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A PROJECT FINANCING SYSTEM BASED ON PUBLIC OPINION AND THE ASSOCIATED FINANCIAL RISKS

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Abstract
In this article, one of the priorities of the reforms carried out in our country to ensure the openness and transparency of the budget system, that is, to ensure the active participation of citizens in determining the directions of expenses carried out from the local budget of the relevant territory. It is also covered by the project financing system, which is formed on the basis of public opinion, introduced for this purpose, and the financial risks that may arise in it.

Keywords: Public opinion, project, mechanism, citizen, process, financing system, local authorities, legislation, financial risks.

Introduction
In recent years, the inclusion of public opinion in the design and financing of development projects has gained attention as a means of enhancing transparency, accountability, and social relevance. This article explores a conceptual framework for a project financing system shaped by public opinion, examining both the potential benefits and the financial risks that may arise. The study highlights mechanisms for incorporating citizen feedback into financial decision-making, assesses common risk factors such as misallocation of funds and project failure, and proposes mitigation strategies. Through a comparative

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analysis and case references, the article provides policy recommendations for governments and financial institutions aiming to integrate participatory methods in project finance.

In world practice, this system (Participatory Budgeting) emerged and developed as a response to political changes in various countries and a number of economic and social problems listed below:

• inability of representative democracy to realize the interests of the poor;
• widespread corruption;
• increasing economic inequality among the population;
• distrust of the population to the state and state institutions.

Therefore, the system of project financing formed on the basis of public opinion was introduced primarily to eliminate the corruption risk arising in the budget system, and this was achieved through the control and participation of citizens, and the system was able to show its effectiveness.

In the Brazilian city of Porto Alegre, the local authorities, together with public associations, developed and reinforced the rules of public participation in a specially created City Charter (Regimento Interno). According to the new rules, in 1989 in the world practice for the first time, the city budget was adopted with the participation of many city residents.

Literature Review

The integration of public opinion into financial decision-making processes, particularly in project financing, has been widely discussed in recent governance, economics, and public administration literature. This section provides an overview of key studies and frameworks relevant to participatory financing and associated financial risks. Considering that the history of the project financing mechanism formed on the basis of public opinion does not go back into the distant past and this project is based on almost 30 years of experience, there are still not many scientific studies on this mechanism. However, the theoretical and practical aspects of the role and importance of citizens in the use of budget funds are presented by foreign economists Robert D. Lee Jr., Ronald W. Johnson, Philip J. Joyce, Falanga R., Kan Yu. K., Min. S. Yu. and studied the scientific works of others. In the studies conducted by Robert

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D. Lee Jr., Ronald Johnson, Philip J. Joycelar, there is not a word about how the local budget system is formed on the scale of large and developed countries of the world, as well as about the intervention of citizens in the formation of this process in order to ensure its openness and transparency [1]. In the scientific work of R. Falanga, the possibilities and problems of increasing citizen participation in policy development in the project financing mechanism formed on the basis of public opinion in Portugal were analyzed [2].

In Uzbekistan, this issue was expressed in the scientific works of O. Gaibullaev, I. Irgashev, U. Orokov and others. They describe when and in what order the project financing mechanism formed in our country on the basis of public opinion was introduced, as well as the procedures for its implementation [3].

Belova et.al in 2023 delve into the opportunities of green lending to finance environmental projects, underscoring its critical role in achieving sustainable development principles. Their analysis sheds light on the essence, characteristics, and challenges of green lending, highlighting the need for financial institutions to adapt to new realities and prioritize green investment risks. This study provides valuable insights into the global banking market's problems and priorities regarding green lending, emphasizing sustainable development practices and administration in the financial sector [4].

Svoboda in 2023 discusses the pivotal role of the financial services industry in the transition to a sustainable economy. He outlines how financial institutions can support this transition by allocating capital to environmentally friendly investments, managing long-term sustainability risks and providing financing for sustainable projects through mechanisms like green bonds and sustainable loans. This comprehensive view underscores the financial sector's capacity to accelerate the deployment of clean technologies and sustainable solutions [5].

Analysis and Results

The development of globalization on the world scale is increasing the demand for regulation of the world's economies through a modern financial management system. Therefore, development by world trends and implementation of financial and economic relations by international standards is one of the priority goals of every developing country today. Ensuring the financial stability of

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companies is important in determining their future financial status, increasing additional investment opportunities, and diversifying business. In recent years, extensive reforms aimed at creating a favorable business environment for doing business, strengthening the rights and guarantees of business entities, and state support have been implemented in our country. At the same time, it is important to establish the practice of using long-term strategies to ensure the financial stability of companies [8].

In the process of reforming the budget system in the Republic of Uzbekistan, the implementation of the project financing mechanism, which is formed on the basis of public opinion, serves as a special tool for finding solutions to the problems that plague the population and making the public a participant in the budget process. Therefore, identifying the scientific and practical problems arising in order to further improve this system in our country, and developing scientific proposals and practical recommendations based on the study of many foreign experiences, and using them, is one of the most urgent issues today. In our country, to further strengthen the broad involvement of the population of the country in the process of financing projects formed on the basis of public opinion, to consistently continue the work carried out on directing part of the budget funds based on public opinion, as well as taking into account the experience gained during the past period many measures are being implemented in order to further improve this system. [6].

"Open budget" information portal (https://openbudget.uz/) has been launched for the implementation of "Initiative budget" and "My way" projects in the system of financing projects formed on the basis of public opinion in Uzbekistan. All the processes of submitting proposals, moderating them, voting, and all information about this system are on this portal, and the possibility of technical risk is very high, because the entire population of our country uses this portal at the same time when the projects start. Therefore, it is expected that the portal will experience technical malfunctions and malfunctions, which in turn may lead to our citizens not being able to post their proposals on time and not being able to vote[8].

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Table 1. Comparative Analysis of Participatory Project Financing Outcomes (regional participatory pilot projects and World Bank reports, 2023–2024)

Country	Participatory Mechanism	Budget Efficiency ↑	Public Satisfaction ↑	Financial Risk Level	Notable Challenges
Brazil	Participatory Budgeting (PB)	18%	65%	Moderate	Limited technical vetting
South Korea	Digital Citizen Portals	22%	70%	Low	Requires high digital literacy
Poland	Community Project Voting	10%	55%	Moderate–High	Overrepresentation of local elites
Estonia	E-governance + PB	40%	80%	Low	High institutional investment needed
Uzbekistan	Local Initiative Mechanisms	+12% (pilot)	+50% (pilot)	Medium	Low capacity for monitoring and audit

Source: Developed by the authors

The state procurement system is used for the implementation of major projects in the financing system formed on the basis of public opinion, because the financed funds belong to the state and the process is also carried out under state control. Therefore, there is a risk in public procurement, the human factor in this process, the risk of errors and omissions made by people. For example, in the process of conducting tenders, the documents submitted by the contractor without checking the required documents are evaluated with a low score, or the wrong document is not evaluated fairly. In addition, one of the existing financial risks is the market risk. This risk is the credibility of the winning supplier or service organization in any purchase made by the customer, and the process is carried out in accordance with the law.

To evaluate the viability of public opinion–driven project financing systems and their associated financial risks, this study reviews existing literature, case studies, and policy practices from countries where participatory mechanisms have been implemented. The analysis focuses on three primary dimensions:

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- Effectiveness of Public Involvement in Project Selection. Participatory budgeting (PB) and other community engagement tools have shown that citizen input can increase project relevance and improve public service delivery. For instance, municipalities in Brazil implementing PB reported improved outcomes in sanitation and education. However, challenges arise when public priorities diverge from long-term infrastructure needs or when public knowledge about technical aspects is limited.

-Risk Incidence and Management. Data from pilot projects in South Korea and Poland show that while public participation improved transparency and reduced small-scale corruption, projects initiated without thorough technical review often encountered budget overruns or implementation delays. Financial risks were especially pronounced in urban development and technology-based projects, where the cost structure is complex.

- Institutional Readiness and Oversight Capacity. Countries with strong institutional frameworks and digital infrastructure (e.g., Estonia, Finland) experienced fewer negative financial impacts, as citizen input was integrated with expert validation. Conversely, in environments with weak governance structures, public opinion–based financing led to fragmented budgeting, underutilization of funds, and, at times, political manipulation[5].

Table 2. Common Financial Risks Identified in Public-Initiated Projects (OECD and UNDP, 2020–2024)

Type of Risk	Frequency (%)	Examples	Mitigation Strategy
Cost Overruns	27%	Infrastructure projects lacking proper estimates	Pre-approval by technical committees
Scope Creep	19%	Expansion requests after initial approval	Contractual limitations on changes
Delays in Implementation	32%	Delayed procurement, unclear ownership	Clear legal frameworks and timelines
Project Abandonment	11%	Unrealistic community expectations	Feasibility studies before voting
Fund Misallocation	16%	Projects benefiting a narrow interest group	Oversight boards and third-party audits

Source: Developed by the authors

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Projects with expert-vetted public participation had 30–45% fewer financial issues than purely opinion-based processes.In cities with digital platforms, public involvement increased, and budget execution rates improved by an average of 22%. 80% of surveyed citizens in participatory cities (n=2,500 across 7 countries) reported higher trust in local governments[7].

The findings of the analysis support the following conclusions:

Enhanced Social Value, Conditional on Structure:Project financing systems that incorporate public opinion tend to deliver higher social value and citizen satisfaction—when combined with expert oversight and data-driven evaluation mechanisms.

Risk Exposure Correlates with Process Weakness:Projects selected solely based on public voting or informal consultations without technical feasibility assessments are more likely to experience financial risks, including cost overruns (reported in up to 27% of such projects, according to a comparative OECD study).

Technology Is a Key Enabler of Risk Reduction: Digital platforms and AI-based analysis tools have proven essential in balancing transparency with financial control. Cities employing e-budgeting systems experienced up to 40% improvement in budget efficiency and 25% reduction in implementation delays.

Strong Governance Reduces Risk Amplification: Participatory financing models are significantly more effective in jurisdictions with well-established legal systems, audit mechanisms, and citizen education programs. In such contexts, public opinion supports—not supplants—expertise.

Optimal Model Is Hybrid: A hybrid model that integrates public participation with financial and technical screening provides the most balanced outcome. It reduces the likelihood of politically motivated projects while maintaining alignment with community needs.

Recommendations

The effectiveness of public sector investment is increasingly being linked to the degree of citizen participation in financial decision-making processes. As governments and development agencies seek more democratic and inclusive approaches, project financing models that incorporate public opinion have

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emerged as a promising alternative to traditional top-down financing systems. This shift raises essential questions about how public engagement can be systematically integrated and what financial risks may follow such participatory models.

The Rationale for Public Opinion in Project Financing.Public participation enhances project legitimacy, aligns priorities with actual community needs, and increases the likelihood of long-term success. Platforms such as participatory budgeting, citizen surveys, and online feedback tools are being employed globally to inform budget allocations and project selections. These mechanisms not only democratize decision-making but can also increase public trust in financial institutions and government bodies.

Structure of a Public Opinion–Based Project Financing System. A financing system driven by public opinion typically involves the following stages:

Needs Assessment: Collecting public input through consultations, digital platforms, or community meetings.

Proposal Selection: Screening and prioritizing projects based on citizen preferences and technical feasibility.

Budget Allocation: Aligning financial resources with selected proposals.

Implementation and Monitoring: Ensuring public oversight through transparency tools and regular reporting. Such a structure demands a robust institutional framework, transparent information flow, and mechanisms to validate the legitimacy of collected public input.

Financial Risks in Public Opinion–Driven Financing. Despite its benefits, a financing model based on public opinion can introduce several financial risks:

Resource Misallocation: Public choices may favor popular or symbolic projects over essential but less visible ones.

Budget Overruns: Projects selected through public vote may lack thorough feasibility assessments, leading to cost escalation.

Project Delays or Failures: Inadequate technical vetting may result in underperformance or failure to complete projects.

Manipulation and Populism: Interest groups may distort the process to favor their agendas, undermining objectivity and efficiency.

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Short-Termism: Public opinion may favor short-term gains over long-term strategic investments.

Risk Mitigation Strategies. To manage these risks, the following measures are recommended:

Hybrid Decision-Making: Combining expert evaluations with public input to balance technical and social perspectives.

Capacity Building: Educating citizens about budgeting constraints and project evaluation criteria.

Transparent Criteria: Establishing clear guidelines and thresholds for project selection and funding.

Digital Tools: Using data analytics, AI, and blockchain to ensure integrity, efficiency, and traceability.

Institutional Safeguards: Creating oversight bodies to monitor the fairness and financial discipline of participatory processes.

Case Studies and Global Trends.Examples from Brazil, South Korea, and the European Union demonstrate varying levels of success in participatory financing models. In Brazil, participatory budgeting has improved infrastructure development and social service delivery in several municipalities. South Korea's use of digital platforms for civic engagement in budgeting decisions highlights the potential of technology in improving participation and reducing corruption.

Conclusion

A project financing system based on public opinion offers a pathway toward more inclusive, accountable, and socially relevant development. However, it must be designed with foresight, incorporating risk mitigation frameworks and institutional support. With the right balance between public engagement and financial rigor, such systems can become a cornerstone of sustainable governance.

Although the system of financing projects formed on the basis of public opinion has not yet been introduced in Uzbekistan, it is a special tool for finding solutions to many problems that plague the population and making the public a participant in the budget process. is serving. Nevertheless, there are also financial risks arising in the process, which are being solved through many

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measures implemented on the basis of the experiences gained during the past period.

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