Ukrainian Local Budget Transparency: Challenges of Fiscal Decentralization

Sergii Slukhai, Liudmyla Demydenko, Yuliia Nakonechna, Tetiana Borshchenko

After the Revolution of Dignity (2013-2014) in Ukraine, the new government declared a bunch of reforms one of which was decentralization. The core of this reform was making the basic level of self-government that consisted of many thousand small communities viable concerning revenue generation and public service delivery. In course of amalgamation the number of communities has significantly dropped and newly established territorial units received additional expenditure responsibilities and more extensive revenue sources. This study shows how this change has contributed to budget transparency in the country. The findings of the study demonstrate that overall budget transparency in the newly-established amalgamated territorial communities is still quite low and is a subject of significant variation. The main factors leading to such a result include financial, political and socio-cultural ones.

Points for practitioners: This paper offers so called “snapshot” techniques for assessing local fiscal and budget transparency. Thanks to its simplicity it could be applied in any country to get a quick review of local fiscal transparency situation. It could be helpful and useful not only for the local civil society organizations, but also for possible investors. The econometric models developed by the authors give a notion which factors could be involved while understanding local government individual variation concerning fiscal and budget transparency.

Key words: amalgamated territorial communities, fiscal transparency, fiscal decentralization.

1. Introduction

Fiscal transparency is one of the core issues of good governance in any country. It refers to making publically available information on how the government raises, spends and administers its financial resources. Today fiscal transparency is considered as an important instrument to secure 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 public administration sector less imperfect and to some extent solves the principal-agent problem. Without sufficient public sector transparency, the public goals in any sphere cannot be adequately matched to the public needs.

In 1998, the IMF adopted The Code of Good Practice on Fiscal Transparency that 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 Open Government Declaration as of 2011 and developed respective action plans which relate also to local government budget issues. It should be mentioned here that the transit to digital era created very good prerequisites for fostering transparency in any layers of government. Budget transparency is especially important for transition countries that have no longstanding traditions of public sector administration compatible to those 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. That is why achieving sufficient level of transparency is one of the most important goals for nations which reform their public administration and public finance in order to reach the modern standards of governance.

Transparency became one of the concerns of the Ukrainian government since the Revolution of Dignity (2013-2014). It became a reflection to non-transparent actions of the previous government that was dismissed in course of a series of mass protest actions. With regard to public finance transparency, some progress could be 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 not sufficient 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, and nevertheless is 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. While information on national government units’ budget transactions has really become more open, the same could not be said about local authorities. There is a big difference 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 budget information only by uploading the annual budget.
document approved by a local council and a report on its execution. It means that an active citizen faces significant barriers if he/she wants to be knowledgeable on local budget transactions in his/her place of dwelling.

We assume that fiscal decentralization occurring in Ukraine increases the need for making detailed budget information publicly available at the local level because nowadays the local authorities assume more spending responsibilities and dispose significantly higher amounts of public money as before. Such development, on the one hand, increases the need for local authorities being more accountable; and this is impossible without having transparent budgets. On the other hand, as K. 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: xv). And, not the least, being supported by transparency, decentralization could minimize level of corruption and increase trust to the local self-government bodies.

Budget transparency is a product of interaction between economic agents from the budget information demand and supply sides. 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 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 governmental regulations concerning transparency look very important.

While information on the national government units’ budget transactions has become more open, the same could not be said about the Ukrainian local authorities. Of course, a part of their budgetary information is posted on the 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 (it is not posted on the authority’s official website), the same concerns the transaction time period.

All 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 grass-root level, i.e. within a range of local budgets of newly established amalgamated territorial communities (further referred as ATC). No such an assessment has been undertaken before in Ukraine.

The paper has the following study goals:

a) to perform an assessment of transparency level in ATCs within selected Ukrainian regions by use of a simplified methodology (which we call ‘snapshot assessment’) encompassing 11 indicators merged into a ‘transparency index’ (further referred as TI);

b) to find out which factors seem to affect the transparency level measured by TI;

c) to outline some policy proposals concerning raising budget transparency in ATCs.

In order to reach these goals, the paper is structured in a following way: firstly, we review the literature concerning budget transparency in the 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 results of estimation the factors affecting transparency; sixthly, we deliver some recommendations stemming from our study concerning what could be done in order to raise budget transparency in ATCs.

2. Literature overview

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


Since the 2000s, except of measuring local government budget transparency, the economists became looking for factors affecting it. Especially we’d like to emphasize the pioneering studies by the American economists (Alt et al 2002; Alt et al 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 the 50 US states for the time period of 30 years, they concluded that political competition between legislative and executive, budget surplus or deficit enhances transparency, while real per capita debt has negative impact; also political dominance of some party has an influence on transparency. An importance to account for such factors as size of municipality, number of population, per capita revenues, accounting disclosure was substantiated by Styles & Tennyson (2007) basing on analysis of financial reports from the 300 US municipalities.
In the last decade, with evolving of e-governance, the transparency studies rely 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 democratic and minority residents, heterogeneity of a territorial unit are important to understand the difference in fiscal information online presentation. Lowatcharin & Menifield (2015) analyzed larger district sample from the US Middle West with regard to a broader sample of different factors (geographic, demographic, socioeconomic, and institutional ones) and found that such factors as district area, population density, percentage of minority population, educational attainment, and the council-manager form of government has positive effect on Internet-backed fiscal transparency.

Some authors offered a complicated technique to define local transparency determinants. E.g. Gandía & Archidona (2008) offered a transparency index calculation methodology basing on 88 measures grouped in five sections; as concerns the factors, the authors included to them 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 many economists from Spain and Portugal who tried to find out the basic factors affecting transparency by use of municipality panel data (Albalate 2012, Caba Pérez et al 2014, Esteller-Moré & Polo Otero 2012, Guillamon et al 2011, Tavares & da Cruz 2014 among the others).

To summarize, the approach applied by the modern economists concerning local fiscal transparency is the following: firstly, to define the transparency measure (usually some 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 with an account to limitations of the available Ukrainian data bases.

### 3. Methodology

Since recently, assessing local budget transparency became a real concern in Ukraine. Thanks to the activity of international organizations, some work concerning local budget transparency assessment on the local level has been undertaken. There exist several ongoing projects assessing local budget transparency using different methodology. 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 which is formed according to a specific methodology and assesses 205 measures 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 calculated 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 (a city mayor and the council members) by use of a questionnaire containing 210 questions.

There exists a rating system supported by the ProZorro system which deals with the public procurement. At the moment, the Transparent Cities Rating offered by the Transparency International Ukraine (https://ti-ukraine.org/research/reitynha-prozorosti-100-mist-ukrainy-2017/) assesses transparency in 100 Ukrainian biggest cities using 91 measures for 13 spheres and applying the questionnaires; unfortunately, the Rating is available only for year 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, all the rating systems give reasons to assume that transparency level in local budgets in Ukraine is quite low in total.

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

This study intends to cover a gap in existing transparency studies performed in Ukraine as it has an aim to assess local budget transparency within a larger range of local budgets, i.e. rural communities. This aim will be reached by application of a simplified methodology of external budget transparency assessment which we call ‘snapshot assessment’. This methodology has its advantage in comparison to those mentioned above: we do not need fill in the questionnaires or directly observe local government activities; the only thing what is needed is their website and information uploaded there.

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 bigger material possibilities to publicize their budget information because all of them have to maintain the own websites that must contain some
budgetary information, (iii) the demand for their budget information being presented publically is much higher in comparison to the ordinary rural communities because they deliver much higher possibilities for implementing investment projects, borrowings, and civil society activities.

The measures which presumably allow to adequately assess local budget transparency is presentation on the official local government webpage the following information: a socio-economic development programme of a territory; a year budget draft and comments thereto; an approved annual budget and comments thereto; a public budget; an annual budget execution report; the quarterly reports on budget execution; the information on investment projects in progress; a borrowing policy statement; the information on borrowings and their clearance; the reports on execution of the budget programs. This list corresponds to OBP recommendations. Basing on these indicators (an unweighted sum) we get an aggregate TI for each separate ATC.

Each item that is presented on the official ATC website was awarded by one point; an ATC’s total score could reach 11 at maximum; these measures for all ATCs are in turn summed up in order to reach region totals.

The 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 that 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 transparency analysis were taken from the MRDU official web-resource (https://decentralization.gov.ua/) and the official websites of the ATCs of the respective regions.

After calculating the ATCs’ TIs, we built up an econometric model basing on local government data from Ternopil and Zaporizhzhia regions (data sample consists of 80 units) in which TIs were regressed by 15 factors. These factors were divided into three groups: (i) financial factors, (ii) political factors; (iii) social and cultural factors. The list of factors with description and hypotheses concerning their effect on the transparency is presented in Section 6 of this paper.

Basing of this model, we offer some conclusions concerning what exactly could be undertaken in order to make ATC budgets in Ukraine more transparent.

4. Decentralization reform and instituting the 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 had an aim to change the country’s obsolete administrative-territorial structure that has been inherited from the soviet past. Before the current reform started, the number of territorial communities exceeded 12,000 that meant: the average population of a community was much 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 the state support. That is why in order to achieve more fiscally viable territorial units of the basic public administration level a strategy of amalgamation has been chosen.

According to this document, 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 position to supply basic public services to its population); (iii) instituting full-range self-governance in the regional and district levels and limiting territorial state administration bodies of regional and district levels by coordination and supervision over the legal adherence of the subnational governments (further referred 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 solving this problem”. The theory assumes that territorial consolidation has the following reasons: a) economy of scale in public service delivery; b) decrease the scale of spillovers; c) execution of broader range of public functions by the territorial units; d) higher possibility for civil society involvement; e) more intensive fostering the local economic development (Swianiewicz 2002, p. 8-10). We suppose that all these considerations offered by economists played their role when a reform concept that had been elaborated.

The subsequent Law of Ukraine “On the Voluntary Amalgamation of Territorial Communities” (2015) provided the legal foundations for subnational unit consolidation process and made possible launching 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 is scheduled to be finished by the end of 2020 (MRDU 2019). The current mapping of amalgamation is visualized in Picture 1, the data concerning progress in amalgamation is presented in Table 1.

Picture 1. Territorial community amalgamation as of March 2019

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2 The initial stage of this reform was analyzed in Slukhai (2015).
As one could see, the 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) demonstrate very weak progress in amalgamation; many rural locations even have no plans to amalgamate. All the others 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, voluntarily character of amalgamation – there are no mandatory requirements concerning amalgamation, it is supported by fiscal incentives in form of earmarked transfers and technical assistance; secondly, absence of pro-active position from the side of some regional and district authorities which could heavily influence the process (the reason here could be mere unwillingness of bureaucrats to shift down authority and revenues); thirdly, composition of population that hampers amalgamation of villages inhabited by compactly living national minorities (Gypsies, Hungarians, Rumanians, etc., in Zakarpattia; Romanians, Moldovans, Bulgarians, etc., in Odesa) with other villages populated by a different national minority group or with the cities that have essentially mixed population.

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

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


The Law of Ukraine “On Cooperation of Territorial Communities” established the mechanism for dealing with common problems facing by ATCs: waste management and recycling, development of joint infrastructure, etc. By the end of 2018, 1,262 communities have taken advantage of this mechanism through signing 325 inter-community cooperation agreements. In order to foster 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 of 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 granting them additional revenue sources; some additional responsibilities were also vested on them (among the others architectural supervision and administrative services, administration of educational establishments and medical infrastructure) which allow them for more efficient fostering local economic development and covering local public service needs.

The data (see Table 2) demonstrates that subnational governments’ role in mobilization of revenues has permanently 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 up 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 the rural SNGs (they belong to the subdistrict ones) – their revenue share grew nearly by 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, SNG dependence on intergovernmental transfers remains quite high: 55 per cent of total subnational revenues are still state subventions. It is worth mentioning that these results were achieved on a very non-favoring background, both political and economical. To these belong, in the first row, the Russian aggression that caused huge economical 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

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

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 big in Ukraine as it could be concluded from 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, in 2000-2018**

Source: Authors’ calculation based on MoF data.

With regard to recent institutional changes in Ukrainian public administration sector and soaring revenues and expenditures of the 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 have been analyzed.

5. Budget transparency in amalgamated territorial communities

While approaching to local budget transparency, it is worth analyzing the existing national legislation that provides normative base for public finance transparency. It is important to mention here that there is no special legal act that sets standards concerning requirements and order in publicizing the financial information of ATC 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, thus, the national, regional and local public administration bodies. Since 2002, more than 30 different legal acts defining the order concerning access to and publicizing 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 national and local budget policy, on budget process in all levels of the budget system. To the recent ones belongs the Law of Ukraine “On the 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 prerequisites for community amalgamation. However, building a transparent system of local finance is not an easy task, but a long-term process that foresees adopting not only legal acts, but also creation of political and financial mechanisms granting the respective results. The local authorities and communities must also come to understanding that openness and transparency of budget information 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 the society must be informed. Concerning local budgets, to these belong: spending units’ and beneficiaries’ of local budgets amounts of public means, loans backed by the local authority guarantee, as well as amounts of means received by the units of communal property in course of their economic activity. E.g., the spending units must present publically information on: a) budget assignments for the respective budget period (total amount and the budget programme crosscut), amounts of budget expenditures and budget loans issued by the respective authority; b) all signed contracts within the reporting period (with details of the contractors, a subject of a contract, cost of the 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 on contract execution and job completion reports; c) total number of employees’ business travels with associated costs. The local budget beneficiaries are obliged to present information on execution of their ongoing and previously signed contracts in case their amount exceeds UAH one million.

The local authorities have to promulgate the budget information on a quarterly base and it must remain in open access within three year period; the 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 MoF. The local authorities and enterprises operating with local government fiscal support are responsible for making the information mentioned above publicly available and are subjects of bearing 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 timely manner. The officials could be punished by applying monetary fines which are defined in the 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 communities 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 supporting ATCs is being published in annexes to the annual Budget Law: they provide information on allocation of the medical and basic subventions across ATCs. In 2015, a MoF “E-Data” project has been launched; its main goal is to provide information of public spending of all the public sector units including local budgets. All the spending units and local budget beneficiaries are obliged to submit in electronic form the information for automatic data processing and its uploading to this open web-portal. Transparency feature concerning ATCs is being monitored by the MoF, Ministry for Economic Development and Trade, and MRDU. The last institution is responsible for maintaining the process of amalgamation and making public the information (including budgetary) of the newly-established ATCs.

Our analysis has shown that the information concerning regions crosscut with regard to establishing new ATCs is quite complete and regularly (on the 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 a 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 being 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.
We defined the most important blocs of information sufficient for having appropriate level of budget transparency and that is reasonable to be posted on the official website: 1) a programme of social and economic development of the territory; 2) a draft budget for the current year; 3) a citizen’s budget for the current year; 4) minutes for the public budget hearings; 5) an approved annual budget; 6) a report on annual budget execution; 7) the quarterly reports on budget execution; 8) a borrowing policy statement; 9) information on current borrowings and their clearing; 10) information on implementation of the ongoing investment projects; 11) the reports on implementation of the budget programmes.

Presence of respective information on an ATC website was graded by 1, its absence by 0. So the TI for any ATC could be somewhat between 0 and 11.

In result of collecting the information listed above, we got a general picture that characterizes the situation with transparency in all four regions involved into our study (see Figure 2). General information presented in Figure 2 demonstrates that the ATCs have insufficient financial transparency level in all four regions: the average regional TI value ranges from 2.1 (Odesa) to 4 (Ternopil) which seem not too high. This situation is not the specifics of Ukraine, as some authors from different countries reported the situation when actual level in information disclosure provided by the local authorities is quite low and only 20 per cent demonstrate satisfactory results (Gandia & Archidona 2008). As one of the early budget transparency studies concluded, there are also significant institutional and legal issues that hamper monitoring and control activities for both central government and the public that make the demand for budget information quite weak (Ott 2006: 21). It is also obvious that (i) the regions differ greatly as concerns average ATC TI value; (ii) there are some spheres where the budgetary information posted by the ATCs is absolutely inadequate. Especially scarce information is provided on borrowings and ongoing investment projects. Partly, this fact could be explained by a mere situation with almost no borrowings made by ATCs (according to Ukrainian legislation, only big cities are allowed to attract loans in the financial markets; as we have here mostly rural communities, even amalgamated ones, they 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 its costs must be made public. It seems that local authorities in some regions are not eager to present information on ongoing progress in budget execution (quarterly execution reports are almost absent), 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, an econometric model was built.
6. Factors affecting ATC budget transparency

The model was built on data of two regions: Ternopil (the West) and Zaporizhzhia (the East). The reason for such an approach is a need to identify historical and cultural differentials between regions that could affect transparency. The fact is that the cultural difference between the regions of the West and the East of Ukraine is much more significant in comparison to the difference between the regions of the North and the South. In total, the sample consists of 80 units (instead of 100 existing in both regions) because some of the units were disqualified due to inappropriate presentation of information on their websites.

The TI was regressed with regard to the following factors belonging to three groups – financial, political and socio-cultural ones. 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 & Cruz 2014). There was no possibility to assess panel data because most ATCs in Ukraine have existed for less than two years, so we used data of the last full budget year (2018).

To the financial factors belong: X1, calculated total budget revenues; X2, share of own revenues in the total budget revenues; X2, a share of ATC own revenues in total revenues; X3, per capita calculated total revenues; X4, per capita own revenues.

The political factors include: X5, the number of political parties represented in the ATC council; X6, a share of all political party members represented in the council; X7, council head education; X8, a type of the ATC center (urban or rural); X9, the number of amalgamated councils in the ATC; X10, duration of ATC existence; X11, ATC head’s gender.

The social and cultural factors include: X12, the number of ATC population; X13, ATC area; X14, region (Ternopil or Zaporizhzhia); X15, the number of the ATC infrastructure objects.

The factor specification is presented in the Table 3.

<table>
<thead>
<tr>
<th>No.</th>
<th>Measure</th>
<th>Measure unit</th>
<th>Average value</th>
<th>Standard deviation</th>
<th>Hypothesis concerning influence</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Calculated total budget revenues</td>
<td>mln UAH</td>
<td>46.72</td>
<td>44.65</td>
<td>The higher are the total revenues, the higher is TI</td>
</tr>
<tr>
<td>2</td>
<td>Share of own revenues in total budget revenues</td>
<td>Per cent</td>
<td>42.84</td>
<td>16.51</td>
<td>The higher is the own share in revenues, the higher is TI</td>
</tr>
<tr>
<td>3</td>
<td>Per capita calculated total budget revenues</td>
<td>UAH</td>
<td>5,508.85</td>
<td>2,176.61</td>
<td>The higher is the measure, the higher is TI</td>
</tr>
<tr>
<td>4</td>
<td>Per capita own revenues</td>
<td>UAH</td>
<td>2,391.15</td>
<td>1,570.03</td>
<td>The higher is the measure, the higher is TI</td>
</tr>
<tr>
<td>5</td>
<td>Number of political parties represented in the council</td>
<td>units</td>
<td>2.8</td>
<td>2.2</td>
<td>The higher is the number, the higher is TI</td>
</tr>
<tr>
<td>6</td>
<td>Share of political party members in total in the council</td>
<td>Per cent</td>
<td>.42</td>
<td>.36</td>
<td>Uncertain</td>
</tr>
<tr>
<td>7</td>
<td>Council head education</td>
<td>Dummy: higher – 1, other – 0</td>
<td>.95</td>
<td>.22</td>
<td>The persons with higher education tend to make budgets more transparent</td>
</tr>
<tr>
<td>8</td>
<td>Type of ATC center</td>
<td>Dummy: city – 1, other – 0</td>
<td>.16</td>
<td>.37</td>
<td>The cities have more transparent budgets in comparison to townships and villages</td>
</tr>
<tr>
<td>9</td>
<td>Number of councils amalgamated in an ATC</td>
<td>units</td>
<td>4.8</td>
<td>3.7</td>
<td>The bigger is the number, the less is TI</td>
</tr>
<tr>
<td>10</td>
<td>Duration of ATC existence</td>
<td>Years</td>
<td>1.9</td>
<td>1.1</td>
<td>The longer exists an ATU, the higher is TI</td>
</tr>
<tr>
<td>11</td>
<td>ATC head’s gender</td>
<td>Dummy: man – 1, woman – 0</td>
<td>.86</td>
<td>.34</td>
<td>Uncertain</td>
</tr>
<tr>
<td>12</td>
<td>Number of ATC</td>
<td>1000s</td>
<td>12.088</td>
<td>27.076</td>
<td>The higher is population,</td>
</tr>
</tbody>
</table>
The model has the following form:

\[ Y = C_1 \times X_1 + C_2 \times X_2 + C_3 \times X_3 + C_4 \times X_4 + C_5 \times X_5 + C_6 \times X_6 + C_7 \times X_7 + C_8 \times X_8 + C_9 \times X_9 + C_{10} \times X_{10} + C_{11} \times X_{11} + C_{12} \times X_{12} + C_{13} \times X_{13} + C_{14} \times X_{14} + C_{15} \times X_{15} + C. \] 

(1)

Basing on (1) we developed two OLS models: one that included all the factors (1.1) and the second that included only those factors which influence is estimated as most reliable (1.2). The results of the multiple regression with regard to both models are presented in Table 4.

<table>
<thead>
<tr>
<th>Factor</th>
<th>Model 1.1</th>
<th></th>
<th>Model 1.2</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Coefficient</td>
<td>St. error</td>
<td>Coefficient</td>
<td>St. error</td>
</tr>
<tr>
<td>Financial factors</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Calculated total budget revenues (X1)</td>
<td>.0028</td>
<td>(.3815)</td>
<td>.0230</td>
<td>(.0683)</td>
</tr>
<tr>
<td>Share of own revenues in total budget revenues (X2)</td>
<td>.0248</td>
<td>(.3611)</td>
<td>.0499</td>
<td>(.0534)</td>
</tr>
<tr>
<td>Per capita calculated total budget revenues (X3)</td>
<td>-.0002</td>
<td>(.2578)</td>
<td>-.0005</td>
<td>(.1111)</td>
</tr>
<tr>
<td>Per capita own revenues (X4)</td>
<td>-.0002</td>
<td>(.4852)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Political factors</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of political parties represented in the council (X5)</td>
<td>.0232</td>
<td>(.9334)</td>
<td>.2773</td>
<td>-</td>
</tr>
<tr>
<td>Share of political party members in total in the council (X6)</td>
<td>-1.0038</td>
<td>(.5600)</td>
<td>1.7132</td>
<td>-</td>
</tr>
<tr>
<td>Council head education (X7)</td>
<td>.4903</td>
<td>(.7207)</td>
<td>1.3652</td>
<td>-</td>
</tr>
<tr>
<td>Type of ATC center (X8)</td>
<td>.0482</td>
<td>(.9697)</td>
<td>1.2638</td>
<td>.2543</td>
</tr>
<tr>
<td>Number of councils amalgamated in an ATC (X9)</td>
<td>-.2171</td>
<td>(.0981)</td>
<td>.1293</td>
<td>-.2588</td>
</tr>
<tr>
<td>Duration of ATC existence (X10)</td>
<td>.1978</td>
<td>(.5906)</td>
<td>.3658</td>
<td>-</td>
</tr>
<tr>
<td>Social and cultural factors</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ATC head’s gender (X11)</td>
<td>-.4354</td>
<td>(.6065)</td>
<td>.8412</td>
<td>-</td>
</tr>
<tr>
<td>Number of ATC population (X12)</td>
<td>.0233</td>
<td>(.3237)</td>
<td>.0236</td>
<td>-</td>
</tr>
<tr>
<td>Area (X13)</td>
<td>.0067</td>
<td>(.0298)</td>
<td>.0039</td>
<td>(.1415)</td>
</tr>
<tr>
<td>Region (X14)</td>
<td>-.2.7122</td>
<td>(.0158)</td>
<td>1.0938</td>
<td>-2.6865</td>
</tr>
<tr>
<td>Total number of infrastructure units (X15)</td>
<td>.0138</td>
<td>(.4822)</td>
<td>.0199</td>
<td>-</td>
</tr>
<tr>
<td>C</td>
<td>3.9653</td>
<td>(.1665)</td>
<td>2.8333</td>
<td>3.6964</td>
</tr>
<tr>
<td>R</td>
<td>.3005</td>
<td></td>
<td>.2777</td>
<td></td>
</tr>
</tbody>
</table>

The explanatory variables express respectively 30.05 and 27.77 per cent of the variations in the models (1.1) and (1.2). We have to admit that explanatory power of both models looks quite low. However, it should be mentioned here 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 ones achieved in our models (Guillamón et al., 2011, p. 400; Ribeira et al., 2017, p. 197; Tavares 2014). The explanation for this fact could be 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.

As for the model (1.1) \( F = 1.833073 \) (\( p < .05 \)) and for the model (1.2) \( F = 2.861944 \) (\( p < .01 \)), for respectively five per cent and one per cent level of significance, we could conclude that there is a sufficient statistical evidence to state that the regressor present values differ from zero and satisfactorily explain the variations in both models.

The models (1.1) and (1.2) demonstrate that the most influential transparency factors are the financial ones. It is interesting to observe that the absolute amounts of revenues (both total and own ones) demonstrated significant positive and influence on the transparency as predicted (see Figure 3): the higher are total revenues, the more transparent a local budget tends to be. On the contrary, both financial factors that present the relative measures have negative sign that goes counter our predictions. Important is the fact that per capita total revenues (X3) demonstrate statistically significant negative correlation with TI, while per capita own revenues (X4) has insignificant influence that caused its exclusion in the (1.2) model. An explanation of this fact could be the twofold: (i) high local budget transfer dependency; (ii) differences in population density among ATCs.

The first explanation is the following: as the dominating part of the ATC total revenues are transfers, an increase in the relative measure means that an ATC is more dependent on state support and must be accountable for the support received to the state, not to its population. That is why, from the supply side, the ATC body does not demonstrate high willingness to make financial information more publically available (especially to the local population). Insignificance of X4 could be interpreted in the following way: an increasing relative size of own revenues that enhances transparency (X3) as the both models revealed, could overweigh negative influence of transfer dependence that counteracts transparency.

The second explanation involves different population patterns in the rural and urban communities and change in their revenue base: the last changes in SNG revenue base clearly favored rural communities that have much sparse population in comparison to the urban ones (as data in the Table 3 show, the standard deviation as concerns population is very high); taking into account the fact that rural ATC have much less inclination to transparency as a sign in coefficient by X8 supposes, and that they depend more on state transfers; in result we have the situation highlighted by the model.

![Figure 3. Relation between TI and calculated total revenues](image)

Out of political factors, a type of ATC center (X8) and number of councils that constituted an ATC (X9) appeared to be the most significant for transparency. It looks like the ATCs with an urban center (in some cases big cities of region significance) have higher demand for transparency due to better organized civil society groups and higher inclination of officials to meet their demand as well as better technical possibilities to provide the information. The bigger ATCs (those that included higher number of territorial units) appeared to be less transparent in comparison to those that have smaller number of units as they have to aggregate budget information from many member communities and parts of this information have been vanished or just not present at all by the amalgamated communities.

The other factors within this group are not so significant, however we could suppose that political competition (factors X5 and X6) seems to enhance transparency. An ATC head’s educational level (X7) also positively correlated with transparency that could mean that the persons with higher education are more aware of transparency importance in the process of public administration. The duration of ATC existence has some positive effect on
transparency that could be not surprising: we found that most of the newly established ATCs have very scarce financial and budgetary information (if any) in their websites. It appears that social and cultural factors are quite important in explanation why ATCs differ as concerns their budget transparency. Especially significant are such factors like area (X13) and regional identification (X14). The bigger is an ATC area (which is an index of its size), the higher is transparency. The regional identification, as predicted, appeared to be quite significant as the sign by the dummy variable describing regional location was negative. This fact means that ATCs in the West of Ukraine tend to be more transparent as they have longstanding traditions of democratic governance at the local level (e.g. many communities in this region have had Magdeburg right since 13-14 century), where those in the East not. As concerns ATC population size, it also has a positive affect onto transparency. The ATC head gender role is not significant, however those ATC administrated by women seemed to be more transparent in comparison to those where a council head is a man. The influence of quantity of the infrastructure objects in jurisdiction of an ATC on transparency is positive, but insignificant.

The transparency factors that have been evaluated in this study basically belong to the objective ones and could not be easily altered by the ATC or the national government. The 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 is the most important. However, 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.

7. Conclusions

The ongoing decentralization reform in Ukraine makes necessarily to revise existing approaches 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, because existing ratings do not cover this type of territorial units. We assume that a transparency measure offered in this study (a ‘snap-shot’ approach) would useful in order to quickly get an estimate for transparency of some specific ATC. The practical application of this approach would allow judging 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 is quite low at the moment. Despite of having websites, ATCs do not use this possibility to provide more financial and budgetary information to the citizens. As our study showed, ATCs inform the citizens about their financial issues insufficiently. This is, on the one hand, a historic legacy of the soviet time when local problems including finance do not play a significant role, and, on the other hand, a result of not utilizing the possibilities opened by the digital era; as concerns the activity in Internet, the local governments are far behind their community members. According to our estimate, a share of ATCs that have 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.

This fact means that there exists some 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. That is why the Ukrainian national government needs to initiate some 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 exertion of pressure from the side of civil society and the community itself on the local officials to make them more eager to disclose the important information.

One of the results of our study is a conclusion that ATC transparency level correlates tightly with the size of local budgets; this could mean that increasing local revenues would create an additional incentive for officials to make local finances and budgets more open to the public. Shifting down the public revenues along with some institutional measures and empowerment of communities could have a serious effect on the local finance transparency. Another important finding is that the community size in terms of area and number of amalgamated territorial units also create some positive incentives for higher fiscal transparency. The fact that an own revenue share plays important role from the point of view of transparency means: in case the national government endorses SNGs to have higher own revenues, it will increase their fiscal transparency, too.

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