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# Fiscal Effects of Applying Initiative Budgeting Methodology in Public Finance

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## ABSTRACT

**The subject** of the research is the methodology and practice of initiative budgeting (the Russian term for participatory budgeting) as applied to taxation. **The relevance** of the study is explained by the fact that the experience accumulated in Russia allows us to speak about the productivity of the initiative budgeting methodology in relation to other areas of public finance. The initiative budgeting methodology is part of a more general theory of citizens' participation in governance and budget decision-making, which is being formed in Russian and foreign studies. The article **aims** to study the emergence of fiscal effects of applying the methodology of initiative budgeting in public finance and to develop proposals on this basis aimed at finding reserves for increasing local budget revenues. To formulate conclusions and recommendations, the authors use **methods** such as content analysis of scientific publications on the development of participatory budgeting practices abroad and logical generalization. The study substantiates that one of the promising practices of initiative budgeting may be the participation of citizens in decision-making on the allocation of part of the expenditures of local budgets to co-finance projects of initiative budgeting. At the same time, additional positive effects appear in the form of increased motivation for collection and an overall increase in the volume of local taxes and fees. Thus, there is a productive integration of the initiative budgeting methodology and tax policy at the local level. The authors propose possible strategies for introducing an initiative budgeting experiment in Russian regions. The authors **conclude** that the initiative budgeting methodology allows creating ways to motivate local governments and citizens to increase local budget revenues. There is a **prospect** of expanding the scope of application of initiative budgeting tools to solve the financial problems of municipalities.

**Keywords:** participatory budgeting; initiative budgeting; taxation; tax collection; tax authorities; municipality

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## INTRODUCTION

Initiative budgeting (hereinafter referred to as IB) is understood as a set of various practices that involve the direct participation of citizens in the definition and selection, as well as subsequent control over the implementation of selected projects financed from budget funds. Initiative budgeting refers to participatory practices associated with giving citizens real power in terms of decision-making in the field of public finances. Initiative budgeting is considered a tool to improve the efficiency of budget spending [1]. This is "one of the most successful forms of public participation in the budget process, through which close interaction between authorities and citizens

is carried out in those issues that have traditionally been considered the prerogative of the former" [2].

The methodology of initiative budgeting is a theory about involving the population in solving territorial issues by determining the directions for spending budget funds. Abroad, it is better known as the methodology of participatory budgeting (hereinafter referred to as PB). The specified methodology assumes the possibility of participation of the population in the distribution of a certain share of the expenditure part of the budget, which is formed, among other things, at the expense of taxes paid. Thus, people participate in the distribution of their own funds, which have acquired the status

of public finance. This circumstance led us to the assumption that the very fact of the participation of individuals in supporting the adoption of budget decisions can be a motivating factor for paying taxes.

### LITERATURE REVIEW

The first wave of interest in the fiscal effects of participatory budgeting was sparked by data from Latin America that showed a positive relationship between citizen participation in the budget process and tax collection. A comparative study by Y. Cabannes, which analyzes the activities of 25 municipalities in Latin America and Europe, reveals a significant decrease in the level of tax offenses after the launch of the PB [3]. The author writes that the PB practice led to an increase in tax revenues and a decrease in arrears. In Campinas, Recife and Cuenca, tax revenues have risen significantly in a few years; in Porto Alegre, property tax debt has been reduced from 20% to 15%, and in less than a decade, property tax revenue has grown from 6% to nearly 12% of the municipality's total revenue. The change in tax habits of citizens is due to the fact that citizens see specific results of budget spending. The author of the study cites the following quotation from the staff of the municipality of Puerto Asi, explaining the reasons for the change in behavior: "The community, having learned about the budgetary and financial situation of the municipality, begins to understand its budgetary constraints. Then, faced with a lack of resources for the implementation of their projects, the community decides to cooperate with representatives of the municipality, invests its funds or materials, seeking not only to increase the number of available resources but also to expand the initially approved architecture" [3]. The joint budget stimulated and revived traditional teamwork at the community level. Another financial impact to be considered is the reduction in the operating costs of such projects. This has been especially important in the conflict-torn municipalities of Colombia, where participatory budgeting has restored destroyed infrastructure — bridges, roads, irrigation facilities, wells that local residents can maintain and protect themselves. Positive results of the impact of the direct participation of citizens in making budget decisions on tax collection have also been identified in Switzerland [4].

Researchers A. Schneider and M. Baquero found that PB led to a significant increase in

tax revenues in the municipality of Porto Alegre, which is considered the pioneer and birthplace of participatory budgeting [5].

In another study, Y. Zamboni compares the effectiveness of Brazilian municipalities that have and have not implemented PB: the study confirmed a significant relationship between PB implementation and increased tax revenues [6].

Of interest is the study of fiscal effects published in May 2019. It analyzes the results of an online survey covering 50 countries [7]. The survey revealed that the tax culture of citizens is significantly higher in those countries where: a) significant efforts are being made to combat corruption; b) citizens have the opportunity to express their wishes to the government on budget expenditures. This pattern was confirmed by a large sample of 65,000 respondents from different countries. Residents across countries were more likely to report greater tax compliance when they were given the opportunity to voice their preferences for government spending. Of all the positive effects of participatory budgeting identified by researchers, including an increase in public investment in low-income communities, the activation of non-profit organizations, an increase in voter turnout, and an increase in tax collection are of particular importance, as this leads to an increase in the overall aggregate budget, which can later be used to meet public needs. Thus, the direct participation of citizens in budget decisions has become a practical solution to some of the key problems that various cities and territories face. According to the authors, governments that implement mechanisms of civic participation, invest in democratic accountability and legitimacy, receive dividends in the form of tax revenues [8].

Existing studies contain a lot of evidence of how the participation of citizens in direct decision-making practices affects the quality of relations between the state and civil society. Significant experience has been accumulated abroad in the participation of citizens in solving issues related to the conduct of communities, cities and regions through various tax practices that enable residents to independently determine, within a given corridor, what taxes to pay and in what amount. The analysis of this experience seems appropriate for understanding and possible application in Russian practice.

## THE PRACTICE OF INITIATIVE BUDGETING AS A WAY OF MOTIVATION TO INCREASE BUDGET REVENUES OF THE TERRITORIES

The practice of initiative budgeting is understood as a number of procedures for organizing the participation of citizens in budget decision-making, defined in a special manner and enshrined in regulatory and methodological documentation. If within the framework of practice, the decisions made by society are final and subject to mandatory execution by the authorities, citizens have real powers to spend budget funds. When implementing regional practices of initiative budgeting, funds are attracted from regional, and in some cases, federal budgets, and are implemented on the territory of two or more municipalities. Funds from local budgets are attracted to implement municipal practices; they are localized within the same municipality.

A project of initiative budgeting is understood as a project proposed by a resident (residents) of the municipality, in the form and in the manner prescribed by the practice of initiative budgeting, implemented, among other things, on the terms of co-financing from the regional budget and to the budget of the municipality, at the expense of off-budget funds (funds of individuals and legal entities), as well as part of the taxes paid by citizens to the local budget, aimed at resolving issues of local importance through the implementation of work and (or) the provision of services, the result of which will be high-quality and (or) quantitative changes in the public infrastructure of the municipality. Thanks to initiative budgeting projects, municipalities have additional opportunities to improve social infrastructure facilities and a new quality of services. However, an initiative budgeting project becomes possible only when a mechanism is created to motivate citizens to participate through procedures that are perceived as fair: when citizens are given the opportunity to put forward those projects that are aimed at solving problems that concern them, when citizens, after discussions with their participation, make decisions on the nomination of projects, when citizens participate in competitive procedures for the selection and subsequent implementation of projects, including through co-financing, but, most importantly, when

the procedures are open and public control is exercised over the implementation of projects.

### 1. Promotion of ideas by citizens.

Initiative budgeting requires citizens to come up with ideas as a precondition. The ideas of the project do not come down from “above”, but are put forward by the citizens. Each project idea is a problem that citizens can solve at the expense of budgetary funds. Initially, general rules and conceptual boundaries for the promotion of projects are established (description of the project and ways to solve the problem, deadlines, budget, technical feasibility).

### 2. Discussion of ideas by citizens.

Discussion is the most important procedure of initiative budgeting, based on the citizens' discussion of which project is the most priority for the municipality. It is the citizens who determine which project should receive funding or participate in a competitive selection if any is expected in practice. During such discussions, local communities develop a common language, interaction between themselves and with government officials. The latter, in turn, attend the meetings as experts and consultants, not project lobbyists. It is participation in citizens' meetings and the experience of direct communication with citizens that lead to an increase in trust in the authorities and an increase in the level of satisfaction with their work. In some initiative budgeting practices, there is no discussion stage and only voting determines the choice of citizens. The simplification of the initiative budgeting procedure by the organizers does not allow the full potential of this social technology to be used.

### 3. Selection of projects by citizens.

Based on the results of the discussion, citizens participate in the project selection procedure. To a lesser extent, such participation is present in the formalized competitive selection. The selection criteria are known in advance and, having formed an application for participation in the selection, the participants of the initiative group of citizens and the administration can assess the chances of winning in advance. The presence of transparent procedures and clear criteria can significantly reduce subjectivity in the selection of projects by the competition commission. Increasingly, voting on the basis of digital platforms, including using the blockchain, penetrates into the practice of choosing initiative budgeting projects. Such decisions reinforce the

legitimacy of the selection of projects since it is almost impossible to interfere in it from the outside and falsify the data. However, the voting verification procedure is still relevant.

4. Participation of citizens in the implementation of projects.

Unlike one-time projects to involve citizens in creating a comfortable urban environment, initiative budgeting involves regular, annual implementation. Project selection procedures are timed in such a way as to correspond to the stages of the budgeting process. In this case, the implementation of the project is carried out in the next budget year after the selection by the project. At the same time, in Russia, there are widely represented practices for the implementation of initiative budgeting, which allow the implementation of projects within one calendar year within the budget allocations for their implementation. Citizens participate in the implementation of initiative budgeting through initiative payments, as well as their own labor participation.

5. Open nature of procedures and accountability of the authorities.

The openness of participation procedures and public reporting on implemented projects allows maintaining interest in the practice, informing about the progress of implementation of initiatives chosen by citizens, and attracting new participants through the opportunity to see completed projects.

Foreign literature describes various ways to finance joint projects. The most common option is the distribution of funds from the state and municipal budgets. In addition, funding for civic participation practices comes from investment funds (for example, funds founded by city council members in New York and Chicago), trust funds (Portugal), social development funds (in most Latin American countries).

Mexico has a non-trivial experience in PB fundraising. In 2014, the government of this Latin American country introduced a royalty tax applicable to all mining concession holders in the country. The proceeds went to a special Fund for Sustainable Regional Development of the Mining States and Municipalities (the so-called Subsoil Fund), which was distributed among the communities of cities and villages in the mining zone. The funds received were directed to their economic development and the

growth of the quality of life of the citizens living in them at the expense of state investment programs. The main goal of the Subsoil Fund is to redistribute tax revenues from mining companies in favor of municipalities in the development zone by financing social infrastructure projects that have a positive impact on residents, the environment and the sustainable development of mining regions. Initially, the Regulations on the Fund did not provide for a mechanism for considering the opinions of citizens when choosing investment projects for state funding. The municipality of Cananea, Sonora, has launched an experimental participatory budgeting practice aimed at (a) increasing the transparency of the use of funds allocated to the municipalities of the mining regions, (b) involving citizens in the decision-making process on the choice of public investments carried out by the Fund [9].

Thus, there is reason to believe that initiative budgeting has a significant potential for increasing local budget revenues by motivating citizens to pay taxes, participating in the definition of projects for which part of the taxes paid is directed.

### PARTICIPATION OF TAXPAYERS IN SOLVING ISSUES OF LOCAL IMPORTANCE

Abroad, voluntary participation in the formation of budget revenues through the voluntary payment or non-payment of relevant taxes is a rare practice. In most cases, taxation systems are structured in such a way that they leave no room for voluntarism and flexibility, are universal for all, and involve sanctions for tax evasion. However, in a number of cases, there is a “democracy of the taxpayer”. In this regard, it makes sense to turn to various tax mechanisms from foreign experience, which give citizens the opportunity to independently determine how to form a certain segment of the budget revenue.

In Japan, since 2008, there has been a practice of paying local taxes to the budgets of other municipalities: the Furusato Tax program<sup>1</sup> is being implemented, which allows residents to decide for themselves where part of their tax payments will go. The mission of the program is to enable taxpayers to support the municipalities of their choice, to stimulate the devel-

<sup>1</sup> Furusato Tax. URL: [www.furusato-tax.jp](http://www.furusato-tax.jp) (accessed on 20.11.2020).

opment of small municipalities with modest budgets. Citizens who have left their native places can thus transfer part of their taxes to another locality in Japan by paying the “hometown tax” (*Furusato nozei*). Donations are deductible from personal income tax and other local taxes.<sup>2</sup> There is an upper limit on the amount of the donation depending on the amount of taxable income. In return, local residents send gifts from a special catalog to taxpayers from other regions for their tax payments.<sup>3</sup> Another important incentive for paying voluntary donations is the possibility of obtaining a tax deduction. With the exception of the first 2,000 yen, the value of donations may be deducted from income tax and residence tax liabilities. To avoid abuse, there are upper limits on such donations based on a person’s income. The maximum amount of the tax deduction is determined by the income and property tax paid for the previous year. After making the payment, the person must keep the check and then use it when filling out the tax return.

In addition to directing funds to individual municipalities, the taxpayer can also choose the development programs that he wants to support specifically, for example, in the field of ecology, development of local tourism, childcare, etc.

The topic of tax transparency and accountability, participation of citizens in taxation has long been given close attention by governments of different countries and heads of international organizations. Such interest is explained by the search for factors that can increase tax collection and increase tax revenues. This process becomes particularly important at the municipal level.

Some authors note how the relative level of participation of citizens positively affects their behavior related to taxation [10]. At the same time, citizens’ observance of tax laws is only partly rational. People pay taxes not only because the costs of not paying taxes exceed the tax payments themselves, but also because they perceive them as part of an ethical contract with the state. Accordingly, the more fair the government is in the eyes of citizens and the more accountable

the authorities, the higher the willingness of taxpayers to fulfill their tax obligations.

In foreign literature, the concept of “tax morality” is used to describe and study this phenomenon [11]. In the Russian language, it is not so common and is often replaced by the concept of “tax discipline”, however, such a translation is not accurate and loses an important semantic connotation. “Discipline” is the obligatory subordination of all members of the team to the established order, rules. “Morality” is the rules of ethical life. Tax morality, in contrast to tax discipline, is strongly associated with citizens’ assessment of the actions of state bodies. If the work of the authorities is assessed as transparent, accountable, democratic, then citizens, in turn, are more willing to bear their moral obligations.

The most common strategies of the tax authorities usually include tougher penalties for tax evasion, the introduction of administrative measures to encourage compliance with laws. However, the implementation of such measures can be very costly and therefore inefficient. In countries with a high level of corruption, many citizens and firms are often skeptical about taxation, seeing it as a tool for unfairly withdrawing part of their personal income. This situation can lead to a vicious circle: large segments of the population do not receive adequate public services and are deprived of the opportunity to hold public authorities accountable. If the government fails to provide much-needed public services, then its legitimacy is questioned and citizens resort to deliberate tax evasion. In such a situation, governments are unable to collect the necessary tax revenues and improve the delivery of public services, which entails a new round of frustration in the work of governments. The result is growing distrust, a downward spiral in tax payments, and poor quality of public services. Thus, the introduction of programs for the participation of citizens in decision-making, the creation of motivation to pay taxes, and an increase in fiscal transparency can serve as an engine for systemic changes in the country’s public finances.

From the point of view of increasing the tax motivation of citizens, the experience of those practices of participatory budgeting that are implemented exclusively at the expense of funds received from the payment of local taxes attracts attention. This approach was implemented, for

<sup>2</sup> Japan’s rural tax scheme led to a small town bun fight. Can it be fixed? *Apolitical*. 14.12.2018. URL: [https://apolitical.co/en/solution\\_article/japan-hometown-tax](https://apolitical.co/en/solution_article/japan-hometown-tax) (accessed on 20.11.2020).

<sup>3</sup> Gifts for *Furusato Nozei*. URL: [https://en.furumaru.jp/info/whats\\_tax.php](https://en.furumaru.jp/info/whats_tax.php) (accessed on 20.11.2020).



example, in Italy until 2008. In 2008, the municipal tax on the first house owned was abolished, which undermined the financial independence of local governments, since in some cities up to 30% of the local budget was formed from paying this tax. After the abolition of this tax, many participatory budgeting practices were curtailed in the country [12]. In other countries where citizen participation in budget decision-making takes place at the local level, funds are also usually allocated from local budgets generated from local tax revenues.

A new stage in the development of participatory practices in Russia and the world is associated with the expansion of existing methodologies of involvement and the inclusion of information and communication technologies and Internet solutions in them. Electronic participation technologies have great potential in terms of facilitating and deepening participation processes at different levels of interaction between citizens and authorities [13].

These applications of information and communication technologies are not mutually exclusive. For example, technologies designed for collective public decision-making through electronic voting may include the functionality of dialogue platforms for forming citizens' preferences and discussing them, as well as consulting technologies for conflict resolution.

### **SUGGESTIONS FOR THE APPLICATION OF THE IB TOOL TO INCREASE LOCAL BUDGET REVENUES IN RUSSIA**

Foreign studies show that on the territory of municipalities that regularly implement projects with the participation of citizens, tax discipline is increasing, and the collection of local taxes and fees is increasing. However, when applying the methodology of initiative budgeting, it is necessary to consider the presence of institutional restrictions on the mechanism for calculating and paying local taxes and fees. These include the delimitation of tax powers of local governments, established by the Tax Code of the Russian Federation, the delineation of tax revenues between the levels of the budget system, established by the Budget Code of the Russian Federation, as well as the low degree of involvement of tax authorities in supporting initiative budgeting projects [14].

Most of the taxes that form the tax revenues of the budget system of the Russian Federation, both in terms of quantity and volume of funds, are paid by organizations. These are taxes such as VAT, corporate income tax, mineral extraction tax and others. Citizens do not feel their involvement in these taxes. Contributions to the Pension Fund, Federal Compulsory Medical Insurance Fund, related to the employee's wages, are increasingly becoming the object of attention of citizens. Of course, the population is primarily interested in taxes for which it bears the tax burden: personal income tax, transport tax, personal property tax and land tax. Given that the transport tax is a source of the formation of regional budgets, for the purposes of this article, we will focus on a group of other taxes on individuals mentioned above, which are key to solving local problems. The financial well-being of municipalities and the possibility of creating modern infrastructure on their territory depend on the increase in the level of collection and increase in the receipts of these taxes.

The initiative budgeting methodology also allows creating the following ways to motivate local governments and citizens to increase local budget revenues:

1. Improving the visibility and convenience of presenting revenues and expenditures of local budgets. Illustration of a project of initiative budgeting in the system of expenditures of a specific local budget (budget of a municipal district, budget of an urban settlement, budget of a rural settlement, budget of an urban district, budget of an urban district with intracity division, budget of an intracity district, budgets of an intracity municipal formation of federal cities of Moscow, St. Petersburg and Sevastopol) and sources of budget revenues. It is expedient, in our opinion, a more detailed presentation of budget data in the context of the directions of spending money in the framework of initiative budgeting and the sources of their formation. Despite the achievements already made by the current Citizens Budget project, the way information is presented often requires knowledge of economics. The vast majority of citizens are not interested in dry information about budget classification codes, sources of financing the budget deficit, planned and executed expenditures in the context of municipal programs.

2. An effective tool for involving citizens in the tax-legal field, whose economic activity is to provide paid services to individuals and organizations without the involvement of employees, is the mechanism of taxation of professional income through a mobile application. While digital technologies are an effective tool for facilitating tax payments, tax compliance is also important for the legalization of citizens' incomes. The possibilities of identifying self-employed citizens who do not pay taxes are much higher at the level of a particular municipality than at the level of a constituent entity of the Federation. In this regard, we consider it appropriate to transfer part of the income from professional income tax (PIT) to the level of local budgets and at the same time grant taxpayers the right to voluntarily redirect part of the amounts of PIT payable to the budget of the municipality for the implementation of a specific project of initiative budgeting may be of interest to local authorities in identifying potential taxpayers.

3. As a development of the Japanese idea described above on the payment of local taxes to the budgets of other municipalities, it is possible to introduce an incentive mechanism for offsetting the amounts allocated for the implementation of the initiative budgeting project against payable taxes, primarily personal property tax and land tax. This will also make it possible to strengthen public control over the spending of funds within the framework of initiative budgeting without additional costs from the state. According to the Budget Code of the Russian Federation, the transfer of part of the tax paid from one local budget to another at the request of the taxpayer is not allowed. This circumstance hinders the development of initiative budgeting, considering the fact that the place of residence of an individual or the implementation of his activities may not coincide with the boundaries of the municipality in which the initiative budgeting project is being implemented. Personal income tax is paid at the place of work (including through a tax agent), personal property tax and land tax — at the location of the property. In this regard, we believe that the introduction of amendments to the budget and tax legislation in terms of expanding the rights of taxpayers when deciding whether to direct their tax payments to the relevant project will contribute to the development of initiative budgeting. In order to avoid an imbalance in local

budgets, it is advisable to limit this right by setting the maximum amount of taxable wages and the deadline for the taxpayer to submit a notification of his decision no later than the deadlines for approving the planned indicators of the relevant local budgets.

### SUGGESTIONS FOR THE PRACTICE OF PARTICIPATION OF TAXPAYERS IN IB PROJECTS

From the whole range of possible procedures for civic participation, one should choose those that will ensure the optimal implementation of the selection and discussion of initiative budgeting projects. Unfortunately, there is no ready-made and tested mechanism of public participation in the tax sphere in Russia and abroad.

The proposed approach to the development of an IB implementation procedure differs from those used in that it provides for a number of mandatory actions at the level of the municipality, the responsible regional executive authority and the territorial bodies of the Federal Tax Service. Due to the innovative nature of the IB practice, such a procedure should provide for more detailed procedures for the participation of citizens, a greater amount of information and educational support at all stages of the implementation of the practice. The experimental nature of field testing, among other things, should include an exploratory component.

The procedure for introducing the practice of participation of taxpayers in the distribution of taxes credited to local budgets for the implementation of initiative budgeting projects consists of three components.

**The first component** is the procedure for the actions of the territorial bodies of the Federal Tax Service to implement a pilot experiment on the territory of the selected constituent entities of the Russian Federation. This order must include:

a) a description of the procedure for the taxpayer to choose an initiative budgeting project co-financed by him at the expense of part of the income from local taxes and fees, from federal and regional taxes and fees credited to local budgets;

b) determining the procedure for the transfer by the Federal Tax Service of a part of local taxes and fees and a part of federal and regional taxes and fees credited to local budgets for the implementation of initiative budgeting projects;

c) a description of a public campaign to inform citizens about the experiment being conducted in the constituent entities of the Federation, its goals and objectives, as well as the possibilities of civic participation;

d) a description of the method of informing taxpayers by the territorial bodies of the Federal Tax Service (FTS) about the local taxes and fees paid by them and part of the federal and regional taxes and fees credited to local budgets;

e) a description of the method of integrating the digital IB platform (if used) and taxpayer accounts on the FTS website;

f) conducting an annual analysis of the practice of citizens' participation in the distribution of part of the income from local taxes and fees, from federal and regional taxes and fees credited to local budgets, for the implementation of initiative budgeting projects.

**The second component** is the procedure for the actions of state authorities of a constituent entity of the Russian Federation to ensure the participation of citizens in the distribution of part of the income from local taxes and fees, from federal and regional taxes and fees credited to local budgets, for the implementation of initiative budgeting projects. This order must include:

a) a description of the decision of the regional executive authority on the allocation of part of the budget of the constituent entity of the Russian Federation to finance initiative budgetary activities, in accordance with which projects selected by citizens are co-financed from part of the income from local taxes and fees, from federal and regional taxes and fees credited to local budgets for the implementation of initiative budgeting projects;

b) identifying channels and methods for conducting an information campaign on the possibility of spending part of the taxes paid under initiative budgeting projects in the territory of a constituent entity of the Russian Federation;

c) determining the participation of citizens through a digital platform created to discuss initiative budgeting projects, to decide which projects will be co-financed from part of the taxes paid, as well as to include projects in the list of projects elected by citizens;

d) a description of the procedure for the competitive selection of projects put forward by

citizens in municipalities and providing for the expenditure of part of the income from local taxes and fees, from federal and regional taxes and fees credited to local budgets;

e) determining the procedure for transferring funds from the budgets of the constituent entities of the Federation to special accounts in local governments;

f) description of the procedure for the implementation of initiative projects within the framework of this practice;

g) informing about the results of the introduction of this practice of initiative budgeting;

h) ways to evaluate the results of economic and social effects from the implementation of this practice;

i) providing advice to practice.

**The third component** is the procedure for the implementation of initiative budgeting projects by municipalities. This order must include:

a) the decision of the representative body of local self-government to establish a part of local taxes and fees paid by citizens for their co-financing of initiative budgeting projects;

b) determining the specifics (on the basis of federal legislation) of holding meetings, gatherings, conferences of citizens to discuss initiative projects in order to decide which projects are subject to co-financing from the part of taxes paid and included in the list of projects elected by citizens;

c) posting information about selected projects on the website of the administration of the municipality and providing information for websites of public services and personal accounts of taxpayers;

d) features of the choice by taxpayers of projects for which they direct part of the taxes they pay;

e) nomination of the project (projects) that received the greatest financial support from the taxes of citizens in the municipality, for participation in the competitive selection of projects in the constituent entity of the Russian Federation;

f) a description of the procedure for the operation of the competition commission for the selection of projects put forward by citizens, considering the redistribution of taxes paid by them;

g) conclusion of an agreement on the allocation of additional subsidies to the municipality for the implementation of the project;



h) transfer of part of the funds from the payment of local taxes by citizens to a separate sub-account of the project to the bank account of local governments;

i) auctions;

j) project implementation;

k) an information campaign based on the results of the implementation of initiative budgeting projects in municipalities and a constituent entity of the Russian Federation;

l) a public report on the volume and expenditure of funds for the implementation of projects.

As general recommendations regarding the procedure for financing initiative projects of citizens in the framework of the tax experiment, the following should be borne in mind:

a) the funds of municipalities and the funds of citizens are excluded from the co-financing of this type of projects as duplicating;

b) it is advisable to ensure the development of a single digital solution designed for the purposes of nomination, discussion and selection by citizens of the project for subsequent participation in the competitive selection

Guided by this approach, the responsible regional executive authorities in the constituent entities of the Russian Federation independently decide how to integrate the new IB practice into the ecosystem of participation that has developed in the region. Of course, today there can be no strict regulations for the implementation of IB within the framework of a tax experiment. The creation of such a regulation is precisely one of the tasks of pilot testing organized in different regions, with different practices and unique experience in developing IB tools.

Possible strategies for deploying the experiment in the constituent entities of the Russian Federation may be as follows.

The “either-or” strategy involves integration into the existing regional IB model, where local governments, together with citizens, will voluntarily decide in what form of IB they will participate – traditional or involving co-financing projects redirecting taxes to projects.

The “both” strategy implies the possibility of parallel participation both in the traditional form of IB and in the tax experiment. A special case may be the situation when the municipality independently implements the practice of IB and at the same time

decides to participate in a tax experiment at the regional level.

The “pilot zone” strategy involves the administrative definition of a territory or individual municipalities that will only have the opportunity to participate in an experimental form of IB. The advantage of such a strategy would be the ability to concentrate information, training and counseling opportunities.

The “parallel experiment” strategy assumes the possibility of participation in the tax experiment of municipalities with experience of successful participation in IB, with experience of participation without victories, as well as municipalities that previously did not have such an opportunity. This option meets the objectives of the study more than others, as it will allow to compare the experience of participation of different municipalities in the experimental IB model.

## CONCLUSIONS

1. The participation of taxpayers in decision support suggests that IB tools can be used to motivate the population to pay taxes.

2. The results of scientific research show that the participation of citizens in the practices of IB has a positive effect on the quality of relations between the state and civil society. Of all the positive effects of participatory budgeting that have been documented by researchers, including increased public investment in low-income communities [15], activation of civil society [16], increased voter turnout,<sup>4</sup> improved public welfare and health [17], increased tax collection is of particular importance, because it leads to an increase in the total aggregate budget, which can then be used to meet public needs.

3. The IB methodology involves the presentation of ideas by citizens, their discussion, the selection of projects, the regularity of implementation, public reporting by the authorities.

4. Despite the fact that abroad the practice of voluntary participation of the population in the formation of budget revenues through the voluntary payment or non-payment of relevant taxes has not

<sup>4</sup> Participatory budgeting increases voter likelihood 7%. Participatory Budgeting Project. URL: <https://www.participatory-budgeting.org/participatory-budgeting-increases-voter-turnout-7/> (accessed on 20.11.2020).

become widespread, nevertheless, there are certain mechanisms for the influence of taxpayers on the practice of ensuring IB, and they have shown their effectiveness.

5. The methodology of initiative budgeting makes it possible to create ways to motivate local governments and citizens to increase the volume of local budget revenues. In the Russian Federation, it is advisable to develop this methodology in the direction of increasing the visibility of budgets, attracting part of the income from taxation of the self-employed population to IB projects, and introducing a mecha-

nism for offsetting expenses on IB projects against paid taxes.

6. The procedure for implementing the practice of participation of taxpayers in the distribution of taxes credited to local budgets for the implementation of IB projects should include such components as the procedure for the actions of tax authorities, public authorities, the procedure for implementing IB projects of municipalities.

7. The authors propose possible strategies for introducing the experiment in the constituent entities of the Russian Federation.

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