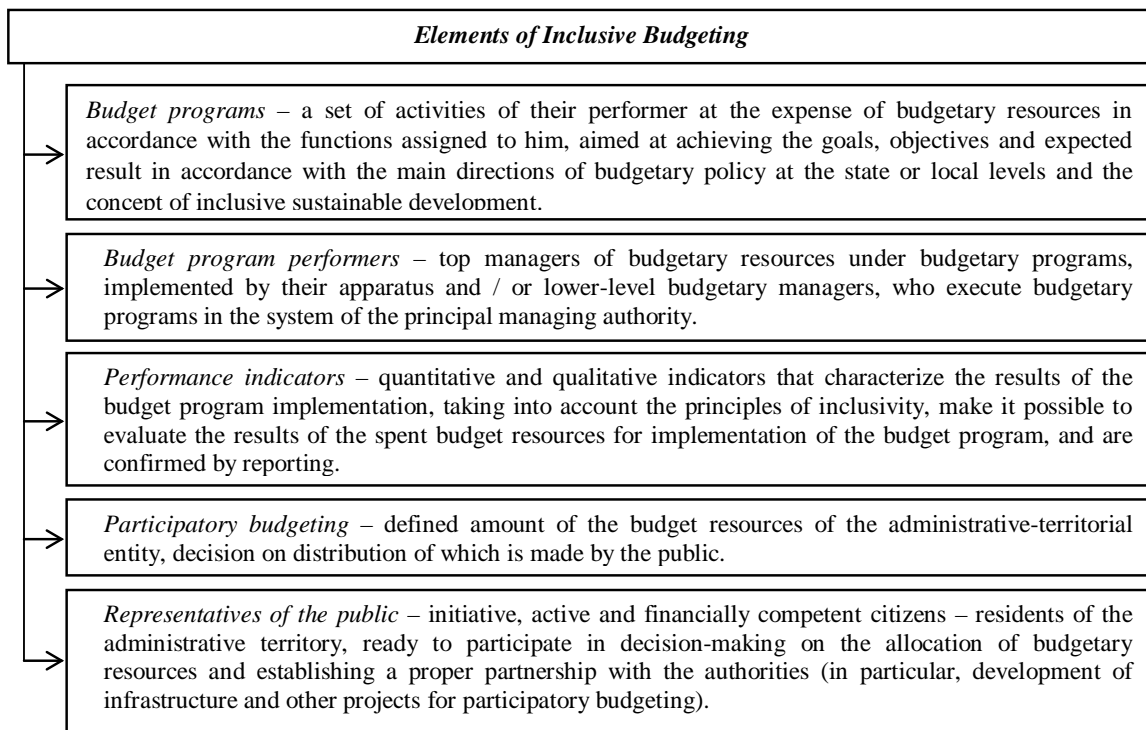


Fig. 2. Elements of inclusive budgeting

Source: compiled by the authors.

The main stages of integrating inclusive aspects into the budget process are the following:

- conducting inclusive budget analysis (analysis of budget requests, budget programs and their financing status, budgets in order to identify problems of unequal access of citizens to budget resources and public services);

- formulation of goals and recommendations for strengthening inclusion;

- introducing changes, aimed at maximizing necessities and satisfaction of the interests of all individuals to budget requests, budget programs, revenue and expenditure parts of the budgets;

- monitoring and evaluation of the results of changes made to budget requests, budget programs, budgets for inclusive sensitivity (including the inclusive aspect).

The foregoing makes it expedient to use the term «budgetary inclusion» in the scientific turnover, which should be understood as full access of all stakeholders to formation and use of budgetary resources through introduction of innovative budgeting technologies.



Following the above, we consider one of the important steps towards the introduction of inclusive budgeting in the context of the current program-targeted method of budgetary resources management in Ukraine to be the use of an inclusive approach in determining the effective performance of budget programs, taking into account gender, age, place of residence, social affiliation of the population, etc. to ensure fair and impartial distribution of public wealth among citizens to improve the quality of guaranteed public services provision. It is also important to take into account the principle of equal rights and opportunities of all society members in the budget sphere, which also envisages implementation of necessary changes in the legal acts, used in the budget process at the state and local levels, as well as political will of the state and local self-government authorities.

Implementation of the proposed measures will allow to change the mechanism and specifics of use of the budgetary resources qualitatively, in particular, to abandon the principle of financing social-cultural institutions or the overall volume of services to citizens in favour of introducing budgetary financing of a specific public service to an individual or a certain group of persons, depending on gender, age, social status, place of residence, etc.

It is expected that the main advantages of inclusive budgeting will be reduction of inequality of citizens' access to the processes of formation and use of budgetary resources, improvement of targeting and quality of public service provision, involvement of the public into budgetary procedures.

Therefore, inclusive budgeting is an innovative approach to the process of reforming the public finance management system in Ukraine, aimed at improving the budgetary process.

**Conclusions.** The research describes modern budgeting technologies, which provided an opportunity to reveal the problems of using the program-based method of managing budget resources in Ukraine and outline the directions of their solution.

The feasibility of introducing technology-based inclusive budgeting based on the elements of program-targeted, participatory and gender-based budgeting is argued and it is proved that its use will contribute to improvement of population well-being in the context of inclusive sustainable growth.

The interpretation of the concepts of «budgetary inclusion», «inclusive budgeting» is offered and the main stages of integration of inclusive aspects into the budget process, features and components of inclusive budgeting are defined.

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