

“Local finance transparency in Ukraine”

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LOCAL FINANCE TRANSPARENCY IN UKRAINE

Abstract

Transparency in public and local finance is one of the most important factors in building a democratic society with high level of public confidence in the government. Democratic shifts in a country will only take place if citizens perceive the country's government and local self-government as fully transparent and controlled by them. Citizens will be able to support and cooperate with the government if it informs them of all public activities: decision-making, financial reporting, planning, local budget expenditures, etc. Transparency in the formation and use of local financial resources is the most sensitive issue.

Local finance transparency has been studied from the perspective of 21 online portals of local authorities from four Ukrainian regions, geographically remote in the context of two main blocks, namely, the state of public procurement and the budget process. The portals of Lviv, Vinnytsia, Sumy, Mykolaiv administrative centers and the city of Kyiv were identified in each region (oblast), and in each oblast, four cities with the district status, which are the largest by population, were identified. Significant discrepancies in local finance transparency have been identified, as portals of regional centers and a small number of districts have high levels of transparency. The vast majority have low transparency in local finances. In addition, the level of community involvement in the regional development problems through social networks was analyzed. The population of small cities was found to be more active. Most local governments should pay attention to the low level of portals in terms of making them user-friendly.

Keywords

local finance, budget, trust, social networks, democracy

JEL Classification

H72, H79

INTRODUCTION

Over the last years, an abnormally low level of public trust in government institutions has emerged in Ukraine, and government programs for social and economic development are perceived as ineffective. Increasing transparency of local governments is a key means of gaining public confidence, and, more importantly, transparency of local finances. Trust and transparency, even when compared to the quality and variety of services provided by local authorities, are main factors in building the local institutions' reputation and creating links with local authorities. Transparency in the activities of local authorities enables citizens and their associations to defend their interests more consciously and organizationally, and the decisions of the authorities in this case are made considering the wider range of proposals that exist in society.

It is the transparency of local finance that can significantly increase the level of trust, since they are the basis for the local budget formation, and, therefore, the citizens' ability to meet all its needs, including education, at the level of general secondary and tertiary education, public health, social protection within the relevant territory, etc. Transparency of local finance is a particularly acute issue in the con-

text of decentralization reform, where local governments receive a lot of money to themselves, on the one hand, and significantly greater responsibilities for their efficient and quality spending, on the other.

In Ukraine, transparency is mainly considered at the level of national authorities, and recently, the list and the amount of information provided on the Ministry of Finance of Ukraine's website have expanded. The National Bank of Ukraine demonstrates a particularly active position in the field of transparency, providing access to a wide range of data, both related to its own activity and that of banks. The issue of transparency of local authorities has taken second place, although at this level the cooperation between the community and the authorities should be as close as possible. Therefore, this paper presents the results of the analysis of local finance transparency in Ukraine and their popularity among communities.

1. LITERATURE REVIEW

Transparency of public finance is an important issue not only for Ukraine but also for most countries of the world, regardless of the society's level of economic development and democratization. De Simone et al. (2019) investigate the relationship between the level of society's democratization and transparency of public finance. An analysis of panel data from 82 countries from 2008 to 2015 shows that the positive effect of public finance transparency depends on the level of democracy in the country.

Overall, there has been an increase in public finance transparency interest since the implementation of the United States Open Government Initiative portal in 2009. Among the studies on the public finance transparency, attention is drawn to the works by Alt et al. (2006), Alzamil and Vasarhelyi (2019), Bradbury and O'Reilly (2018), Bastida, Guillamón, and Benito (2017), Issatayeva and Adambekova (2016), Popoła, Alese, Kupoluyi, Ehinju, and Adetunmibi (2018), and Liebert, Condrey, and Goncharov (2017).

The importance of public finance transparency at both national and local levels manifests itself in different directions and affects different macroeconomic parameters. Copelovitch, Gandrud, and Hallerberg (2018) create a new Financial Data Transparency (FDT) Index; besides, based on data from high-income OECD countries, these authors conclude that transparency of public finance reduces public debt service costs. Alt and Lassen (2006) also conducted studies in this regard and constructed a replicable index of fiscal transparency on 19-country OECD data. They concluded that a high level of transparency of public finance

is accompanied by a low level of public debt and a deficit of the government budget.

According to Eckersley and Ferry (2019), transparency in public procurement is important for the UK, since outsourcing makes this process opaque. Insufficient transparency of information has significantly increased the number of "known unknowns" and "unknown unknowns", which does not allow determining the effectiveness of public service outsourcing.

Aaskoven (2016), based on a panel analysis of 20 OECD countries from 1995 to 2010, put forward and confirmed the hypothesis on transparency in public finance and its relationship with employment rates. The conclusions are based on.

Oktaviani, Faeni, Faeni, and Meidiyustiani (2019) noted that Indonesia successfully implemented e-budgeting in accordance with standard operating procedures, and that a qualitative descriptive study is important today. Moldogaziev, Espinosa, and Martell (2018) investigated information problems related to subnational government capital markets, which is particularly important for Ukraine, given the volume of government bond issues and their impact on the health of the financial market. Empirical case studies, using 52 countries as an example, have shown that transparency and depth of information are positively related to subnational government.

Equally important is transparency of public finance, including at the local level, in terms of reducing corruption by increasing responsibility not only from the authorities but also from the community, which is a consequence of the strengthened democratic processes in the country (Höffner,

Martin, & Lehmann, 2016). Given the survey of tax policies of Spanish municipalities, one can state that one of the major problems of their activities is high corruption, including related to the available services and infrastructure. In doing so, municipalities are mimicking of neighboring municipalities and are not taking any steps to create a competitive environment (Bastida, Benito, Guillamón, & Ríos, 2019).

Ameen and Ahmad (2011) stress the importance of services and financial information systems for reducing corruption in the country. The correlations among public finance management, public procurement and corrupt practices have been examined in detail by Soyaltin (2017) through the example of Turkey.

In the context of Ukraine, it is worth noting that public finance transparency studies are currently only beginning to gain momentum. The level of transparency of information about their status is gradually increasing, although it is still at a rather low level. Among the scientific publications currently available is the article by Bukhtiarova, Dukhno, Kulish, Kurochkina, and Lypchanskyi (2019), the authors propose a methodology for assessing the institutional and political transparency of major public authorities, namely, the Ministry of Finance of Ukraine and the State Fiscal Service of Ukraine. Besides, the paper notes that transparency of public finances has a strong anti-corruption impact; this is of utmost importance for the Ukrainian economy, which, according to the Corruption Perceptions Index, is one of the countries with high levels of corruption in recent years.

As to the transparency of public procurement in Ukraine, the results of the study on this subject were covered in detail by Shkolnyk, Bukhtiarova, and Horobets (2018).

Meanwhile, there are no transparency studies at the level of local governments, which form the basis of public finances, and unlike the state level, are as close as possible to the implementation of functions related to meeting the individuals' needs. According to Paientko (2019), public finance reform which is taking place in Ukraine today requires the most objective methodology and carefully selected tools, including for visual-

izing the reform results. The author proposes to use geographic information systems as a tool that can combine statistical, geographical and demographic analyses, and notes that in the presence of an open data card it is difficult to manipulate them. T. Gurzhii, Deshko, A. Gurzhii, Berlach, and Radyshevska (2019), stressing the importance of increased transparency of public finance in Ukraine, point out that it is necessary to improve the legal, organizational, and economic framework of control over the use of public finance in Ukraine. It is important not only to modernize the existing legislative control, but also to establish relevant web resources.

It should be noted that much of the research deals with transparency of public finance at the national level, while at the same time, transparency at the local level contributes to the increase of public confidence in local authorities and the development of participatory budgeting process (Stanić, 2018).

2. DATA AND METHODOLOGY

To analyze transparency of public finance at the local level, the study has chosen two main assessment areas, public procurement and the budget process. Publication of data in the procurement process ensures information availability, thus positively affecting the transparency of government. Data availability reduces information asymmetry and gives equal opportunities to participate in public tenders. This leads to increased competition and, therefore, better prices. Access to information also simplifies monitoring and makes it more user-friendly. Such monitoring can be a powerful tool in identifying problems and optimizing the system in the long run (Demianiuk, 2016). Thus, open public procurement data sets new goals for the interaction and compatibility of open information in other areas. Public control, through open data, increases the likelihood of disclosure of speculation, fraud, inefficient use or misappropriation of budgetary resources.

With regard to the second assessment field – budgeting – the coverage of budgetary data by local councils makes it possible to strengthen the democratic and socio-economic foundations of budget

functioning. The introduction and development of public participation in the budget process will facilitate the efficient budgetary decision-making to maximize the level of public goods and services provided to citizens in exchange for mandatory tax payments. Budget transparency and public participation in the budget process are key conditions for establishing democratic foundations for the country's socio-economic development (Tereshchuk, 2018).

The study has selected four Ukrainian regions and the city of Kyiv, which are geographically located in opposite regions. In each region, for comparison, the study has chosen the regional center and four district cities, which are the largest in this region by population: Lviv region (Lviv, Drohobych, Chervonohrad, Stryi, and Sambir), Sumy region (Sumy, Konotop, Shostka, Okhtyrka, and Romny), Mykolaiv region (Mykolaiv, Pervomaisk, Yuzhnoukrainsk, Voznesensk, and Novyi Buh), and Vinnytsia region (Vinnytsia, Zhmerynka, Mohyliv-Podilskyi, Khmilnyk, and Haisyn). Also, 21 official information portals of selected cities were analyzed according to a single set of parameters.

In the course of the public finance transparency study in Ukraine, a survey was conducted among the population regarding their awareness of the state of local finances and their transparency. The survey showed that social networks were the most informative channels for the population about the activities of local authorities (56.7% of respondents), with official websites and traditional media accounting for 27.1% and 16.2%, respectively. Therefore, along with the analysis of the status of transparency of information on official information portals, the coverage of information by selected local authorities on social networks was analyzed, namely, Facebook, Twitter, Telegram, YouTube, and Instagram; besides, it has been determined how important and popular they are.

3. RESULTS

In countries with high levels of democratic development, access to public information on the activities of local authorities is in great demand (Romanchenko, 2018). Lack of information, as

well as the filling of channels to obtain the necessary information by information noise, deprives the public to take part in managing the affairs of local authorities. Closed access to social information about the directions and state of local government policy in the country undermines public control, objective evaluation of officials' actions and the ability to influence them from the public to guide the development of local communities in the right direction. In addition, a lack of complete and reliable information about the activities of local authorities makes it impossible to establish feedback in the relations with the authorities: inadequate informing the community about local finance does not give an answer as to the results of their formation and spending. Local authorities do not receive appropriate social information from citizens, which hinders improving the policy effectiveness.

Content maintenance of Internet portals by local authorities in the current context is one of the main factors of the latter's transparency to the public. With the Internet development and the increasing involvement of IT professionals, both the quality of information and its accessibility have increased, which meets the growing demand from communities. Creating an easy-to-use website does not require significant financial resources from local authorities, and content maintenance allows easily and effectively controlling the activities of electees. The study compared 21 sites of the largest cities of Sumy, Lviv, Mykolaiv, Vinnytsia and Kyiv regions. The choice of these areas was determined by their geographical location. It has been decided to verify that the cities of western Ukraine, which are closer to the European Union, are more developed in the field of transparency of the local authorities' activity when compared to the regions of Eastern and Southern Ukraine.

Within the first block of comparison, namely, public procurement transparency, the study has revealed that local authorities do not sufficiently cover information related to public procurement. In the course of the public procurement transparency studies, posting information on city council procurement plans, procurement accomplished and procurement through Prozorro were investigated. Also, providing information to citizens on current, previous and planned local budgets,

reports on their implementation and consulting with citizens on the draft budget were analyzed.

Most websites have sections to provide information on relevant local government procurement, but less than half of the information portals contain details of 2019 procurement plans. According to this criterion, no city council of Mykolaiv region promulgated the relevant plans, which does not allow the public to determine the level of their compliance. One third of the cities provided information on completed purchases, indicating their type, date, prices, candidates and their offers, as well as displayed on-line real-time data on current proposals through Prozorro.

The information portals of the other cities did not display the necessary information. Only two city councils continually publish all current procurement contracts as amended. Despite the creation of relevant sections on the websites of city councils dedicated to procurement, their content maintenance does not allow asserting sufficient transparency. The lack of real-time display of active purchases forces the search for the necessary information on the Prozorro portal, which complicates and slows down data collection. Inadequate coverage of procurement plans, concluded agreements with suppliers, and alternative proposals impede the public to monitor the objectivity of cost-effective decision-making by local authorities. Contrary to the general tendency of insufficient coverage of procurement information, the cities of Chervonohrad and Vinnytsia publish data on each parameter under study, which allows identifying the websites of these cities as examples of a sufficient level of openness on the issue under consideration.

When studying budgeting, which is the second block of assessment, it was found that most city authorities place budgets for current and previous periods on their portals; they also publish reports on budget execution and changes made to them. However, this trend applies mainly to regional centers and major cities, while others do not even publish the budget for the current year. Budgeting and public consultation information is only available on the websites of five cities, indicating a low level of community involvement in the budget process. This is confirmed by the fact that only

two city council portals (Drohobych and Sumy) have posted public consultation reports on next year's budget. With regard to local borrowing and local budget information, only one out of twenty-one analyzed places this data on the web portal.

All in all, from the general list of criteria, the first block, on public procurement, presents the most fully disclosed information; the information portals created a section to place procurement information (67% of the analyzed) and procurement plans for the current period (48%). Regarding the budget information block, the most frequently disclosed information is the availability of the current budget as amended (67%), availability of the budget execution report to inform the population at least twice a year (62%), availability of the budget for the previous years (58%).

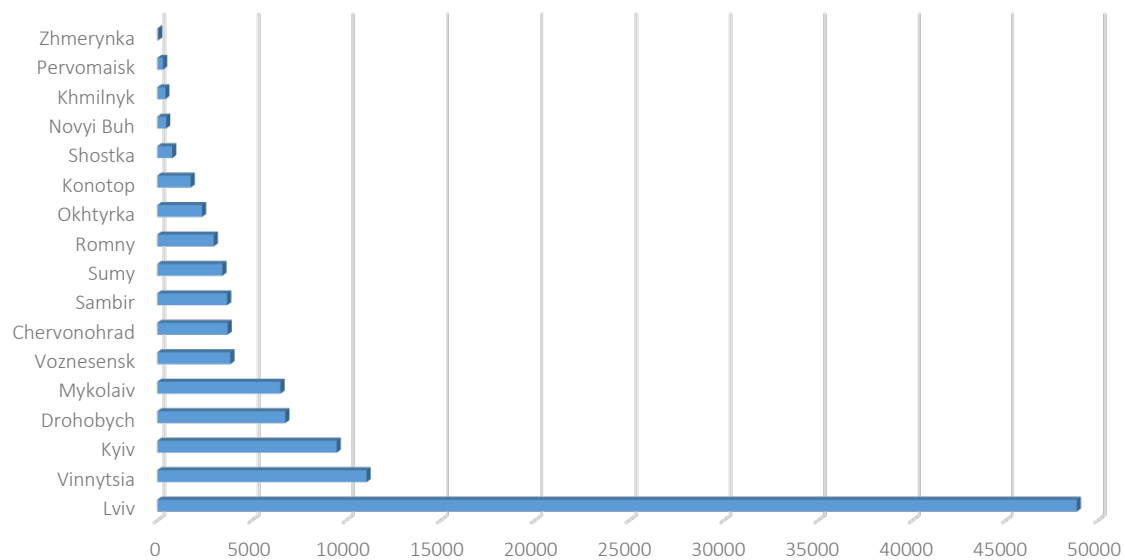
In terms of the level of local finance transparency in the context of the cities taken for comparison, the maximum number of points was collected by information portals of the regional centers of Kyiv, Sumy, Vinnytsia and Lviv, as well as district centers of Chervonohrad, Konotop, and Shostka. Meanwhile, Mykolayiv as a regional center has an information portal with low transparency. In addition, three cities – Stryi, Pervomaisk and Mohyliv-Podilskyi, with Internet portals – do not publish the necessary information on the status of local finances. Assessing the level of transparency of local finance by region does not make it possible to confirm the hypothesis that western regions of Ukraine, which are geographically close to the EU countries, have higher transparency compared to other regions, as the largest cities of Sumy region, located in the eastern part of the country, show high transparency. Compared to the cities of Vinnytsia region, with the exception of the city of Vinnytsia itself, district centers have relatively low rates, including the city of Mohyliv-Podilskyi, which has zero value. As for the Lviv region, among its largest cities, two – Stryi and Sambir – have the lowest values of zero and 1.

Having reviewed the official information portals, it is important to analyze the official pages on social networks. This study considered only those pages that were linked from the city's official information portal. The survey can identify Lviv as a clear leader in terms of absolute num-

Table 1. The survey results of the transparency of city council sites by region

| | Kyiv | Lviv region | | | | | Sumy region | | | | | Mykolaiv region | | | | | Vinnytsia region | | | | |
|--|------|-------------|-----------|--------------|-------|--------|-------------|---------|---------|----------|-------|-----------------|------------|----------------|------------|-----------|------------------|-----------|-------------------|----------|--------|
| | | Lviv | Drohobych | Chervonohrad | Stryi | Sambir | Sumy | Konotop | Shostka | Okhtyrka | Romny | Mykolaiv | Pervomaisk | Yuzhnoukrainsk | Voznesensk | Novyi Buh | Vinnytsia | Zhmerynka | Mohyliv-Podilskyi | Khmilnyk | Haisyn |
| Procurement plans for the current period | + | + | - | + | - | - | - | + | + | + | + | - | - | - | - | - | + | + | - | - | + |
| A section for posting procurement information | + | + | - | + | - | - | + | + | + | + | + | + | - | - | + | + | + | + | - | - | + |
| Information on completed City Council procurement | + | + | - | + | - | - | - | - | + | - | + | - | - | - | - | - | + | + | - | - | - |
| Procurement contracts on an ongoing basis, including as amended | - | - | - | + | - | - | - | - | - | - | - | - | - | - | - | - | + | - | - | - | - |
| Displaying real-time information on procurement made through Prozorro | + | - | - | + | - | - | - | + | + | - | - | + | - | - | - | + | + | - | - | - | - |
| Current budget as amended and supplemented | + | + | + | + | - | - | + | + | + | - | + | + | - | + | + | - | + | - | - | + | + |
| Budgets for preceding years | + | + | + | - | - | - | + | + | + | - | + | + | - | + | - | - | + | + | - | + | - |
| Budget execution report to inform the population at least twice a year | + | + | + | - | - | + | + | + | - | + | - | + | - | + | + | - | + | + | - | + | - |
| Draft budget for the next year not later than 20 working days before its consideration date | + | - | - | - | - | - | + | + | + | - | - | - | - | - | + | - | - | - | - | - | - |
| A schedule and a timetable for consulting with citizens and business regarding the content of the draft budget for next year | - | + | + | + | - | - | + | - | - | - | - | - | - | - | - | - | - | - | - | + | - |
| Results of public consultations on the budget for next year | - | - | + | - | - | - | + | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Information on local borrowings and local budget loans | - | - | - | - | - | - | + | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Scores | 8 | 7 | 5 | 7 | 0 | 1 | 8 | 7 | 7 | 3 | 5 | 5 | 0 | 3 | 2 | 2 | 8 | 5 | 0 | 4 | 3 |

Source: Author calculations.

**Figure 1.** Number of Facebook subscribers to official city pages

ber of subscribers and the availability of information on various social networks. Lviv has almost 50,000 Facebook subscribers and active Facebook, Twitter, Telegram, YouTube, and Instagram pages. The number of subscribers is more than five times higher than that in Kyiv and Vinnytsia. However, four cities – Mohyliv-Podilskyi, Stryi, Haisyn, and

Yuzhnoukrainsk – do not have any pages on social networks at all. It should be noted that the cities of Drohobych, Sumy, and Mykolaiv have their pages, respectively, on four and three social networks, which are actively updated. Almost all cities, except Haisyn, have a Facebook page and YouTube with the exception of Vinnytsia and Voznesensk.

Table 2. Community involvement in the social networks of the cities under study

Source: Author calculations.

| | Portal ranking | % of Facebook subscribers by city population | Cities' pages on social networks |
|-------------------|----------------|--|----------------------------------|
| Lviv | 7 | 6.724 | f t i y t |
| Drohobych | 5 | 6.982 | f i y t |
| Sumy | 8 | 1.307 | f t i y |
| Mykolaiv | 5 | 1.342 | f t i y |
| Sambir | 1 | 10.614 | f i y |
| Konotop | 7 | 2.033 | f i y |
| Voznesensk | 2 | 11.063 | f i y t |
| Hkmilnyk | 4 | 1.545 | f i y |
| Haisyn | 3 | 0.000 | t i y |
| Kyiv | 8 | 0.324 | f i y |
| Vinnytsia | 8 | 2.983 | f |
| Zhmerynka | 5 | 0.165 | f i y |
| Chervonohrad | 7 | 5.576 | f |
| Shostka | 7 | 1.053 | f |
| Okhtyrka | 3 | 4.938 | f |
| Romny | 5 | 7.478 | f |
| Pervomaisk | 0 | 0.463 | f |
| Novyi Buh | 2 | 3.072 | f |
| Stryi | 0 | 0.000 | |
| Yuzhnoukrainsk | 3 | 0.000 | |
| Mohyliv-Podilskyi | 0 | 0.000 | |

Source: Author calculations.

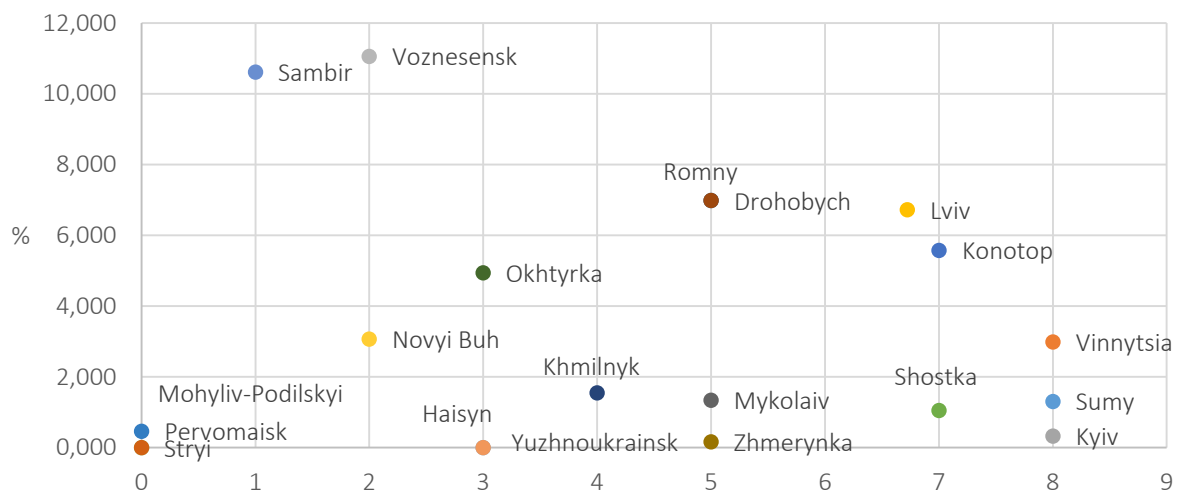


Figure 2. The ratio of the official site ranking to the percentage of population involvement

Analyzing the number of subscribers across different social networks, one can conclude that Facebook is the most active. The use of other social networks for communication is extremely limited, including because of their peculiarities.

At the same time, not only absolute but also relative measures are equally important; therefore, the ratio of the number of subscribers to the population in the respective cities was calculated. Based on relative indicators, the leaders in community engagement in social networks are the small cities of Voznesensk, Sambir, Romny, Drohobych; Lviv is in fifth place. Thus, the level of population involvement in large cities and small towns differs significantly.

By constructing a paired scatter chart based on the ranking of data obtained from the anal-

ysis of official sites and the percentage of the cities' population involved in social networks, in particular on Facebook, one can conclude that cities such as Lviv, Konotop, Drohobych and Romny demonstrate highest connection between the active part of the community and local finance transparency. Transparency and communications are the worst in three cities of Vinnytsia region – Haisyn, Khmilnyk, and Mohyliv-Podilskyi. In addition, Vinnytsia, Sumy, and Kyiv have high rankings of official internet portals but low community activity on social networks. On the one hand, this may indicate low activity of the community itself, and on the other hand, the high level of transparency of the official internet portal reduces the need to promote information through social networks.

CONCLUSION

Based on the abovementioned, we can conclude that, on the one hand, local authorities do not pursue a policy of involving the general public in the formation of local budgets, and on the other, the community does not show high interest and activity in controlling the formation and spending of local finances. This is confirmed by the lack of reporting on public consultations or the absence of these measures. Publication of draft budgets on information portals would help to identify weaknesses and get citizens' feedback on proposals, but only a small proportion of city councils publish budget development information. A slightly larger part of the cities publishes current budgets and implementation reports as amended, which still allows for an operational control over the current execution of the city budget. Based on these facts, it can be argued that the local authorities do not correspond to a sufficient level of transparency on their own internet portals, which are currently the most effective source of information for its further processing.

The study showed that the local authorities in Ukraine have not yet reached sufficient development in the electronic information environment. Only a small number of portals can be classified as user-friendly, most have a very outdated design; the complex structure of the site does not allow you to find the necessary information if it is still placed on a web portal, usually, official internet resources do not publish all official information about the local authorities' activities. However, some cities, such as Kyiv, Lviv, Sumy and Vinnytsia, stand out from the general trend, their websites have a nice and convenient design, and the local authorities place there most of the necessary information available to the public.

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