DEMOCRATIZATION OF GOVERNANCE AS THE BASIS OF LOCAL ECONOMIC DEVELOPMENT IN UKRAINE

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Citation

Abstract
The article considers the role of democratic standards of governance, which imply the involvement of wide layers of the population in making administrative decisions to ensure regional and local development. The real transition to the implementation of democratization of power relations in Ukraine began with the decentralization reform. The main function of local governments amid decentralization processes is to improve the territorial socio-economic condition, which is the expanded economic recovery of the territory, using the real benefits of democratization and decentralized governance. This article analyzes the stages of decentralization and illustrates the main legislative and regulatory guarantees of this process. The determination of financial resources available to local governments plays a special role in the economic development of territorial communities. The article also scrutinizes changes in local budget revenues of Ukraine over the past six years. The formation of the participatory budget as a component of government democratization as well as the development of public confidence in government is typified. In conclusion, the importance of continuing the decentralization reform and maintaining the society’s progress towards democratization is determined.

Key words
democratization of governance, local economic development, decentralization, municipal budgets, participatory budgeting, local communities, Ukraine.

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1. Introduction

The study of preeminent practices in highly developed countries has shown that the introduction of democratic governance norms (as a replacement of a hierarchical model) provides higher standards of social development, improves welfare of the population, and declares the human being as the highest value in the entire system of socio-economic relations. Democratization processes of governance involve the engagement of the general public in collective decision-making for the benefit of the local community. Democratization of governance increases the efficiency of communities and ensures their ability to independently address issues of local importance. This approach is the basis for creating
conditions to ensure their socio-economic development, determining the priorities of local economic development and having an impact on these processes of local governments. The decentralization reform has become the basis for introducing democratic standards in the relationship between the state and local governments. In this context, the main function of local governments is to improve the socio-economic condition of the territory and to secure real interaction with the public in order to expand the reproduction of the territory’s economy. Utilizing the real benefits of democratization and decentralized governance will ensure that the potential for economic development is exploited both locally and in the country as a whole.

Theoretical and applied principles of democratization of local economic development governance are covered in many legislative and regulatory acts and in a number of foreign and Ukrainian economists’ works. In particular, the Universal Declaration of Human Rights (Universal ..., 1948) defines the right of every citizen to participate in public affairs as well as in the governance of own country directly or through freely elected representatives. S. Huntington (Naumkina, 2004) substantiated the interdependence between democracy and economic development. According to him, democratization is facilitated by certain economic and cultural conditions, including a relatively high level of economic development and the superiority of Western cultural values. The Constitution of Ukraine (Konstituciâ ..., 1996) defines the basic implementation principles of direct democracy rules, and Encyclopedia Britannica (Kauffman, 2010) characterizes the democratization processes and defines their role in the country’s economic development. The European Charter of Local Self-Government (Evropejs’ka ..., 2015) declares the normative consolidation of the citizens’ right to participate in the public affairs governance, which can be directly and effectively implemented at the local level. Í.M. Bezena (2019) states that the democratization and decentralization of public power in Ukraine have begun. The mission of the individual in the outlined processes is changing, and new requirements to qualitative indicators of its activity are being defined. Experts from the Organization for Economic Co-operation and Development (OECD, 2019) call decentralization a “quiet” revolution that affects all areas of life, from the environment and governance quality to economic growth and to improving the well-being of citizens. Í.L. Rajnin (2016) notes the role of local authorities in being responsible for the following factors: local and regional economy development, ensuring population employment, and modernization of the state in order to allow citizens to participate in governance. Finally, B. Pytlík (2017) notes the special role of democratization of governance through the participatory budgeting formation. Meanwhile, B. Pytlík also states that these processes may have some shortcomings.

The establishment of democratic principles in reforming public administration requires broad participation of all social strata and strengthening institutions of civil society. In general, the effectiveness of any management process is determined by the extent to which it meets the interests of society as well as the needs of both the community and each of its members. In this case, the main governance requirements are not only the high professional level of its execution but also compliance with democratic standards. Democratization of governance is a complex socio-economic process that offers a transition from a deeply hierarchical centralized model of governance to decentralization, providing ample opportunities to influence broad sections of society to make governance decisions. As international experience shows, democratization of governance provides higher standards of social development, increasing the levels of success indicators in accordance with predetermined goals. Based on the involvement of a wide range of performers, the method of collective decision-making is used so that all of the participants would influence the final result of the process equally. The key basis of this approach is the use of organization principles of modern society, which are based on the involvement of man in state-building, ensuring compliance with the norms of democratic society.

The Universal Declaration of Human Rights, adopted by the UN General Assembly on December 10, 1948, defines the right of every citizen to participate in public affairs. It states that everyone has the right to participate in governing his or her country directly or through freely chosen representatives. The will of the people must constitute the basis for government authority. This will must be manifested in periodic and genuine elections, which must be held according to the general and equal election law by secret ballot or through other equivalent forms that ensure freedom of vote (Universal ..., 1948).

The basic principles of implementing forms of direct democracy are enshrined in the Constitution of Ukraine (Konstituciâ ..., 1996), where the status of a territorial community is recognized as the bearer of the right to local government, which establishes forms of direct democracy and their influence on public administration.

Existing foreign experience (OECD, 2019) demonstrates that direct democracy, which involves the direct participation of citizens in public administration
in the most effective way, can be implemented at the local level. In Ukraine (Kujbida, 2009), the intensification of this process was ensured by decentralization of governance, a reform of the local government and territorial government organization which aims to improve the standard and quality of life of local communities. In this regard, several Ukrainian scholars note that “at the current stage of democratic development and decentralization, it is possible to outline priorities of the state regional policy, which are to improve the quality of human life; spiritual and mental, as well as the socio-political, socio-economic consolidation of regions. This can be the basis for achieving the integrity and homogeneity of the humanitarian, information and economic space, increasing the competitiveness of regions” (Kujbida, 2009).

An American scientist S. Huntington focused on and substantiated the interdependence between democracy and economic development of countries. Thus, analyzing the “third wave” of democratization, Huntington’s claims about the “retreat of democracy” are primarily based on the economic foundation of this political phenomenon. In his view, democratization is facilitated under certain economic and cultural conditions, in particular a relatively high level of economic development and the predominance of Western cultural values (Naumkìna, 2004). Describing the democratization processes, the British Encyclopedia defines the role of this process in the economic development of the country, noting:

Economic development: The correlation between democracy and economic development is one of the strongest such associations established in political science. However, there is much debate about the nature of the relationship as well as the causal mechanisms behind it. Early modernization theorists noted that the most successful and enduring democracies at the time were also the richest, whereas most poor countries had difficulty developing democracy. Many interpreted this correlation as evidence that economic development, usually measured as per capita gross domestic product (GDP), lays the foundation for democratic transitions. Some even saw democratization as the final stage of the modernization process. The basic argument is that economic development produces an educated and entrepreneurial middle class with an interest in demanding greater influence over governance issues and the capacity to do so. Eventually, even the most repressive governments must bow to this pressure (Kauffman, 2010).

Among the principles of the European Charter of Local Self-Government are those that declare the normative enshrinement of citizens’ right to participate in the governance of public affairs, which is one of the common democratic principles of all Council of Europe states. The Charter stipulates that this right can be exercised directly and effectively at the local level (Êvreoejs’ka ..., 2015).

2. Data and methods

Legislative and regulatory support of the decentralization process is analyzed based on data from the Decentralization website, data from the Ministry of Community and Territorial Development (Ministerstvo rozvytku..., 2022) of Ukraine and The Verkhovna Rada of Ukraine (Verkhovna..., 2022). The analysis of local budget revenues, their structure and dynamics from 2016 to 2021, was conducted according to the Ministry of Finance of Ukraine data (Ministerstvo finansiv..., 2022) Analyzing the revenues of local budgets, the reports on general local budgets funds were used without taking into account intergovernmental transfers. As overall statistics on public budgets in Ukraine are not available, data from the Lviv City Council (Lviv'ska mis'ka..., 2022) were used to analyze the participation budget and the number of public projects. In addition, commonly used scientific methods were applied in the analysis: system analysis for generalization and systematization of literature sources and problem state study (Kustovs’ka, 2005) economic statistical method for analysis of local budgets as the main funding source for the development of territorial communities, their structure and dynamics, analysis of statistical data and reflection of research results (Lapishko, 1995), content analysis to characterize legislative and regulatory support of decentralization (Kostenko, Ivanov, 2003). The abstract-logical method was used to form proposals for the continuation of the implementation of democratic standards in local government, generalize the material theoretically, and to formulate conclusions (Lapishko, 1995).

3. Results and discussion

Some forms of citizen participation are described by laws, in particular, the Law of Ukraine “On Bodies of Self-Organization of the Population” (Zakon ..., 2001). The constitutional right of citizens to appeal is enshrined in the Law of Ukraine “On Citizens’ Appeals” (Nakaz ..., 2002). These laws outline the forms of citizens’ appeals and how they are carried out, outline the requirements for them, as well as the procedures for responding to appeals of public authorities and local governments.

Real processes of democratization of power relations began in Ukraine after launching
decentralization and changing approaches to the center-region relations. In this regard, I.M. Bezena (2019) states that the democratization and decentralization of public power in Ukraine has begun, and there have been achieved some results. The mission of an individual in the outlined processes is changing, and new requirements to activity quality are being defined. An official endowed with public authority must meet the competencies of a modern governor, which are distinguished by democratic principles of activity. He or she must be action-oriented in the legal field of authority and see ways to implement them to regulate the community life.

A study by experts from the Organization for Economic Co-operation and Development (OECD) states that:

Decentralization, sometimes called the “silent” revolution, is one of the most important reforms of the last 50 years. It is implemented to varying degrees in most countries and has profound consequences due to its complex and systemic nature. The process of decentralization affects all spheres of society, from the environment and the quality of governance to economic growth and, more broadly, to improving the well-being of citizens (OECD, 2019).

Decentralization of management involves the provision of quality services to territorial communities. One of the most important tasks in this context is to be able to form effective local governments – to elect the head of the community and local advice as well as to effectively influence them, making difficult decisions and feel responsible for the results of joint work. In this context, I.L. Rajnìn (2016, p. 32) notes:

When the state has shifted away from productive and social functions, new tasks are assigned to local authorities. The challenges of the time require local authorities to take responsibility for the following factors: the development of local and regional economies; ensuring employment; modernizing the state in order to allow citizens to participate in governance; securing the inclusion of socially excluded groups (social work); developing the settlements to meet the needs of citizens; promoting cultural, scientific and technological progress and regional integration. That is, the main function of local governments is to improve the socio-economic condition of the territory, expand the reproduction of the economy of the territory and use the real benefits of democratization and decentralized governance.

In the context of continuing decentralization processes, it is important to highlight the task of state, regional, and local authorities, which is the implementation of regional and local economic development policy. Two stages of decentralization were implemented in Ukraine during the period starting from 2014 and up to 2021 (the first one: 2014–2019; the second one: 2020–2021). Legislative support for the change of the government system and its territorial basis was launched in 2014 after the adoption of laws and regulations by the Government of Ukraine, which ensured the formation of united territorial communities and the transfer of governance functions to the local levels. The number of united

Tab. 1. The main legislative and regulatory acts that ensured the process of power decentralization in Ukraine.

<table>
<thead>
<tr>
<th>Year of creation</th>
<th>Number of united territorial communities</th>
<th>Legislative support of decentralization reform</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>–</td>
<td>The Concept of reforming local government and territorial legislature organization and approval of the Action Plan for the implementation of the Concept. Law of Ukraine “On Cooperation of Territorial Communities”</td>
</tr>
<tr>
<td>2016</td>
<td>366</td>
<td>Establishment of the United Territorial Communities Association</td>
</tr>
<tr>
<td>2018</td>
<td>876</td>
<td>Approval of the composition of the Central Election Commission (CEC) and holding the first elections to 125 UTCs (United Territorial Communities)</td>
</tr>
<tr>
<td>2019</td>
<td>1029</td>
<td>Adoption of the Perspective Plan for the Territorial Communities’ Formation. Draft Law of Ukraine “On Amendments to the Constitution of Ukraine (Regarding the Territorial Organization of Power)” (not adopted)</td>
</tr>
<tr>
<td>2020</td>
<td>1469</td>
<td>Completion of the amalgamation of territorial communities. Regulations on the administrative centers definition and territorial communities approval in each region in accordance with the Law of Ukraine “On Amendments to Certain Laws of Ukraine on the Definition of Territories and Administrative Centers of Territorial Communities” Resolution № 3650 “On the formation and liquidation of districts”.</td>
</tr>
</tbody>
</table>

Source: Own study based on Decentralizaciá daé moživosti.
Democratization of governance as the basis of local economic development in Ukraine

In 2022, there is a plan to amend the Constitution and adopt a number of other legislative acts on decentralization which are necessary for further promotion of the reform and its completion. Of particular importance in this context is the need to determine the composition and volume of financial resources, their relationship with the economic development of administrative-territorial formation and opportunities to analyze the availability of financial resources, sources of their production and investment projects of individual communities.

In general, a significant amount of research is conducted in world practice on the impact of fiscal decentralization on the economic development of a territory, emphasizing the real interdependence of these components (Martínez-Vázquez, McNab, 2003). In this context, the following opinion of Ì. Z. Storonâns’ka & A.O. Pelehatij (2014, p. 107) can be quoted:

Adequate financial support is required for the effective implementation of the functions assigned to it by the territorial community and the achievement of strategic priorities, current functioning and development goals. In this case, the territorial community should be both a carrier of the socio-economic development of territories and the driving force for achieving the strategic goals of territorial formation.

Table 2 shows the dynamics of changes in local budget revenues from 2016 to 2021.

From an analysis of Table 2, a decrease in the number of transfers in 2020 can be seen. That was due to a decrease in total budget revenues. The reason for this is the global pandemic of SARS COV-2019. The growing share of local budget revenues in the consolidated budget of Ukraine should also be noted. According to Table 3, from 2016 to 2021, it increased 1.3 times from 19 to 24 percent. The data in Table 3 also show that local budget revenues are growing from year to year. Their share in the consolidated budget of Ukraine is also growing. This state of affairs in the conditions of democratization of governance contributed to a possibility to form a Participation Budget as a component of the local budgets of Ukraine. An important task today is the application of foreign experience to an effective and democratic model of governance at the local level, the involvement of broad sections of citizens in public affairs, which in some way is established through the formation of the public budget. Public participation in local government is an important component of local government success. The involvement of citizens in making governance decisions related to the development of an area and control over the implementation of norms and rules is evidence of the democratization of governance at the local level. Democratization of participation ensures the citizens’ trust in the government, which can give a powerful impetus to solve local problems and improve the quality of life in a particular village, town or city. Such opportunities for citizen participation in the territorial community governance are provided by the participation budget.

The use of the participation budget began in 1989 in the municipality of Porto Alegre, the capital of the southernmost state of Brazil, where more than a million people live and which is considered rich according to Brazilian standards. In 1988, as a result of the victory of the Workers’ Party, whose campaign was based on democratic participation and the “spending priorities inversion”, there was a change in the cost of public resources and the use of a joint budgeting approach. This approach has been used as a means of helping the poor, and neighborhoods have received higher levels of government spending (Wampler, 2000).

The formation of the participation budget involves the interaction of local councils and their executive bodies with the public. The desired results are obtained through allocation of local budget costs for the implementation of projects proposed by local community residents. The selection of project proposals is carried out through open public voting, which ensures the openness and transparency
of local government structures. At the same time, the effectiveness of this process depends on both parties: on the civil society activity and its desire to participate in local government processes, as well as on the ability of local governments to manage the participation process. However, the participation budget use will only be effective if both government officials and residents decide upon its formation and distribution.

It is crucial to allow residents to express their attitudes in the form of approval or criticism by discussing the public budget or participating in general consultations. In addition, the influence of such factors as the size of local budgets, the share allocated to the implementation of participatory projects, and regulatory support for the selection and implementation process of local projects is obvious. Advantages of engaging public in governance decisions by forming a participation budget include:

- involving a large number of residents with different education and different practical knowledge in decision-making for the benefit of the community;
- generating more project implementation ideas;
- choosing democratically participation projects;
- increasing public confidence in local governments.

As the participation budget is formed independently by each territorial unit, there is no summary data concerning the whole country. That is why the participation budget formation process of Lviv is offered as an example. Formation of the participation budget in Lviv has been arranged since 2016, and the local government has been one of the first to initiate such a process. Encouraging residents to take part in the formulation of project applications, local authorities on the Public Project website explained the importance of this process and the ability to track the fate of their project online directly on the website. In addition, characterizing the essence of the process, it is noted that the participation budget is a democratic process that allows each resident to participate in the distribution of local budget funds through the creation of projects to improve the city and vote for them. Anyone living in the city can submit a project to improve life in the city, take part in a competition, win a vote and observe how their project is implemented using the budget costs (Bûdžet učastì, no data).

The main stages of project implementation are the submission of projects, where everyone can leave a project application in an electronic form or at the support centers of the participation budget. Then the authorized persons among the executive bodies of the local council consider the projects. In case of incorrect filling out of the application, the authors may obtain permission to change it. The next step is to vote online or at the budget support centers. At this time, the authors are trying to obtain the maximum number of votes. After the winners are chosen, the local council begins to implement the ideas.

The dynamics of submitted and implemented projects for 2016–2021 in Lviv is demonstrated in Table 3 below.

As can be seen from Table 3, the total cost of the winning projects is increasing every year, while the total number of submitted projects remains approximately the same. The number of registered project authors also slightly varies. The significant activity of women project authors, which is dominant in most cases, should be noted. The ratio of winning projects to the total number of projects ranges from 12.9% in 2017 to 39.7% in 2021, similarly changing the ratio of

<table>
<thead>
<tr>
<th>Year</th>
<th>Projects submitted</th>
<th>Total cost of projects, [UAH million]</th>
<th>Authors of registered projects</th>
<th>Number of projects–winners</th>
<th>Total cost of projects–winners [UAH million]</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Authors of registered projects</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>total</td>
<td>women</td>
<td>men</td>
</tr>
<tr>
<td>2016</td>
<td>259</td>
<td>145.4</td>
<td>214</td>
<td>101 (47%)</td>
<td>113 (53%)</td>
</tr>
<tr>
<td>2017</td>
<td>294</td>
<td>235.0</td>
<td>269</td>
<td>154 (57%)</td>
<td>113 (43%)</td>
</tr>
<tr>
<td>2018</td>
<td>159</td>
<td>141.6</td>
<td>142</td>
<td>91 (64%)</td>
<td>49 (36%)</td>
</tr>
<tr>
<td>2019</td>
<td>219</td>
<td>213.4</td>
<td>200</td>
<td>109 (55%)</td>
<td>88 (45%)</td>
</tr>
<tr>
<td>2020</td>
<td>240</td>
<td>235.4</td>
<td>212</td>
<td>106 (50%)</td>
<td>103 (50%)</td>
</tr>
<tr>
<td>2021</td>
<td>254</td>
<td>259.3</td>
<td>228</td>
<td>135 (59%)</td>
<td>92 (41%)</td>
</tr>
</tbody>
</table>

Source: Compiled by the author of Bûdžet učastì (2022).
the cost of winning projects to submitted projects. After analyzing the ratio of the participation budget to the general fund of the local budget of the city, it can be stated that it is not constant and changes from year to year (see Table 4) (Informaciâ..., 2016–2021).

The amount of financial resources allocated to the participation budget from the local budget depends on many factors, in particular: the general state of budget funding, the number of other projects implemented in the city, the activity of residents regarding the projects submission, etc. Noting the benefits of participation for each resident, it can be stated that participation in community projects is:

- a chance to influence the place where you live;
- not the deputies, but you decide what exactly the allocated funds are used for;
- voting is transparent and you can influence this process by promoting your project;
- you know exactly how to apply and when its fate will be clear (no need to beat the thresholds of government agencies);
- next year you will see how your idea comes to life;
- exactly what you have planned will be realized within the limits of previously known amounts of costs (Informaciâ..., 2016–2021).

Monitoring of decision-making process at all stages is of particular importance in the formation of participation budget and its actual implementation decision-making process. The Public Monitoring Group, which includes both local citizens and local experts, analyzes the procedure and records all problems and violations that have occurred. Poland’s experience shows that participatory budgeting is the best way for local authorities and the public to interact. In particular, Bogusław Pytlik notes the main role of this approach in making residents responsible for their environment. Starting from 2013, the participation budget in Poland ceased to be an isolated phenomenon, becoming increasingly popular over time. It is important that in the implementation of this task there are enough difficulties and unsolved problems. In this regard, B. Pytlik (2017, p. 121) notes that:

Thoughtless, i.e. not taking into account local conditions, introduction of participatory budget models; the informative nature of the so-called public consultations, and thus the low level of attendance at meetings; residents lacking full knowledge of local problems; conflicts of interest between residents and local authorities, which prefer to perceive the former only and at most in the role of advisers; lack of discussion on investment priorities and a long-term development plan; not fully thought out and often partly random distribution of financial resources or the lack of an educational aspect in the process of communication between the authorities and residents – these are some of the most fundamental examples of negligence which are instrumental in determining that the participatory budget in Poland has no right to bring maximum benefits.

Monitoring the process in terms of ensuring its effectiveness, forming a list of changes suggestions is the task of monitoring groups.

Involving the public plays an important role in transforming urban spaces, expanding public influence on public coverage of future local projects, and ensuring competition for ideas in this area. In addition, an important form of citizen participation is both social and ecological activity in the field of ecology and environmental protection. Such activities can be manifested in improving the work of local schools, organization of recreation areas, sports and cultural events, building green zones, etc. Non-governmental organizations and organized civil society groups make a significant contribution to the development of democratic governance principles and respect for human rights. As the European experience shows, the use of such mechanisms allows taking into account the views and interests of local communities in the policy-making process and ensures the democratic process in governance.

4. Conclusion

The decentralization reform has a decisive impact on the country’s democratic transformation.

<table>
<thead>
<tr>
<th>Year</th>
<th>Share of projects–winners in the total number of projects, %</th>
<th>Ratio of winning projects to the submitted projects, %</th>
<th>Share of participation budgets in the general fund local budget, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>25.9</td>
<td>12.0</td>
<td>4.3</td>
</tr>
<tr>
<td>2017</td>
<td>12.9</td>
<td>10.9</td>
<td>5.1</td>
</tr>
<tr>
<td>2018</td>
<td>33.9</td>
<td>26.9</td>
<td>2.5</td>
</tr>
<tr>
<td>2019</td>
<td>25.1</td>
<td>21.9</td>
<td>3.4</td>
</tr>
<tr>
<td>2020</td>
<td>33.3</td>
<td>25.2</td>
<td>3.4</td>
</tr>
<tr>
<td>2021</td>
<td>39.7</td>
<td>30.0</td>
<td>2.7</td>
</tr>
</tbody>
</table>

Source: Calculated by the author of Informaciâ... (2016–2021).
Decentralization of power contributes to the consolidation of society and ensures the formation of a viable local government responsible for the development of territorial communities, improving the entire system of government. The decentralization reform, which is the basis of state policy for regional and local economic development, is the most effective reform since the Declaration of Independence. It provided institutional transformations that became the basis for improving the standard and quality of life of the population and continuing reforms in the country’s economy.

The provision of financial resources is important for the implementation of the functions of local authorities in the implementation of the policy of economic development of administrative-territorial formation. Local budgets are the main source of revenue for the territory’s development. It should be noted that, except for the pandemic period, the size of local budgets has been growing steadily. Since 2016, part of the general fund of local budgets has been directed to the participation budget, which is a sign of the introduction of democratization of governance at the local level.

Russia’s open military attack on Ukraine, launched on February 24, 2022 and supported by Belarus, turned all economic processes into a state of martial law. According to experts, even with the rapid end of the war, the negative economic consequences will be felt for a long time. However, a special task in this context is to preserve the democratic direction of the country’s development and to continue and deepen the reforms that have begun.

References


