

## Section IV.

### **REGIONAL DEVELOPMENT IN CONDITIONS OF POST-CONFLICT TRANSFORMATION: MANAGEMENT, SECURITY AND FINANCIAL INSTRUMENTS**

#### ***4.1 Development of the Regional Management System in Conditions of Decentralization and Post-Conflict Transformation***

In the territories of post-conflict transformation, the issue of existence and development is the most important area of research, which in general is a key factor in national security and development of Ukraine. The development of regions in conditions of post-conflict transformation is possible only after resolution of a wide range of social, economic and organizational issues. The development and implementation of the sustainable development strategy in the Luhansk region is possible only on the basis of forming comprehensive organizational and economic support for the system of regional management and developing effective mechanisms for the development of intellectual capital. At the same time, innovative processes, scientific knowledge and new technologies should become dominant elements when forming the model of sustainable development of regions in conditions of post-conflict transformation.

After signing and ratification of international normative documents, such as the International Covenant on Civil and Political Rights [1], European Charter of Local Self-Government [2], with the adoption of the Concept of Local Self-Government Reform [3,4], Ukraine has intensified the processes of participation of citizens in the life of the state, in regulation of local self-government and protection of civil and political rights. The development of the new model of governance in a city, a village, a settlement or a community requires involvement of the public representatives in public administration and allocation of budget funds. This requires usage of the modern and effective instruments of local democracy. One of such instruments is participatory budgeting. The development of territorial communities largely depends on the activity of the local residents, their education and ability to exercise their rights, the ability and willingness to participate in making decisions on shared resources, and the initiative for the community-based change that can be achieved through effective use of modern democracy tools.

The issues of intellectual capital reproduction in the context of reforming the system of state and regional management, decentralization, creation of territorial communities in the context of post-conflict transformation of the region become of particular importance and relevance. Without a doubt, socio-economic development of any country depends largely on the development of its regions (territories). Such development can be achieved by providing autonomy to territorial communities to address local development issues. However, the issue of creating territorial communities in the context of post-conflict transformation of the region is still political: organizational and economic mechanisms and management tools are hardly considered in the new entities.

It is already an axiom that innovation activity is the decisive factor in social and economic development in the developed countries. This is primarily due to the fact that economic systems at different levels (including enterprises) of virtually all economically developed countries have entered the knowledge economy. The development of such economy is accompanied by globalization processes, the significant increase in the number of changes and ideas, the technology transfer and competition against the background of accelerated growth in production volumes and speed of information processing and transmission.

According to the accepted understanding in the scientific community, knowledge is the driving force of the progress for the knowledge economy, which is primarily concentrated in the "human capital" [5]. In this case, a person is considered not as a factor of production (labour), but to a greater extent as his creative basis. The development and use of human intellectual abilities contribute to the development of such economy.

The concept of "knowledge economy" or "knowledge-based economy" has become widespread in the end of the last century and has been largely linked to the establishment of the new priorities in the policies and economies of developed countries [5]. For the first time, the "knowledge economy" was described in detail in the World Bank's Annual Analytical Report on Development Knowledge in 1998-1999 [6]. Almost at the same time, the European Union developed the foundations for economic policy for the first decade of the new millennium based on the concept of the knowledge economy: in 2000 the Council of Europe in Lisbon adopted a strategy for employment, international competitiveness, economic reform and social cohesion for the united Europe, known as the Lisbon Strategy [7]. This strategy aimed at making Europe the most competitive and dynamic knowledge economy in the world by 2010, delivering sustainable economic growth, more attractive jobs and greater social cohesion [7]. Over the last twenty years, the meetings of the leading economists in the world have been periodically held to develop the common methodological approaches to managing the effectiveness of strategy implementation.

The entrepreneurial environment influences the functioning of the scientific and innovation system. In particular, the analysis of the innovation processes in developed countries shows that the level of innovation activity is higher in the sphere of big business. In EU countries, 80% of large enterprises and only one third of small enterprises can be considered to be innovative. As a result of the government incentives, the business sector now accounts for the significant part of domestic R&D spending: 56% in the EU, 63% in the US, 74% in Japan. In the OECD countries, the share of corporations' expenditures in total national R&D is close to 70%. The share of those employed in the EU's high-tech business is 7% in industry and 3.5% in the service sector. Labour productivity in the high-tech sector is almost 1.5 times higher than average in the industry. The leaders in the high-tech production development include Germany (11% of employees), Slovenia (8.9% of employees), Sweden (4.9% of employees) and Finland (4.7% of employees) [8].

The process of creating amalgamated territorial communities takes place at the level of the regional management system within the framework of the local

government reform. According to the current legislation, the territorial community is the holder of the right to local self-government in Ukraine [9]. According to the Constitution of Ukraine, local self-government can be exercised by the territorial community both independently and through local self-government bodies [10]. That is why the main purpose of a territorial community is to provide functioning for a particular territory either directly (independently) or indirectly (through local governments).

The concept of a "territorial community" has received various interpretations. Each author differently exposed the essence of the concept of a territorial community. In particular, O. Batanov provided the following definition: the territorial community is the primary subject of local self-government, consisting of individuals – residents (citizens of Ukraine, foreign nationals, stateless persons, refugees, displaced persons), who permanently reside, work on the territory of a village (or voluntary amalgamation of several villages), a settlement or a city, address the issues of local importance directly or through their formed municipal structures, have common communal property, own the real estate at this territory, pay municipal taxes and are linked by individual territorial ties of a systemic nature [11]. The regulatory definition is given in Art. 1 of the Law of Ukraine "On Local Self-Government in Ukraine": a territorial community includes residents united by permanent residence within a village, a settlement, or a city, which are independent administrative territorial units, or a voluntary association of residents of several settlements with the only administrative centre [9]. A territorial community is a community of residents of settlements (villages, other settlements, cities), united by the common interests of their own livelihood, who are independent in addressing local issues within the legislation, both directly and through local authorities [12]. Analysing the different definitions of the concept of a territorial community, we can agree with O. Shapovalov, who states that a territorial community in Ukraine is the basic society-forming element, the main core of local self-government. The general progress of the society and the state as a whole depends on community's qualitative characteristics, efficiency, and ability to solve issues of local importance [13].

The issue of creation of territorial communities in the Luhansk region has been given considerable attention in the updated "Strategy of development of the Luhansk region until 2020" [14]. This Strategy outlined the challenges and tasks, which the newly created territorial communities face. The document clearly states that it is of the utmost importance to provide the local governments in the Luhansk region with greater autonomy. But at the same time, they should act within the law and be responsible for their activities.

The analysis of the normative documents and the real processes of creation of amalgamated territorial communities in the Donetsk and Luhansk regions proved that along with significant positive achievements in this area, creation of amalgamated territorial communities in the regions are still political and declarative, and organizational and economic mechanisms and management tools are hardly considered in the new entities. One of the practical areas of research in

this field is to find the ways to reproduce intellectual capital in conditions of creating amalgamated territorial communities in the region.

Coordination of the processes of providing intellectual capital of enterprises and creation of amalgamated territorial communities in the conditions of post-conflict transformation of the region requires creation of effective organizational and economic mechanisms and tools for managing intellectual capital. Creation of communities should not be formal or declarative, but should be based on communities' activities and initiatives. In this regard, some scholars and practitioners point out that "creation of a capable community, which is active while implementing the state policy at the local level is an integral part of reforming the local government system in Ukraine today. The volunteer movement, which has recently become more active in Ukraine, has proved that the Ukrainians are indifferent to what is happening around the country and in the country as a whole. This is a good basis for further development of territorial communities, their self-development and self-organization" [15]. The goal of the local government reform is, first and foremost, to ensure the ability of local governmental bodies to solve local issues independently with own resources. The reform foresees providing territorial communities with more resources and mobilizing their internal reserves [16].

Using the leading experience of foreign countries in regional development will allow us to quickly adapt and choose the ways of organizational and economic support for the development of territorial communities in Ukraine, as well as methods of involving the public in the management of their territories. New approaches and methods of managing the development within communities and at the regional level should become the basis for reforming regional development and development of territorial communities in the regions of Ukraine. At the same time, territorial community development management should be based on the implementation and use of modern innovative tools and principles of representative democracy, which in turn is based on the ongoing interaction between government and citizens. In practical terms, government bodies interact with citizens through information, consultation and active participation. The following tools for public involvement are used to support representative democracy at the local level:

1) Citizens' appeal is the simplest and most popular way of communicating with the authorities. Through this mechanism, citizens have an opportunity (at least theoretically) to influence, to a certain extent, the activities of public authorities, and to uphold their rights and legitimate interests. The activity of this instrument is regulated by the Law of Ukraine "On Citizens' Appeals" [17].

2) Local referendums are a form of resolving issues of local importance by a territorial community through direct expression of will, according to Article 7 of the Law on Local Self-Government in Ukraine [18].

3) Public expertise provides assessment of the activities of local executive authorities, as well as the effectiveness of their decision-making and implementation in order to prepare proposals for solving socially important

problems. The methodology of conducting public expertise is defined by the relevant Resolution of the Cabinet of Ministers of Ukraine [19].

4) Public hearing is one of the most widespread tools of local democracy, as it allows to organize a direct and inclusive dialogue between the authorities and the community. This dialogue contributes to increasing trust of the public not only in specific decisions, but also in the authorities. The details of the application of this tool are revealed in the Resolution of the Cabinet of Ministers of Ukraine [20].

5) Public councils are temporary advisory bodies, established to facilitate community involvement in development and implementation of the public policy. Public councils are formed according to the Resolution of the Cabinet of Ministers of Ukraine No. 996 [20].

6) Participatory budgeting is a decision-making process, the purpose of which is to involve the residents of the community in mutual management of the community and allocation of the committed part of its budget. It is executed in accordance with the Regulations on Public Budget, adopted by the local self-government body, at the territory of which the public budget is being implemented.

7) Local initiatives are an opportunity to be heard, to bring the issue to the local council members and to show the position of the local authorities on the problem raised to the community. The law does not regulate the procedure for submitting a local initiative, so this issue can be settled in a Charter of a specific territorial community, or by a decision of a local council to approve the Procedure or Regulation on the exercise of the right to local initiatives.

8) The general meeting of the residents is the gathering of all or a part of the population of a village, a settlement, or a city, aimed at solving local issues and challenges, and thus is a form of direct citizen involvement in resolution of the local issues [18].

9) Bodies of self-organization of population represent the right exercised by the community to independently and under own responsibility realize their interests of local importance directly or through established bodies of territorial self-government. Bodies of self-organization of population are representative bodies, created by residents, who in their turn legally reside in the territory of a given village, a settlement, a city or their parts, to solve the tasks stipulated by the legislation. The procedure of elections to the bodies of self-organization of the inhabitants is defined in [21].

To develop territorial communities in the regions of Ukraine, it is necessary to unlock the potential of their residents, to teach citizens to analyse their surroundings, to use their rights to participate in the development of their community and use mutual funds, and to develop the ability of the residents to make effective decisions. The participatory budget is such a development tool.

Given the fact that the introduction of participatory budgeting in Ukraine is of experimental nature, and the beginning of this process started in 2015, there is almost no detailed research on this issue today. At the same time, Ukrainian scientists have taken some steps in this direction. The research of theoretical and historical aspects of the introduction of participatory budgeting has been revealed in the works of such researchers, as J. Belets [22], N. Vasilyeva [23], N. Grinchuk

[24], O. Kyrylenko, I. Tchaikovsky [25] and others. However, the vast majority of works is focused on exploring the processes and mechanisms for implementing participatory budget domestically. At the same time, little attention is paid to the analysis of foreign experience, since the use and adaptation of the accomplishments from the implementation of the participatory budgeting in other countries may be of great value for the improvement of the processes of the participatory budgeting in the territorial communities of the regions of Ukraine.

The main idea of the participatory budgeting is implementation of the process of interaction of the city government and its executive bodies with the local public, which is aimed primarily at involving the residents of the community to participate in the budgeting process by making decisions on the distribution of a certain part of the local budget funds by submitting relevant project proposals and conducting public voting for these projects, as well as ensuring transparency of the activities and openness of local self-government bodies and their executive bodies. Participatory budgeting is a democratic process of discussion and decision-making, in which every resident of a settlement has the ability to influence on what the municipal budget is spent. In Ukraine, it became popular after the reform of decentralization [26].

The complete process of participatory budgeting was first held in Porto Alegre, Brazil in 1989, when the Labour Party came to power. The primary form of citizens participation was meetings at neighbourhood level, where people gathered to discuss issues that troubled them. The control of the process of needs realization belonged to an initiative group, selected by citizens. At that time, the participatory budget was not considered to be a way to make communities more active, but a comprehensive program that provided a specific way of managing the city. The voting itself was followed by rather complex mathematical formulas, the essence of which was that active neighbourhoods (though with fewer inhabitants) were able to receive more money than large and passive ones. This idea coincided with two concepts – liberalization (debate) and direct democracy. The basis of this process was the distribution of a certain, defined share of the city budget funds with the direct participation of the residents of the districts, according to their needs. It was mandatory to consider residents' voices and implement relevant decisions. The second element was the cyclical nature of the participatory budgeting, as the projects were designed to be implemented over one cycle – one year, then the procedure was repeated the following year. This type of participatory budgeting could be implemented at any level, in any institution: a city, neighbourhood, a school etc. The result of this approach was that the residents themselves channelled funds from the city budget to the most significant and pressing problems, thus closing the "black spots" that had not been seen or noticed by the city authorities [27].

In case of Brazil, participatory budgeting emerged more as a response to inaction of local governments and an attempt to solve the accumulated problems associated with unqualified city governance and public distrust. It should be emphasized that the majority of the countries in the world, regardless of their political systems, history, geographical location, cultural traditions and economic

development level, are now experimenting with forms of local and regional management. This can be proved by the fact, that since the mid-1990-s, about 80% of all countries in the world have introduced some forms of decentralization [28]. In the context of implementing participatory budgeting as a tool for local democracy in Ukraine, it may be useful to engage international experience. Today, it is difficult to say exactly how many cities are using this practice, but it is estimated that this number reaches more than 1.5 thousand cities worldwide.

In Paris (France), participatory budget is 5% of the city budget, amounting to around EUR 100 million. It is possible to submit written and electronic voice for the projects. In New York (USA), in 2015, the participation budget was 0.06% of the city's total budget, equalling USD 31 million. In New York, the voting procedure has its own peculiarities – the voting is carried out only using printed forms. Election of delegates is at the heart of this process, as they represent projects. There is also public discussion, and in addition, voting takes place in each district [29]. In Cologne (Germany), participatory budgeting has been introduced in 2007. During the first year, about 11,000 residents took part in the implementation of this process, 300 projects were selected in the result of online voting, and the City Council, in turn, had the final decision on their implementation. Community members with no Internet access could submit projects in writing. During the second year of implementation of this tool, the participatory budget amounted to EUR 311 million out of EUR 4 billion total budget [29].

Neighbouring Poland has over 18 years' experience in decentralization, and is set as an example for Ukraine because of the mental similarity and similarity of the processes of changes in the administrative and territorial structure. The Polish experience shows that the reform process might be quite painful, but its implementation will soon bring the positive results. Thus, Polish experience might be very valuable for Ukraine. Poland does not have any laws on the principles of participatory budgeting, so each city, district or community implements participatory budgeting according to its own model. Considering the experience of this country, it should be noted that local authorities independently identify the needs of their locality and decide how to spend public money. An effective tool in this regard is the development of multi-purpose projects, which can involve the participation of the residents themselves. Such participation gives people the opportunity to unite around ideas and projects. Warsaw allows the possibility to combine several projects in case they relate to one object, and as a result, residents learn how to cooperate with each other [27].

During the first phase, the community drafts its projects, and then the city government determines whether they can be implemented. It should be noted that in Warsaw, the entire participatory budget is divided between neighbourhoods, and in Poland there is no focus on the thematic division of participatory budget projects. The main division of projects is into city, district, mix. In Warsaw, projects are inspected by city council officials responsible for this area. At the same time, there are certain criteria for the analysis of projects submitted for implementation at the expense of the city budget: the tasks contained in these

projects should be within the competence of the city; should be implemented within a year; should meet the budget within the specified amount; should be of public nature; should be implemented in the territory owned by the city. If a project is submitted for implementation in a private area, then it should be approved by these individuals, and the project should be consistent with all local programs and strategies. If there is a need to make changes to the project, the organizers contact the author of the project. At the same time, no additional experts are involved, and if necessary there is a re-examination of a project. In addition, there is a procedure of making appeal against the decision on the results of the review. There is also a formal legal assessment, in which the employees of the relevant departments only evaluate the feasibility of implementing projects rather than expressing their own opinion on the feasibility of implementing projects. The final decision belongs to the local community [27]. There are many rational provisions in the Polish model of participatory budgeting, however, unlike the Brazilian one, it does not promote discussion of the projects.

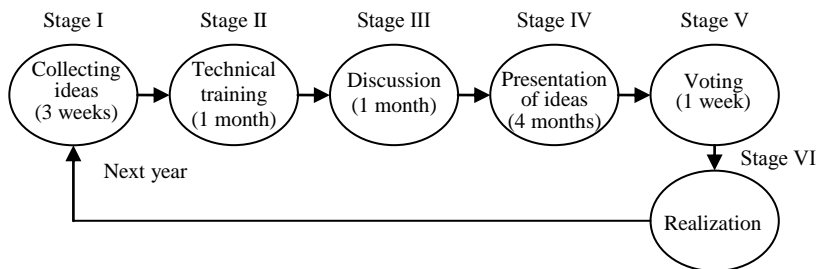
Another illustrative and successful example of implementing participatory budgeting system that is in line with current processes of introducing participatory budgeting mechanisms in Ukraine is the example of Estonia. In February 2013, a special working group was created in Tartu, chaired by eGovernment Academy (eGA) experts, the city mayor, his deputies and representatives of all factions of the city council. By May 2013, the working group has developed an appropriate model and implementation scenario for budgetary financing in Tartu [30].

Tartu was the first pilot city in Estonia to open its budget to run it by citizens. Participatory budget was implemented according to the eGA scenario. The residents of Tartu made the decision how their city should spend EUR 140,000, which is about 1% of next year's investment budget. In five years, the process of implementing the participatory budget has changed, and today the official website of the city of Tartu [31] provides an improved and greatly expanded algorithm for city budget implementation. The total budget is now EUR 200,000. To participate in the budgeting process, ideas should lead to the creation of a new investment facility in the city. The maximum value of such facility is EUR 100,000. Therefore, to implement participatory budget in the city of Tartu, at least two main ideas are taken, which were formed on the basis of the application of appropriate procedures: collecting ideas, technical preparation, discussion, presentation of ideas, public voting, implementation of ideas (figure 1).

*Collecting ideas.* Ideas are collected over a three-week period and are based on the following rules: ideas can be submitted by everyone – both individuals and organizations; ideas can be submitted by mail or email to the Tartu City Council. The names of the people and organizations submitting their ideas are published on the Tartu website.

The next step is *Technical Training*, which lasts for one month. At the stage of technical preparation, ideas are divided into groups by topic, and are examined using financial, time and technical parameters. Unreal ideas are removed from the system. The transparency of the whole process is a prerequisite. Communication and feedback from the people who presented their project is important at this stage.





**Figure 1** - Stages of implementation of participatory budgeting in Estonia (Tartu)

Source: [31]

One of the most important stages in Estonia's participatory budgeting is a month-long *Discussion*. The purpose of this phase is to substantially discuss ideas and their consequences, to unite and make changes, to be selected for public voting. All ideas selected during the previous step are posted on the homepage of the city's website for residents' comments. Thus, the project authors receive suggestions to improve their ideas and, if appropriate, combine several similar ideas.

For each group of ideas an expert group is assigned, which also includes the authors of the ideas (one representative selected by the group), experts of the respective group from the local city council, as well as specialists in the field from other countries. Each thematic group discusses their ideas, evaluates them based on previously approved criteria, and determines which ideas from that group should be put for the voting. As a result, up to 25 ideas are suggested for the public vote, as it is considered that such a number is optimal for the citizens to examine and make their choice.

*Presentation of ideas.* Ideas are presented within four months. The city government presents all selected ideas at the city's web site, in the public urban space, through social networks etc. In turn, applicants seek support of the public for their ideas. When presenting ideas, the authors apply the principles of honest democracy and equality, and at this stage, marketing courses are organized for the authors, which greatly increases their awareness of ways to attract the support of the city's citizens.

*Public voting* takes only one week. Any person of at least 16 years old (who, according to the Estonian Population Register, is a resident of Tartu on the day of the public voting) may vote. Each person can vote for no more than three ideas. A person can vote electronically or in person, using an ID card or mobile ID, or with the help of Tartu Information Centre staff.

*Realization.* At least two of the ideas that receive the most votes will be implemented. If the cost of the two most popular ideas is less than EUR 100,000, then the next best idea that can be achieved with other means will be also

implemented. The investment object that is selected by the public vote will be implemented by the city government.

Thus, the Estonian experience includes a modern and balanced approach to the implementation of the public budgeting process. Estonian experience differs in the content of this process, the organization of interaction between institutions, and the stages of implementation. The analysis of these stages has shown that the Estonian experience is successful, is based on the experience and achievements of other countries, and can be used by Ukraine to improve its own processes.

Management of territorial communities' development in conditions of post-conflict transformation of the regions should be based on the implementation and use of modern and effective mechanisms for the development of intellectual capital, as well as innovative tools and principles of representative democracy. We have analysed the experience of using participatory budgeting in different countries: Brazil, France, Estonia, etc. Considering the experience of these countries, in our opinion, it is advisable to keep to the Estonian model when implementing participatory budgeting in Ukraine. It is not possible for Ukraine to implement Estonian participatory budgeting experience as it is in, as the Ukrainian civil society is still in the process of its establishment. At the same time, the local governments are under the influence of decentralization processes, which have not yet reached their logical conclusion, which in turn causes permanent transformations at the local level and determine certain peculiarities of introducing the participatory budgeting system in the regions of Ukraine. These features relate to education, consultation, transparency and process monitoring.

In our opinion, the implementation of participatory budgeting in the territorial communities of the regions of Ukraine has significant advantages compared to unsystematic and poorly structured, mostly chaotic local budgeting processes in the regions of Ukraine. To improve this and to implement the participatory budgeting all over Ukraine, it is necessary to use the best and most appropriate foreign experience and to form the system of effective mechanisms for the development of intellectual capital on the basis of human intellectual abilities, innovative processes, scientific knowledge and new technologies. This will contribute to increase of efficiency of organizational and economic support of the development of the system of regional management in conditions of decentralization and post-conflict transformation.

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#### ***4.2 Ensuring the Potential of Economic Security of the Enterprise in the Conditions of Hybrid Threats and Post-Conflict Transformation***

Since 90s of the 20<sup>th</sup> century, the category of economic security has become one of the most fundamental categories in modern national and international economics. Economic security is of great interest of scientists at all its levels "state-region-enterprise". This is due to the fact that economic security is the most important element of national security and provides competitiveness of national economy. Exactly the achievement of independence of Ukraine, the emergence of market economy and protection of economic interests at the state level and the