

Government Financial Accountability and Transparency in the Digital World

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Abstract. This article examines the issues of accountability and transparency of government finance in Ukraine. The research explains the significance of financial accountability for the economic improvement and civil society development. The study defines the instruments that contribute to government accountability in the digital world. The key problems of ensuring financial accountability and transparency in Ukraine are analyzed. The study focuses on information and communication technology capacity in supporting government performance. The conclusions summarize the main findings of the research.

Keywords. Transparency, government accountability, public finance, civil society, information and communication technology.

Key Terms. InformationCommunicationTechnology, Collaboration, Decision-Support, Model

1 Introduction

The current tendencies of Ukrainian civil society development have great influence on economic performance both in private and public sectors. The evolution of civil society and democratic institutions necessitates strengthening of government accountability. As information and communication technology (ICT) has permeated all the areas of people's life, they are able to improve practice of public governance. Government accountability and transparency have created institutional background for sustainable development. State and local budgets play the leading economic role in this process as they express public policy, society's aims, needs and intensions.

Ukraine demonstrates substantial progress in developing of ICT in the government sector. At the same time, the practice of government financial accountability and transparency in Ukraine are still weak. This situation requires research and developing the ways of improving public governance.

The aim of this study is to reveal influence of ICT on government financial accountability and transparency.

2 Theoretical and Methodological Background

The conceptual framework for government transparency and accountability was developed by research in political science. The common approach considers them as relationships promoting democracy. Thus, O'Donnell [5] focuses on different types of accountability in the context of a political system. The special attention is devoted to the horizontal accountability in countries that have recently become political democracies (mainly, in Latin America). They demonstrate reasonably good vertical accountability, and have problems with horizontal accountability.

In recent research, much attention is paid to the government horizontal accountability, i.e. accountability to parliament. Rahman [9] has examined parliament control and government accountability in the South Asia countries, and concluded that although parliaments have been able to perform the key parliamentary tasks, they do not perform as successfully as their counterparts in the Western world in controlling the government and holding it to account.

Ukraine belongs to the group of countries with young democracy, and demonstrates the common tendencies for this group. This explains the significance of experience of democratic developing countries for Ukraine.

Pelizzo and Stapenhurst [7] use the broad approach to the accountability, and stress that the concept of accountability refers not only to the financial control and reporting. Accountability means a relationship between agent and principal where the agent provides information or justification for its actions. Authors identify four types of it: vertical, horizontal, diagonal and social.

Some international organizations permanently examine financial or budget government transparency and accountability. They usually use indices and ratings to assess countries progress in this area, and take into account different dimensions including financial aspects and information technologies for public governance.

Transparency and accountability studies of Ukrainian academics demonstrate the same pattern as foreign scientists' research. They traditionally concern political science. There are few research devoted to the budget aspects of transparency and accountability. For instance, Lytvynchuk [4] has explored public control over local budget execution in Ukraine, and has concluded that public control although has legislation framework, but does not lead to the better governance. Belets [1] has paid attention to the experiment of providing participatory budgets in Ukraine. This project started in the middle of 2015, and it is too early to have the results.

The using of information and communication technology to promote government financial transparency and accountability has not yet obtained proper attention. The cases of ICT providing for government needs in Ukraine are covered in mass media. They deserve research in the context of dynamic development of a civil society as a background for horizontal accountability relationships.

3 Types of Government Accountability

Government accountability is a concept of relationships where government institutions provide information or justification for its actions [7]. The key questions of such approach are "What kind of information?" and "For whom should information be

provided?” The answers determine different types of accountability. Depending on the principal in the relationships of accountability, there can be horizontal and vertical accountability. *Horizontal accountability* exists within the public authorities and supposes the capacity of higher level of public authorities to control the lower level authorities. These are the strong hierarchical processes, usually determined by laws. They encompass various forms: compliance with different rules and regulations, monitoring and auditing, reconciliation of budget revenues and expenditures, and budget reporting. The executive branch is based on some principles of administrative science such as hierarchy, rules, impersonality and other [9]. They naturally lead to the centralized character of relations within the government institutions.

The structure of public power in democratic countries consists of three branches: the executive, the legislative and the judicial. It causes three dimensions of horizontal accountability: government institutions can be responsible to the higher levels of government within the executive branch, to the legislative institutions, and in some cases to the judicial institutions. Parliament may be aided by other institutions: supreme audit institutions, anti-corruption commissions, ombuds offices and human rights institutes.

Vertical accountability is the ability of citizens, civil organizations and groups, and mass media enforce standards of good performance on officials. The key instrument of vertical accountability is elections. The strength of democracy as a social institution constitutes a precondition for high effectiveness of government accountability. There are a number of other instruments supporting vertical accountability: participatory budgets, public hearings at budget process, budget reporting, monitoring, civil boards at government authorities, petitions, and other.

Diagonal accountability is a relatively new concept of government accountability. It supposes that citizens are engaged directly in the performance of government institutions. The main instruments of it concern the idea of citizens' direct participation in public governance. The abovementioned instruments, such as participatory budgets and civil boards at government authorities, contribute to diagonal accountability.

There are also other types of government accountability (political and legal, social, personal and group), which are beyond this research. Horizontal, vertical and diagonal accountability are the components of logical model of government financial accountability (fig. 1).

4 Government Financial Accountability: Challenges for Ukraine

Financial information that concerns government budget, public debt and fiscal policy determines the *financial (or budget) accountability*. There are three pillars of budget accountability: transparency, public participation, and formal oversight institutions that create together a budget accountability ecosystem [6] (fig. 2).

Budget transparency refers to the extent and ease with which citizens can access information about and provide feedback on government revenues, expenditures, fiscal deficits and public debt. Transparency also supposes the understandable for citizens and clear (1) procedures of decision-making at budget process, and (2) budget information.

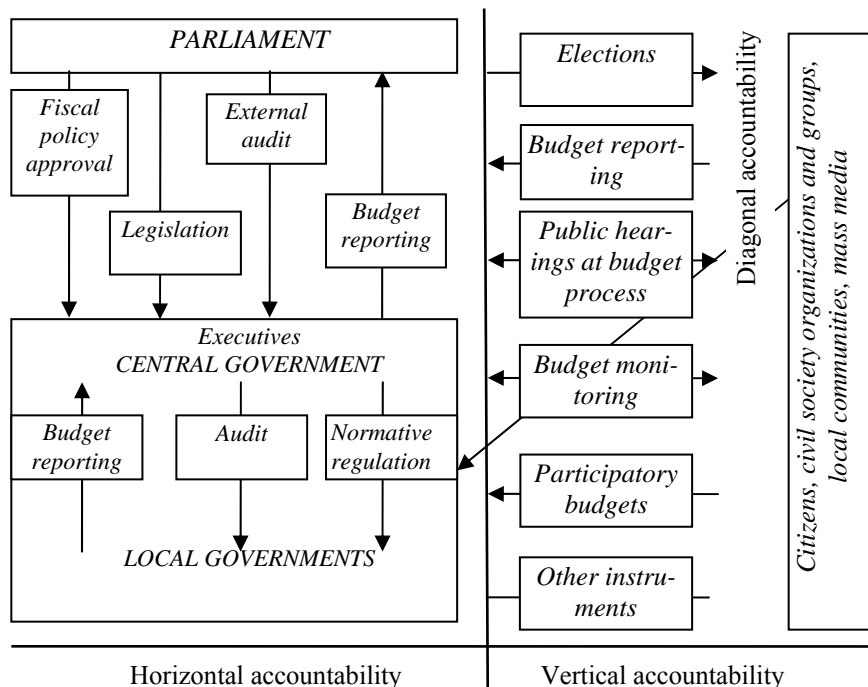


Fig. 1. Logical model of government financial accountability

Further research requires attention to the main features of government sector in Ukraine. It has several components: (1) budget system and (2) social security funds (Figure 3). The distinguished feature of government sector is a wide range of budget organizations. They provide goods and services to the community and individual households: elementary, professional and high education, healthcare services, scientific researches, cultural development, art, sport etc. All budget organizations are under full government control and are funded by central and local budgets. Social Security Funds are included in budget, except of Pension Fund of Ukraine.

The structure of budget system demonstrates a high level of centralization. Thus, according to the reporting data of the Ministry of Finance and the State Treasury, 76.25 % - 81.5 % of all budget revenues (excluding intergovernmental transfers) were concentrated in the State budget during last four years. At the same time, more than 90 % of the local budgets are subsidized. The share of official transfers in the structure of local budgets revenues has increased from 31.2 % in 2002 to 57.1 % in 2015. This creates basis for the low level of the local governments' financial accountability to the local communities and high level of accountability to the higher levels of government.

For a long time Ukraine had a centralized system of governance, where citizens had no real opportunity to influence the decision-making process. This practice has a strong negative influence on national economy: unwillingness to pay taxes and tax avoidance, high level of shadow economy, the very low level of trust to all public authorities. Thus, according to the Ministry of Economic Development and Trade of

Ukraine, shadow economy in 2015 equals 47 % of official GDP of Ukraine. The Ilko Kucheriv Democratic Initiatives Foundation [11] explored the political results of 2015, according to which the level of citizens' trust to the central public authorities – parliament and central government – equals 50 % and demonstrates the declining tendency for the last two years. That is why public participation should become the crucial point in reforming public governance and budget sector in Ukraine.

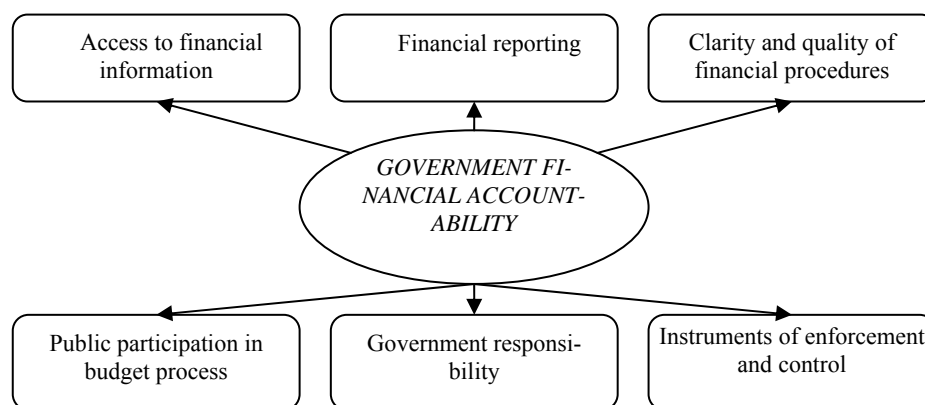


Fig. 2. Key features of Government financial accountability

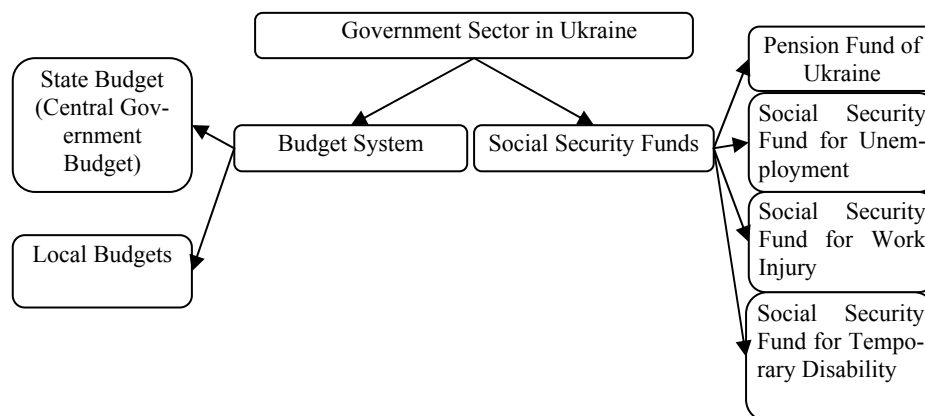


Fig. 3. Structure of Government Sector in Ukraine

More detailed information about government financial accountability and transparency can be analyzed on the basis of Open Budget Index (OBI) methodology. The Open Budget Survey [6] demonstrates that Ukraine obtained 46 of 100 points in 2015. It means insufficient level of budget openness. OBI is an integrated indicator, which takes into account the three components of a budget accountability system [6]:

(1) Availability of budget information to the public. Ukrainian government demonstrates sufficient level of this indicator, failing only two positions [6]. Available

documents included Pre-Budget Statement, Executive's Budget Proposal, Enacted Budget, In-Year Reports, Year-End Reports, and Audit Report; while Ukraine did not have Citizens Budget and Mid-Year Review. This creates the pretty good basis for financial transparency.

(2) Strength of formal oversight institutions shows high points for Ukraine: Oversight by Legislature equals 79, and Oversight by Supreme Audit Institution equals 83 (with a score from 0 to 100). This indicator confirms high level of horizontal accountability in Ukraine, which is natural for the country with centralized system of public governance.

Comprehensive budget information and formal oversight institutions are those tools that afford citizens to monitor and supervise decision-making process, budget planning and implementation.

(3) Opportunities for the public to participate in the budget process. The Open Budget Survey estimated *Public Participations* at the very low level - 23. Public participation characterizes diagonal accountability, which proves to be a real challenge for Ukraine. Information and communication technology can play the key role in combating this problem.

5 Information and Communication Technologies for Improving Government Financial Transparency and Accountability

ICT offers solutions for governments to improve the situation with engaging citizens to public governance processes. ICT also supports public administration, public financial management, and provision of government services. ICT has potential beneficial effects on governance: (1) ICT is able to increase the quality of governance to meet citizens' demands, reducing the cost of government operations, the access to and delivery of government services; (2) the use of ICT enhances improving transparency and accountability; (3) ICT allows to engage citizens and develop democracy; (4) ICT improves government ability to collect taxes and even is able to increase the level of voluntary tax payments [3]; (5) ICT provides ready access to information without visiting government entities; (6) ICT provides feedback to government implementing institutions in real time; (7) ICT ensures easily reporting in real time; (8) ICT curtails corruption in service delivery.

This wide range of positive effects is confirmed by tendencies in public administration. The distinctive feature of the current period is "the generalization of IT systems from only affecting back-office processes to conditioning in important ways the whole terms of relations between government agencies and civil society" [2]. The United Nations E-Government Survey claims that "the transformative changes entail not only the design and implementation of innovative practices, but more fundamentally a transformation of government's role, functions, institutional frameworks and processes" [13].

The index of e-government development demonstrates the same tendency in Ukraine as the Open Budget Indicator. This index estimates the readiness of national governments to use the Internet and mobile technologies for government functions. E-Government Development Index (EGDI) rates the e-government performance of United Nations Member States on the basis of integrated indicator which takes into

account [13]: (1) Online Service Index (OSI); (2) Telecommunication Infrastructure Index (TII); and (3) Human Capital Index (HCI):

$$EGDI = 1/3 (OSI_{\text{normalized}} + TII_{\text{normalized}} + HCI_{\text{normalized}}) \quad (1)$$

Ukraine was in the group of countries with high EGDI in 2014 (the last issue of the Survey). It ranked 87th place of 193 countries with EGDI equaled 0.5032 (in 2010 Ukraine was on the 54th place of 184 countries). The Survey showed that in 2014 there was a tremendous gap between Online Service Index 0.2677 and Telecommunication Infrastructure Index 0.3802, from the one hand, and Human Capital Index 0.8616 - from the other hand. It means that online services and communications were substantially behind the society's capacity of participating in public governance.

Civil society development in Ukraine is expressed through the vast volunteer movement. Volunteers are engaged in the developing of e-Democracy and e-Governance, anticorruption legislation, ensuring government transparency and openness. Among the most prominent results of volunteers work is the system of public procurements ProZorro. The volunteers' idea of reforming the system of public procurements appeared at the Open University of Maydan in the beginning of 2014. The pilot project started to work in February 2015. Ukrainian parliament adopted the law on public procurements reform in September 2015 and it was put in force since April 1st, 2016. ProZorro was developed by IT-Volunteers. Ukrainian government obtained it free of charge. The total market of public procurements equals to about 250 billion UAH per year. Trade volumes on the new e-platform have reached more than 15 billion UAH since ProZorro was launched as the pilot project. ProZorro managed to save 1.4 billion UAH (it equals 9.2 %) and 30 % of time for tenders participants for the first year of its existence in the test regime [8].

At the same time, IT-Volunteers actively participate in developing e-Governance and e-Democracy in Ukraine. Among the recent projects, that have successfully started, are e-Petitions, the "Digital Cabinet", e-Delivery of government services, online budget monitoring. The Association of Ukrainian cities is gathering the best practices of public initiatives on the local level.

IT-Volunteers participation in improving of public management witnesses about active development of diagonal accountability processes in Ukraine. The integration of participatory elements in the process of decision-making is a crucial for improving efficient public governance.

6 Conclusions

Government financial accountability and transparency have the crucial influence on the performance of political system and the quality of public administration. Ukraine demonstrates sufficient development of horizontal accountability. By contrast, the vertical accountability is weak and needs substantial improvement. The recent activation of civil society in Ukraine gave examples of diagonal accountability. The prominent role in ICT embedding in the Ukrainian government sector belongs to volunteers. They initiated, developed and raised money to fund several projects. The gap between horizontal and vertical accountability can be overcome by using information and communication technology. ICT offers a wide range of instruments: e-

Petitions, the “Digital Cabinet”, participatory budgeting, online monitoring, online voting, online budget reporting, and delivery of government services. The e-Government allows for broad changes in collaboration between a government and its stakeholders. The integration of participatory elements in the process of decision-making is a crucial for improving efficient public governance.

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