

The Principle of Transparency in the Ukrainian Decentralisation Reform¹

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ABSTRACT

After the Revolution of Dignity (2013–2014), the new Ukrainian government set out a number of reforms, one of which – and a successful one so far – was decentralisation, involving territorial amalgamation and re-allocation of public revenues and outlays in favour of the newly-established amalgamated territorial communities (ATCs). This study aims to analyse whether decentralisation is supported by the realisation of the budget transparency principle. We attempt to fill the gap still existing in the research of public sector transparency in Ukraine, concerning the basic administrative level, hereby being limited to big cities and regions. The authors carried out an assessment of budget transparency in newly-established ATCs in four Ukrainian regions by applying a simplified methodology ('snapshot assessment') involving 11 measures that could be easily located on the ATC websites. In order to understand the reasons for a particular level of transparency, a polling of ATC heads was undertaken. The findings of the study demonstrate that the overall budget transparency in the newly established ATCs is rather low and subject to significant interregional variation. We find that the local officials overstate the existing level of budget transparency in their communities and are not proactive in their efforts to raise it. The importance of this article lies in substantiating the need for making budget transparency a priority for local officials, as well as in detailing the activity of the state and the local community in this field.

Keywords: amalgamated territorial community, decentralisation, fiscal transparency, Ukraine

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1 Introduction

Fiscal transparency is considered to be one of the core principles of good governance. It refers to making information on how the government raises, spends and administers its financial resources publically available. Fiscal transparency is also considered an important instrument to reach effective public finance management. It plays a significant role in building market confidence and underpinning economic sustainability, fosters government accountability and credibility (Alt, 2019). In this way transparency contributes to making information in the public administration sector less imperfect and (to some extent) solves the principal-agent problem, where the principal is the community (society) and the government is the agent.

In 1998 the IMF adopted The Code of Good Practice on Fiscal Transparency, which delivers the benchmarks in transparency for the national public finance sector. Nowadays its improved version, The Code of Fiscal Transparency as of 2012 (IMF, 2019), presents international standards applied for transparency assessment in the national budget system. 75 countries declared that they adhere to the Open Government Declaration as of 2011 and have developed respective action plans which relate also to local government budget issues.

Budget transparency is especially important for transition countries with no longstanding tradition of public sector administration comparable to that in countries with market economy and efficient democracy. Low transparency could lead to lack of public control over appointed officials and elected politicians, to misuse of public revenues; inefficient money spending may also occur. Thus, effective realization of the transparency principle is one of the most important goals for nations involved in reforming their public administration and public finance in order to reach modern standards of governance.

Transparency has been one of the concerns of the Ukrainian government since the Revolution of Dignity (2013-2014). These events became a societal reflection to non-transparent actions of the previous government, resulting in its dismissal in series of mass protest actions. With regard to public finance transparency, some progress has been observed since that time. According to Open Budget Survey 2017 (IBP, 2018), Ukraine's Openness Index has demonstrated a positive trend with a score reaching 54 points (46 in 2015). With regard to IBP criteria, it could mean that Ukrainian budget transparency is still insufficient as society receives a limited amount of budget information. Ukraine's score is located almost in the middle of the range, where the mean is 43, nevertheless being ahead of many post-socialist and post-soviet nations.

The achieved progress concerning budget transparency could be associated with the reforms initiated in Ukraine since 2014. It is worth pointing out the adoption of the Law of Ukraine "On the Openness in Using Public Means" (2015) which imposed onto main budget means controllers an obligation to upload information on transactions with public moneys to the specially designed governmental website. This law does not contain any specific requirements concerning local budget transparency; it relates to all the public bodies,

disregarding the specifics of local governments in comparison to the national government and its bodies. While information on national government units' budget transactions has really become more open, the same could not be said about local authorities. There are massive differences in amount and quality of information that is posted in the national portal and in the local authority websites: in most cases, a local authority limits the uploaded budget information to the annual budget document approved by a local council and a report on its execution. Consequently, an active citizen faces significant barriers if he/she wants to be knowledgeable on local budget transactions in his/her place of dwelling. Of course, a part of local government budgetary information is posted on the national official website (www.spending.gov.ua). However, receiving access to this information is tricky not only for an average citizen, but also for an expert. E.g. in order to find the relevant information, one must have a local authority public register number, which is not easy to find (as it is usually not posted on the authority's official website), the same concerns the transaction time period.

We assume that fiscal decentralization occurring in Ukraine increases the need for making detailed local budget information publically available, since nowadays local authorities assume more spending responsibilities and dispose of significantly higher amounts of public money. Such development, on the one hand, increases the need for local authorities' accountability; and this is impossible without having transparent budgets. On the other hand, as Katarina Ott put it, "while decentralization can complicate the coordination and monitoring of budgets nationally, it often creates greater opportunities for citizen and local legislature involvement" (Ott, 2006, p. xv). And, not least, being supported by transparency, decentralization could minimize the level of corruption and increase community trust to the local self-government bodies.

Budget transparency is a product of interaction between economic agents demanding and supplying budget information. As concerns demand, to these agents belong members of respective communities, borrowers, investors, and civil society organizations. From a supply side, the stakeholders are local politicians, self-government bodies and utility providers operating with public moneys. Each of the agents mentioned above has a specific motivation concerning claiming disclosure of the budgetary information or hiding it. As the demand side looks here much less organized and the supply side seems to be reluctant to publicize respective information, the national governmental regulations concerning transparency look very important for a more or less sufficient realization of the transparency principle at the local level of governance.

All of the aforementioned makes analysis of transparency trends in Ukrainian local budgets very topical indeed.

This study intends to assess budget transparency in Ukraine on the grassroots level, i.e. within a range of local budgets of newly established amalgamated territorial communities (further referred as ATC). No such assessment was undertaken in Ukraine before.

The paper has the following study goals:

- to perform an assessment of transparency level in ATCs within selected Ukrainian regions by use of a simplified methodology ('snapshot assessment') encompassing 11 indicators merged into a 'transparency index' (further referred as TI);
- to find out factors affecting the budget transparency level;
- to outline policy proposals concerning raising budget transparency in ATCs.

In order to reach these goals, the paper is structured in the following way: firstly, we review the literature concerning budget transparency in local governments and the factors affecting it; secondly, we introduce the research methodology of this study; thirdly, we analyze the progress in decentralization observed in Ukraine since 2014; fourthly, we present the key findings concerning transparency in newly-established ATCs; fifthly, we present the possible factors affecting transparency; finally, we deliver some recommendations stemming from our study concerning what could be done in order to raise budget transparency in ATCs.

2 Literature review

Within the recent years, a range of publications were dedicated to local budget transparency analysis. The possibilities of large-scale presentation of budget information via the Internet were analyzed in a monograph "Evaluating Websites and Web Services" (Yannacopoulos et al, 2014) and by Helen Darbshire (Darbshire, 2010). The authors of these publications conclude that the development of the Internet has contributed to increasing budget transparency by making possible a quick and cheap distribution of information. Local authorities exploit this possibility in order to diminish public pressure and to change their mode of communication with the citizens.

Nowadays we have a few studies dedicated to local budget transparency assessment with regard to institutional environment in the CEE countries: Ott et al (2006, 2018), Andronova et al (2018), Sedmihradská (2015). Recent input to analyzing local fiscal transparency in Ukraine is presented in Demydenko and Nakonechna (2016), Slukhai et al (Слукхай et al, 2019).

Since the 2000s economists have been looking for factors affecting local government budget transparency on top of measuring it. Especially we emphasize the pioneering studies by American economists (Alt et al, 2002; 2006), in which some institutional (political competition, political polarization and composition of the state government) and fiscal factors (debt, budget imbalance and size of revenue) as transparency determinants were analyzed. Basing on panel data from 50 US states for the time period of 30 years, they concluded that political competition between the legislative and executive, budget surplus or deficit enhance transparency, while real per capita debt has a negative impact; also the political dominance of a party has an influence on transparency.

The importance of accounting for such factors as size of municipality, number of population, per capita revenues, accounting disclosure was substantiated by Styles and Tennyson (2007) basing on analysis of financial reports from the US municipalities.

In the last decade, with evolving e-governance, transparency studies have relied mostly on information available on the community, district and region websites. On the district level, Bernick et al (2014) showed that such factors as appointed county manager, size of county board, number of full-time employees, requirements to submit an audit report to the federal government, unemployment rate, population age, a share of minority residents, heterogeneity of a territorial unit are important to understand the difference in fiscal information online presentation. Lowatcharin and Menifield (2015) analyzed larger district samples from the US Midwest with regard to a broader range of different factors (geographic, demographic, socioeconomic, and institutional) and found that such factors as district area, population density, percentage of minority population, educational attainment, and the council-manager form of government had a positive effect on Internet-backed fiscal transparency.

Some authors offered a complex technique to define local transparency determinants. E.g. Gandía and Archidona (2008) offered a transparency index calculation methodology basing on 88 measures grouped in five sections; as concerns the factors, the authors included public media visibility, internet access and citizens' education. In Gandía et al (2016) the leverage, municipal wealth, press and Internet visibility were added. There are economists from Spain and Portugal who tried to pinpoint the basic factors affecting transparency by use of municipality panel data (Albalade, 2012; Caba Pérez et al, 2014; Esteller-Moré and Polo Otero, 2012; Guillamon et al, 2011, Tavares and da Cruz, 2014, among the others).

To summarize, the approach applied by modern economists concerning local fiscal transparency is the following: firstly, to define the transparency measure (usually an index); then, secondly, to construct a model involving factors from the demand and supply sides that are of different institutional, economic and financial, social etc. nature; thirdly, to give an interpretation of the achieved results. In our paper we will try to follow this path giving the account for limitations of the Ukrainian data bases concerning local budgets.

3 Methods

Since recently, assessing local budget transparency has become a real concern in Ukraine. Thanks to the activity of international organizations, some work concerning local budget transparency has been undertaken. There exist several ongoing projects using different methodologies. Basically, they produce some transparency ratings for different samples of Ukrainian local budgets.

Since 2014, there has existed a public partnership "For Transparent Budgets" (<http://probudget.org.ua/>) that provides a Ukrainian city budget transparency rating formed according to a specific methodology and assessing 205 meas-

ures by use of 95 criteria. However, this rating is not comprehensive as it includes only 37 cities out of several hundred existing in Ukraine. According to this methodology, transparency assessment requires constant fieldwork of several dozens of experts.

A resource offered by the International Center of Perspective Studies with support of the Slovak government is called "Regional Budget Transparency in Ukraine" (<http://transparency.icps.com.ua/>) and contains information on budgets of 50 cities of regional significance and 22 regions.

There is also the Index of Local Self-Governance Publicness in Ukraine, a resource supported by the OPORA civil organization (<https://publicityindex.org/>). However, it assesses not the total local budget transparency, but openness, transparency and accountability of some persons (city mayor and the council members) by use of a questionnaire containing 210 questions.

At the moment, the Transparent Cities Rating offered by Transparency International Ukraine (<https://ti-ukraine.org/research/reitynh-prozorosti-100-mist-ukrainy-2017/>) assesses transparency in 100 biggest Ukrainian cities using 91 measures for 13 spheres and applying the questionnaires; unfortunately, the Rating is available only for 2017. This rating does not provide comprehensive information on the city budgets while covering all the spheres of local authority competence.

Disregarding lacking representativeness and biases of the ratings mentioned above, they all give reasons to assume that the overall transparency level in local budgets in Ukraine is quite low.

To sum up, we concede that local budget transparency assessment is making only its first steps; all the ongoing studies are not comprehensive enough so as to assess budgets of all local units, but only a small fraction of them (mostly the biggest cities). Their maintenance and practical application needs resources, efforts and extensive funding, which is a reason why they all operate with international support. We acknowledge that none of them attempted to assess rural community budgets, which comprise an overwhelming share (about 90 per cent) of self-government units in Ukraine.

This study intends to cover the gap in existing transparency studies performed in Ukraine, aiming to assess local budget transparency within a larger range of local budgets, i.e. rural communities. This aim will be reached by applying a simplified methodology of external budget transparency assessment which we call 'snapshot assessment'. This methodology has some advantages in comparison to the ones mentioned above: firstly, there is no need in fieldwork requiring extensive efforts and resources (to fill in questionnaires and directly observe local government activities); the only thing needed is a local government website and the information uploaded there; secondly, the volume of information to assess transparency is limited here to some core data essential for transparency (the selection of 11 measures is justified by domestic experts and heads of local councils); thirdly, the results will be available

immediately, without calculations and different weights applied to certain measures to achieve a rating or index.

We deliberately concentrate our efforts on the newly established amalgamated territorial communities, as (i) most rural communities will be merged into ATCs by the end of 2020; (ii) they have wider possibilities to open their budget information due to their obligation to maintain own websites that must contain budgetary information, (iii) the demand for their budget information being presented publicly is much higher in comparison to ordinary rural communities because they deliver much higher possibilities for implementing investment projects, borrowings and civil society activities.

What presumably permits an adequate assessment of local budget transparency is a presentation on the official local government webpage the following information: a socio-economic development programme of a territory; an annual budget draft and comments thereto; an approved annual budget and comments thereto; a citizens' budget; an annual budget execution report; quarterly reports on budget execution; information on investment projects in progress; a borrowing policy statement; information on borrowings and their clearance; reports on execution of budget programs. This list corresponds to OBP recommendations and is supported by many Ukrainian experts questioned about it in course of this study. Basing on an unweighted sum of these indicators we get an aggregate TI for each separate ATC.

The selection of blocs of information listed above, considered vital for assessing budget transparency at the local level, was carried out basing on an expert opinion survey (about 20 Ukrainian experts in local finance submitted their opinion on possible components of the transparency index). The experts were also asked to submit their estimation of the overall ATCs transparency level and the main factors preconditioning it, as well as what measures should be taken to increase local budget transparency. Their generalized opinion was used while discussing the findings of our study.

Each item from the list of approved TI components that is presented on the official ATC website was awarded one point; an ATC's total score could reach 11 as maximum; these measures for all ATCs are, in turn summed up in order to reach region totals.

Four regions were selected for our analysis: Chernihiv, Ternopil, Odesa, and Zaporizhzhia. They represent different economic, social and cultural patterns and varying success achieved in the decentralization process. The total number of analyzed ATCs reached 175 units, which looked sufficient to make conclusions about the overall local budget transparency situation in Ukraine with regard to this type of territorial units.

The data for local budget transparency analysis was taken from the MRDU official web-resource (<https://decentralization.gov.ua/>) and the official websites of the ATCs of the respective regions.

In order to interpret the results achieved and to understand what defines the fiscal transparency level, we distributed questionnaires among the ATC heads and received 73 responses which allowed us, basing on the preference vector method, to make reasonable judgments concerning transparency level perception by those who are responsible for local budget transparency; and the main factors affecting an ATC government's propensity to adhere to budget transparency principles.

4 Context

4.1 The decentralization reform and instituting fiscally sustainable territorial communities

In April 2014 the Ukrainian Cabinet of Ministers approved the Concept of Reforming Local Self-Government and Territorial Structure of Power. This Concept aimed to change the country's obsolete administrative-territorial structure inherited from the soviet past. Before the current reform started the number of territorial communities exceeded 12,000, which meant that the average population of a community was far below 5,000 people. Actually, only big cities of regional significance had more or less self-sufficient budgets; the vast majority of territorial units were highly dependent on state support through many types of transfers (mainly unconditional ones). Therefore, in order to achieve more fiscally viable territorial units in the basic public administration level a strategy of amalgamation was chosen.

According to the document mentioned above, the following major steps towards decentralization were planned: (i) reallocation and strict delineation of public functions across governmental levels; (ii) rearranging the administrative and territorial structure of administration (all local communities should be in a position to deliver basic public services to its population); (iii) instituting full-range self-governance at the regional and district levels and limiting the power of territorial state administration bodies of regional and district levels by coordination and supervision over the legal compliance of the sub-national governments (further referred to as SNG) activities and quality of public service delivery; (iv) increasing SNGs' competence concerning generation of revenues up to setting rates for local levies. The heart of this reform was community empowerment – making the territorial community a key factor of societal life and a decision-maker with regard to local public good delivery. The amalgamation of rural communities was considered as a key mechanism of reaching these goals².

The theory assumes that territorial consolidation has the following reasoning: a) economy of scale in public service delivery; b) decreasing the scale of spillovers; c) execution of a broader range of public functions by the territorial units; d) higher possibility for civil society involvement; e) more intensive local economic development (Swianiewicz, 2002, p. 8-10). We assume that all these considerations played a role when the reform concept was elaborated.

² The initial stage of this reform was analyzed by Slukhai (2015).

The subsequent Law of Ukraine “On the Voluntary Amalgamation of Territorial Communities” (2015) provided the legal foundations for subnational unit consolidation and enabled the launch of the amalgamation process. As of February 2019, 878 ATCs were established since the beginning of the reform which comprised 4,018 former local councils. Currently about 9 million people reside in the ATCs. The consolidation process was scheduled to be finished by the end of 2020 (see Table 1).

The amalgamation mapping shows a quite uneven process of rural amalgamation: some regions in the country’s center (Cherkasy, Kyiv, Poltava, Vinnytsia), in the South (Odesa) and the West (Zakarpattia with regional center in Uzhhorod) demonstrate very weak progress in amalgamation; many rural locations have no plans to amalgamate. All the other regions including those affected by the war with Russia (like non-occupied parts of Donetsk and Luhansk regions) demonstrate almost 100 per cent amalgamation. The reasons for this regional variation is, firstly, the voluntary character of amalgamation – there are no mandatory requirements concerning amalgamation put on local communities, it is supported by fiscal incentives in form of earmarked transfers and technical assistance; secondly, the non-proactive position from the side of some regional and district authorities which could heavily dampen the process (the reason here could be mere unwillingness of administrators at the regional and district levels to shift down authority and revenues); thirdly, the populations of villages inhabited by compactly living national minorities (Gypsies, Hungarians, Romanians, etc., in Zakarpattia; Romanians, Moldovans, Bulgarians, etc., in Odesa) with other villages populated by a different national minority group or with cities that have a mixed population.

Table 1: Rural community amalgamation progress in Ukraine, 2015-2019.

	2015	2016	2017	2018	2019 (est.)
Number of ATCs	159	366	665	806	878
Total population (mln)	1.4	3.2	5.7	8.4	9.0
Total area (1000s, sq. km)	36.9	89.2	166.9	193.0	210.5
Number of communities which formed ATCs	816	1,784	3,181	3,734	4,018
Average ATC population	8,795	8,474	8,464	19,079	9,155

Source: MRDU, 2019.

The Law of Ukraine “On Cooperation of Territorial Communities” established the mechanism for dealing with common problems facing ATCs: waste management and recycling, development of joint infrastructure, etc. By the end of 2018 1,262 communities had taken advantage of this mechanism through signing 325 inter-community cooperation agreements. In order to foster the amalgamation process, the government granted significant financial support for regional development and development of infrastructure in ATCs (UAH

19.37 billion in 2018). In all regions (except for the territories occupied by Russia) the Centers for Local Self-Government Development started their operation with the goal to assist the newly-established local authorities in implementing their development strategies.

The newly-established ATCs became more fiscally viable through receiving additional revenue sources; some additional responsibilities were also vested on them (among others, architectural supervision and administrative services, administration of educational establishments and medical infrastructure), which enable them to more efficiently foster local economic development and cover local public service needs.

Data (see Table 2) demonstrates that subnational governments' role in mobilization of revenues has steadily diminished through the years in Ukraine. Starting from about 46 per cent at the moment of gaining independence (1991), the total subnational share in public revenues (transfers excluded) has actually halved – it had dropped to about 24 per cent by 2013. Simultaneously, the national government gained a much bigger role in subsidizing SNGs and making them more dependent on its decisions concerning the financial support granted. However, once the decentralization reform started, the reverse trend has been observed: since 2015, one could see an increase in the total revenue share of subnational units (from 18.5 up to 22.6 per cent); this upward trend is especially remarkable for rural SNGs where the amalgamation process essentially occurs – their revenue share grew by nearly 50 per cent for the time period 2015-2017. According to MoF data, subnational revenues more than doubled, being increased by UAH billion 298.4 within the period 2013-2018. However, it should be mentioned here that SNG dependence on intergovernmental transfers remains quite high: 55 per cent of total subnational revenues still are state subventions. It is worth mentioning that these results were achieved under very non-favoring circumstances, both political and economical. To these belong, in the first line, the Russian aggression and occupation of a part of Ukrainian territory that caused significant economic losses and put a serious fiscal burden on the Ukrainian nation.

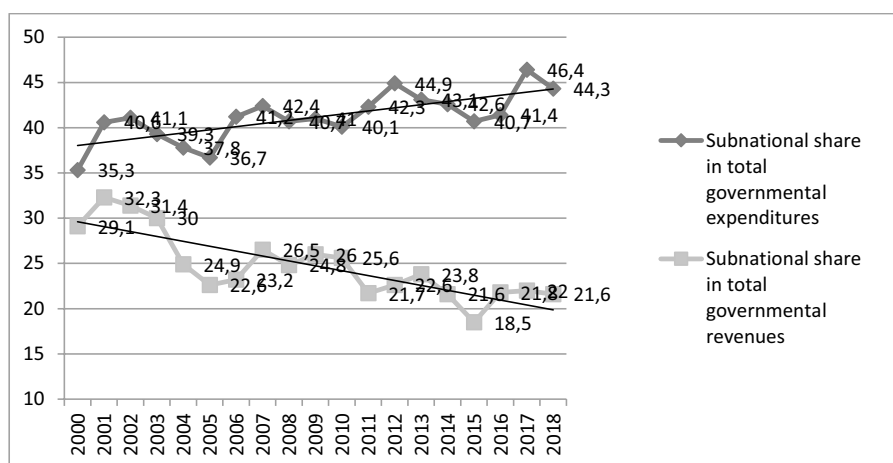
Table 2: Distribution of revenues among Ukrainian governmental levels (intergovernmental transfers excluded), per cent

Governmental levels	2000	2010	2014	2015	2016	2017
National	70.9	74.4	77.8	81.5	78.2	77.4
Total subnational	29.1	25.6	22.2	18.5	21.8	22.6
Regional	12.2	8.9	8.5	6.5	7.3	7.8
Cities of regional significance	10.2	11.8	8.8	7.4	8.7	8.7
Districts	4.8	2.4	2.2	2.3	2.6	2.6
Total SNGs of subdistrict level	1.9	2.5	2.8	2.3	3.3	3.4

Source: Own calculations based on Ukrainian Ministry of Finance (MoF) data.

This revenue sharing trend in favor of SNGs contributed to a change in public sector vertical fiscal gap. A gap between revenue capacity and expenditure liability of governmental levels (vertical fiscal imbalance) remains quite wide in Ukraine, as seen in Figure 1. However, it has demonstrated a downward trend since 2016.

Figure 1. Subnational share in total government revenues and expenditures in Ukraine (direct fiscal transfers excluded), per cent



Source: Authors' calculation based on MoF data.

With regard to recent institutional changes in Ukrainian public administration sector and soaring revenues and expenditures of rural SNGs, a reasonable question arises: to which extent will this development contribute to solving one of the fundamental issues of a nation's public sector – granting budget transparency. In order to answer this question, the data of 175 ATCs from four regions was analyzed.

4.2 Budget transparency in amalgamated territorial communities

While approaching local budget transparency, the first thing to look at is the existing national legislation that provides the normative base for public finance transparency. It is important to mention that there is no special legal act that sets standards concerning requirements and order in publicizing the financial information of ATCs and other territorial units in Ukraine. Some aspects concerning transparency and openness in formation and utilization of local self-government bodies' finance are regulated by the legal acts that are common for the whole sector of public administration: the national, regional and local public administration bodies.

Since 2002, more than 30 legal acts defining the order of access to and opening information on generation, allotment and use of public moneys were

adopted. The Budget Code of Ukraine, Article 7, states that one of the important principles of the Ukrainian budget system is informing the society on the national and local budget policy, on the budget process in all levels of the budget system. To the recent ones belong the Laws of Ukraine “On Access to Public Information”, “On the Openness of Using Public Means” (2015), respective regulations of the Cabinet of Ministers of Ukraine, as well as strategic governmental documents. Transparency and openness are listed as basic principles for community amalgamation. However, building a transparent system of local finance is far from easy, but is instead a long-term process that foresees not only adopting legal acts, but also creating political and financial mechanisms toward the respective results. The local authorities and communities must also come to understand that openness and transparency comprise a cornerstone for their effective functioning.

The Law “On the Openness of Using Public Means” provides criteria and standards on information in the budgetary sphere about which society must be informed. Concerning local budgets, here belong: amounts of public means of spending units and beneficiaries of local budgets, loans backed by the local authority guarantee, as well as amounts received by the units belonging to the communal property in the course of their economic activity. E.g., the spending units must publicly present information on: a) budget assignments for the respective budget period (total amount and the budget programme crosscut), amounts of budget expenditures funded and budget loans issued by the respective authority; b) all signed contracts within the reporting period (with details of the contractors, the subject and cost of a contract, amounts of goods or services to be delivered, unit price, ongoing payments towards the contract, terms of contract), information about previously signed contracts with details concerning contract execution and job completion reports; c) total number of employees’ business travels with associated costs. Local budget beneficiaries are obliged to present information on execution of their ongoing and previously signed contracts in case the amount exceeds UAH one million.

Local authorities have to promulgate the budget information on a quarterly basis and it must remain in open access within a three-year period; local budget beneficiaries have to promulgate respective information within a reporting year with the same requirements concerning open access duration. All the information on budget transactions has to be uploaded to the single E-data web-portal administered by the MoF.

The local authorities and enterprises operating with local government fiscal support are responsible for making the information mentioned above publicly available and are subjected to penalties otherwise. The penalties could be applied if they did not make information publically available; if they posted non-authoritative, non-complete information or did it not in a timely manner. Officials could be punished with monetary fines which are defined in Article 212.3 of the Code of Ukraine on Administrative Offences.

The Law of Ukraine “On the Voluntarily Amalgamation of Territorial Communities” also refers to transparency and openness as a key principle of com-

munity amalgamation; it specially states that making public information on the amounts of state fiscal support granted to specific ATCs (as our analysis showed, many ATCs limit their budget information by providing the amount of state infrastructure building support received).

It should be mentioned that a part of information on ATC state fiscal support is published in annexes to the annual Budget Law: they provide information on allocation of the medical and basic subventions across ATCs.

From a practical point of view, some steps enhancing local budget transparency have been undertaken. A MoF “E-Data” project was launched in 2015; its main goal was to provide information on public spending of all the public sector units including local budgets. All the spending units and local budget beneficiaries are obliged to submit electronic information for automatic data processing and uploading to this open web-portal. The new requirements concerning tenders for public procurement have also become very important for making local budgets more transparent. ProZorro – the electronic tender system for public bodies – was introduced after the adoption of the Law “On Public Procurement” (2016); from the beginning of 2019 until now the value of contracts made through it exceeded UAH trillion 1.77, with the total economy for public bodies as a result of bidders’ competition reaching UAH billion 52.82 (ProZorro, 2019).

Transparency in ATCs’ budgets is being monitored by the MoF, Ministry for Economic Development and Trade, and MRDU. The latter institution is responsible for maintaining the process of amalgamation and making public the information (also budgetary) of the newly-established ATCs.

5 Results

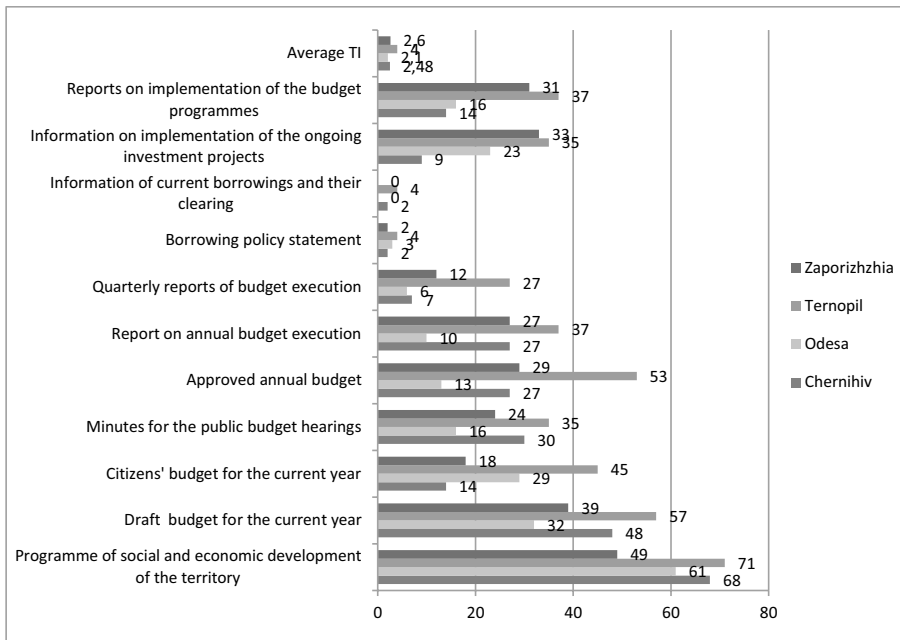
Our analysis has shown that the information concerning regional crosscut with regard to establishing new ATCs is quite complete and is regularly (on a monthly basis) updated; however, the information on the individual ATCs that is posted in their own websites is very fragmented and non-systematic. More than half of ATCs do not upload the full information on their budget revenues and outlays, state subventions, loans and borrowings, not to mention the other important pieces of financial information. It means that financial and budgetary content of their websites is far from complete. That is why it is so important to assess the current situation with ATC budget transparency in order to find the ways to improve it.

As a result of collecting the information on TI components listed above in Section 3, we got a general picture that characterizes the situation with transparency in all the four regions involved in our study (see Figure 2).

Information presented in Figure 2 gives reason to state that ATCs have insufficient financial transparency level in all four regions: the average regional TI value ranges from 2.1 (Odesa) to 4.0 (Ternopil) which seems quite low. This is not the specifics of Ukraine only; as some authors reported, the actual level

in information disclosure provided by the local authorities in some countries is commonly low, only 20 per cent of them demonstrate satisfactory results (Gandia and Archidona, 2008). As one early budget transparency study concluded, there are also significant institutional and legal issues that hamper monitoring and controlling budget activities of local governments for both the central government and the public, making the demand for budget information quite weak (Ott, 2006, p. 21).

Figure 2. Average TIs and values of its components for ATCs in four regions of Ukraine



Note: Each number (except TI) represents percentage of ATCs in a respective region which upload this information to their websites.

It also became obvious that (i) the Ukrainian regions vary greatly as concerns average TI value for an ATC; (ii) there are spheres where the budgetary information posted by the ATCs is absolutely inadequate. Especially scarce is information provided on borrowings and ongoing investment projects. Partly this is due to hardly any borrowings made by ATCs (according to Ukrainian legislation, only big cities are allowed to attract loans in the financial markets; as we deal here with the mostly rural communities, even amalgamated ones are deprived of this right). However, even in rural locations we could observe some (even small) investment projects initiated by the community and funded out of its own resources (like local road construction, building renovations, etc.) for which the local council must be accountable and information about the costs must be made public. It seems that local authorities in some regions are not eager to present information on ongoing progress in budget execu-

tion (quarterly execution reports are typically absent), as well as on discussions concerning the ATC annual budget. Citizens' budget is also very weakly presented throughout ATCs.

In order to understand what defines TI value in an ATC, we asked the ATC heads to fill in a questionnaire that included the following: (a) Your opinion on the transparency level in your ATC; (b) Factors working against the transparency level in your ATC; (c) The budget and financial information to be presented in the ATC's website; (d) Your view of reasonable actions to raise the budget transparency level. The results presented in the next chapter give a possible explanation for why the overall transparency level in Ukrainian ATC is low.

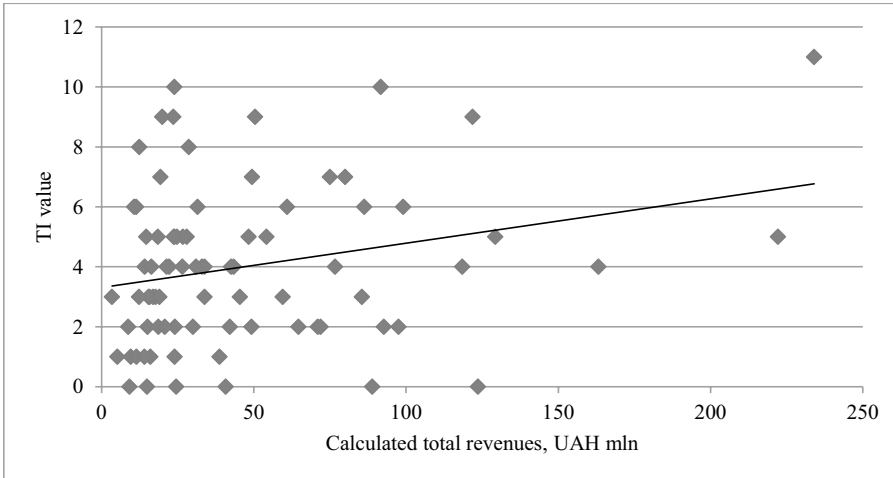
In order to understand what defines a TI level in a specific community, we first tried to follow to apply a correlation analysis with factors belonging to three groups – financial, political and socio-cultural ones. A similar approach with grouping the factors is presented in many recent studies concerning local financial and budgetary transparency (see Guillamón et al, 2011; Stanic, 2018). We found it difficult to allocate the factors according to the information demand and supply (Tavares and Cruz, 2014). As there was no possibility to assess panel data because most ATCs in Ukraine have existed for less than two years, so we could only use data of the last full budget year (2018). We had resulting models in which the explanatory variables expressed about 30 per cent of the variations, which looks quite low³. However, it should be mentioned that this is very typical for the models of this type. In many studies of financial and budgetary transparency carried out on data of different countries (even with extensive panel data available), the determination coefficients are even lower than those achieved in our models (Guillamón et al, 2011, p. 400; Ribeira et al, 2017, p. 197; Tavares, 2014). This could be explained by institutional peculiarities of the public sector that could not be easily caught with regard to weak possibility to find the adequate cardinal measures for them. Nevertheless, we consider these results doubtful; so we decided just to state which objective factors are at play while understanding the level of budget transparency. These factors could be derived just from the interregional TI comparison and common wisdom.

An important objective budget transparency factor is the local government size, as many studies cited above suggested. It could be measured differently (population, territorial unit area, etc.), but one of the most important measures here is an absolute amount of local government total revenues. While relating TI value with the total amount of ATC budget revenues we observed a distinct positive relation among the variables.

Figure 3 illustrates this fact (here we used the data of only two regions, Ternopil and Zaprizhzhia, for year 2018).

3 These models are presented in our NISPAcee Conference paper (Slukhai et al, 2019).

Figure 3. Relation between TI and calculated total revenues

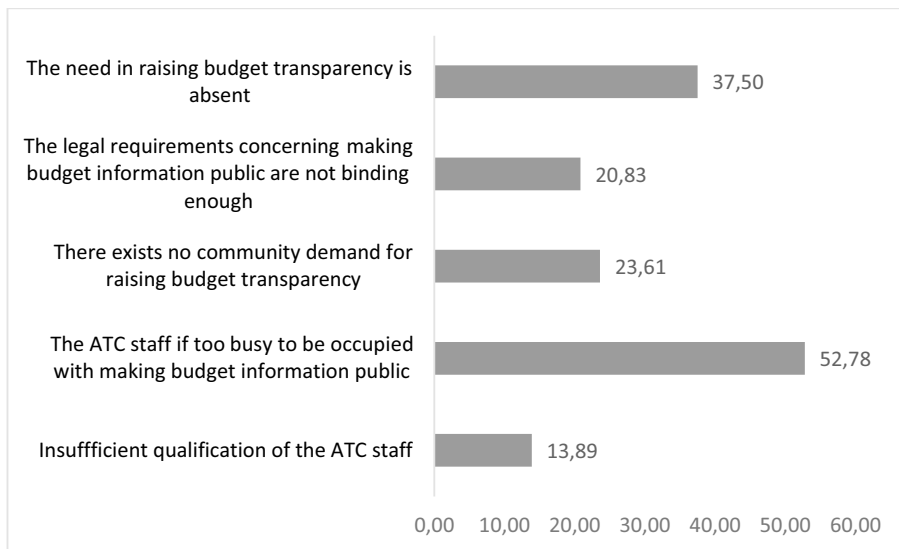


The transparency factors evaluated by us (see in detail Slukhai et al, 2019) basically are objective ones and could not be easily altered by the local or the national government. It could be suggested that a greater local transparency could be achieved in line with the progress in constituting the ATC with the urban administrative center (especially of regional significance); the extending political competition could speed up the process, too; but what is most significant, extension of local revenues in form of own revenues could contribute. However, all these factors could play their role only if legal requirements concerning opening the budget information become much stricter and its availability to the public would be granted.

Of course, the factors mentioned above could not fully explain the level of transparency in ATCs, so we used questionnaires to achieve a subjective opinion of local administrators concerning this issue. It appeared that about 96 per cent of respondents are quite satisfied with the current transparency level assuming that it is quite high, only about five per cent pointed out that transparency level in their community is low or they were not sure about it.

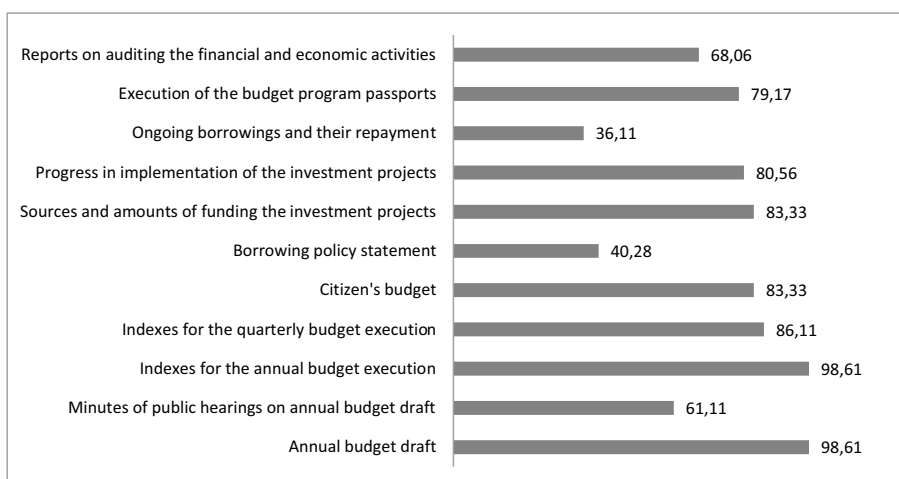
Asked about what hampers transparency, ATC heads indicated possible reasons among which dominated "The ATC stuff is too busy to be occupied with making budget information public"; other reasons like stricter legal requirements and insufficient community demand for transparency looked to be less important (see Figure 4). ATC staff according to their opinion is more or less enough skilled to provide information on budget to community and broader public.

Figure 4. Distribution of answers concerning factors affecting budget transparency (percentage to the total number of answers to the question)



We tried to reveal what kind of financial and budget information they are ready to make open to the public. In order to assess this we asked them to point out which part of the information that we used to calculate TI with the 'snap-shot approach' would be worth presenting publically (see Figure 5).

Figure 5. Percentage of respondents that support uploading specific budget information onto their ATC websites



From this information we could see that almost all the indexes we offer as components of transparency assessment found support from the side of the ATC heads. Almost 100 per cent of them support uploading to the websites

the annual budget draft and reports on its execution. Somewhat less support is given to information on citizen's budget, quarterly budget execution reports, investment projects and outlays on specific local budget programs (around 80 per cent support). Unexpectedly, most ATC heads supported the idea of uploading auditing reports to the ATC websites. In total, we conclude that most ATC heads are ready to submit the most important pieces of budget and financial information to the broad audience and feel justified to do so.

6 Discussion

Our main finding is that ATCs generally are not keen on making budget information publically available. To some extent this finding could be explained by the fact that most ATCs had been established quite recently in the course of the decentralization reform, so they have still not adjusted to their new status by paying more attention to transparency. It should be mentioned that very similar findings were reported by researchers who studied budget transparency in Ukrainian cities. E.g., the Open Society NGO came to conclusion that most important information on budget issues in many Ukrainian cities was not uploaded to their websites. Hardly any city makes publically available information on spending plans of main budget spending units; the quarterly amendments to the annual budget have not been explained to the community and have been approved without holding public hearings (Відкрите суспільство, 2016).

Though studies on ATCs would be more relevant, there are very few such. Thus, the Partnership for Transparent Local Budgets, a Ukrainian NGO, recently carried out a public audit of ATC budget transparency in two Ukrainian regions – Mykolaiv and Kherson (Фонд розвитку міста Миколаїв, 2018). Researchers looked for information much in the way we did; that is why their findings are quite important to validate our findings. After studying the situation in 54 amalgamated communities they concluded: ATCs in both regions demonstrate lower transparency in comparison to other local governments (like urban communities); this conclusion supports our core finding. It was pointed out in the report that ATCs do not systematically present the following budget information: annual budget document (around 25 per cent did not do this), budget programme passports and reports on their execution (only 1/3 of ATCs presented them), budget execution reports (50 per cent of ATCs did not present them). It appeared also that 13 per cent of ATCs do not maintain their own websites (which is a much higher percentage than in our study).

Disregarding the overall pitiful situation with ATC transparency, there are some (however modest) positive trends in the field. The public partnership "For Transparent Budgets" recently pointed out that ATC budget transparency has improved with regard to official information (e.g. about 90 per cent of ATCs publish their annual budgets); however, the level of transparency still remains too low as ATC publish only highly limited slices of information; important information on how the budget is being formed (like budget hearing protocols) is usually omitted (Малиняк, 2019).

A natural question arises: why is the ATC budget transparency level so low? We think that an answer could be found in the linkage between transparency and accountability. This linkage could be ambiguous due to specifics in institutional environment (Zuniga 2018); however, transparency is seen as a precondition of accountability because it provides the principal with the ability (community members in our case) to observe how the agent (ATC government and its head) behaves (Prat 2005). As some researchers argue, transparency may reinforce horizontal accountability (Mabillard and Zumofen 2015) and at the same time enhance the prosecution of corrupt behavior of officials (Murphy et al. 2017), thus diminishing corruption at the local level.

Having in mind this relation between transparency and accountability, we may approach to our case. In Ukraine the local administrators are not accustomed to being accountable, so they have low propensity to disclose budget information. In this way they maintain the information asymmetry concerning ATC revenues and expenditures, and the grounds to make them accountable and to align their activities with popular demands diminish. This situation has emerged historically and is backed by lacking democracy as a fundamental principle of social life. But there are more important factors contributing to such state of affairs. To these belongs insufficient local fiscal autonomy, among others. Disregarding the fact that ATCs are better endowed with revenue sources in comparison to the pre-amalgamation period, they still demonstrate a high dependence on the national government (state monetary and tax transfers); the true local revenues sources (towards which they have some discretion) comprise a low portion (up to 20 per cent to total) of their revenue. Under such circumstances local administrators subjectively do not feel that they bear strong obligations to publicize the budget information for the community because they are accountable mostly to the national government, which gives them most money to spend. If there is no strong demand for accountability, there is no need to be transparent. We assume this also preconditions inconsistency of the answers to our questionnaires delivered by the ATC heads.

Although ATC transparency level is generally quite low, it significantly varies across the nation; what meets the eye is a big difference in TI average value between Ternopil (the West) and other regions involved in our study. We assume that the reason here could be the historical and cultural differentials within the nation. ATCs in the West of Ukraine, among them Ternopil, tend to be more transparent in comparison to the other regions as they had long-standing traditions of democratic governance at the local level inherited from the past (e.g. many urban communities in the West have had Magdeburg rights since the 13th-14th century), whereas those in the other parts of Ukraine did not. These traditions were not fully destroyed in the soviet period when local self-governance was treated as the remnants of capitalism and doomed to be leveled; they revived with the progress in nation-building.

The other point for discussion could be inconsistencies in their perception of ATC transparency and factors that affect it. On the one hand, the overwhelming majority of ATC heads suggested that budget transparency level in their

ATCs is quite high, although our objective measuring of TI demonstrated just the opposite. It could mean that they overstate (and very significantly) the actual level of budget transparency achieved in their communities; barely several per cent of respondents admitted that transparency level in their ATC is low. It looks like most local officials are fully satisfied with the current situation as concerns transparency and would not change it.

On the other hand, when asked about what hampers transparency, only about one third of respondents suggested that there are no problems with budget transparency, which contradicts to their answer to the direct question on transparency self-assessment. ATC heads also indicated a number of possible reasons diminishing transparency level, which implies: they de facto concede to the fact that budget transparency in their ATC is low, but do not want to admit it explicitly. Notably, more than half of respondents, when asked to indicate the most important reasons which hamper transparency, rated as # 1 “staff busyness”. Referring to such factor itself could signalize that making budget information public is not considered a priority by the ATC staff. The same ambiguity is registered by us with regard to assessing legal requirements concerning budget transparency: ATC heads consider they are sufficient, which contradicts the objective situation with local budget transparency legislation, as we showed in our recent study (Слухай et al, 2019).

ATC heads perceive the community demand for transparency as high enough. However, taking this subjective opinion in earnest could be misleading. It but signalizes that ATC heads do not feel enough pressure from community members regarding opening budget information, and are comfortable with such a state of affairs.

It is worth discussing why local officials approve publicizing budget information that is being used in course of this study while calculating TI, simultaneously doing just the opposite in the real life. The information obtained by us directly from the ATCs’ websites is much more scarce in comparison to what the officials think is reasonable to make publically available. This contradiction could be explained in the following way: disregarding the fact that most local officials consider it appropriate to make significant slices of budgetary information publically available, they experience no significant pressure from the national government and civil society organizations concerning raising transparency. One thing is to “theoretically” consider the delivery of budget and financial information to the local community, but to do it in reality is quite another. Higher transparency needs additional efforts which, as we see from acknowledging “the staff busyness”, local officials are not eager to undertake without external pressure. It actually means they lack the incentive to do so. As a result, according to our estimate, the share of ATCs that have a more or less complete folder of open financial and budget information (six and more indexes out of 11 are available on their websites) does not exceed 13 per cent (only 23 out of 175 ATCs in four regions). This measure is very unevenly distributed across the four regions studied.

In a sum, transparency is explicitly acknowledged at the ATC level as a topical issue backed by the rising awareness of local officials and community itself. However, even if ATC heads took transparency seriously and made some respective efforts, it is uncertain whether this alone would suffice for the desired result – a deeper involvement of the community into budgetary decision making. The recent evidence from Romania suggests that even if decisional transparency were increased at the local level, it would not automatically lead to greater citizens' involvement in the decision making process (Radu, 2019). The same is true for Ukraine: the Ukrainian students emphasized that despite slowly growing transparency most ATC community members feel excluded from the budget decision making; this leads to disappointment concerning the ongoing decentralization process (Малиняк, 2019). That is why more attention should be paid to participatory budgeting and fostering civil society institutions in Ukrainian ATCs, which may facilitate both exerting considerable pressure on the local bureaucrats concerning revealing important budget information, and also will facilitate making community members more involved into the local budget process.

7 Conclusion

The ongoing decentralization reform in Ukraine makes it necessary to pay more attention to financial and budget transparency at the local level. There is a great need to assess the transparency at the ATC level in order to understand whether it is sufficient or not, since existing transparency ratings do not cover this type of territorial units. We assume that a transparency measure offered in this study (a 'snap-shot approach') would be useful in order to quickly get an estimate for transparency of a specific ATC. The practical application of this approach would permit an estimate of the existing transparency level at the lowest level of the Ukrainian budget system.

Our analysis has shown that transparency at the level of the newly-formed ATCs in Ukraine is quite low at the moment. ATCs do not derive benefits from possibilities opened by digitalization to provide more financial and budgetary information to citizens, thus informing them about financial issues insufficiently. This is, on the one hand, a historic legacy of the soviet time when local problems including finance did not play a significant role; on the other hand, it is a result of local governments' low accountability and specific revenue composition with prevailing non-local revenues. ATCs do not utilize the new technical possibilities opened by the digital era: as concerns activity in the Internet, local governments are far behind their community members.

This fact means that there is a need to create additional institutional preconditions for the budgetary information to be publically available not only at the national, but also at the local level. Our study has shown a sizeable gap in the need for making local budgetary information public and the real situation with budget transparency. That is why the Ukrainian national government needs to initiate special efforts to provide local governments with respective informational and technical support in re-creating their websites and putting

stronger requirements concerning their content. Not less important would be pressure exerted on local officials from the side of civil society and the community itself to make them more eager to disclose important pieces of budgetary and financial information.

One of the results of our study is the conclusion that ATC transparency level correlates with the size of local budgets; this could mean that increasing local revenues would create an additional incentive for officials to make local finances more open to the public. Shifting down public revenues along with institutional measures and empowerment of communities could have a serious effect on local finance transparency.

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