

MONEY, TRUST AND EFFECTIVE MANAGEMENT

Why Should We Fight
for Transparency of Ukrainian Cities?



Analytical report
June 2019

Transparency International Ukraine is an accredited chapter of the global movement Transparency International with a comprehensive approach to development and implementation of change for reduction of the corruption levels.

Our Mission is to reduce the level of corruption in Ukraine by promoting transparency, accountability, and integrity of public authorities and civil society.

Transparent Cities Program

as a leader in promoting transparency and accountability, encouraging local governments and the public to fight corruption.

Through the disclosure of information necessary for citizens in an understandable form and through providing them with tools for real impact and participation in decision making, the level of transparency and accountability of local authorities increases.

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Money, Trust and Effective Management: Why Should We Fight for Transparency of Ukrainian Cities?

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INTRODUCTION

Increasingly many studies confirm that **opening data** helps national governments and local authorities to **attract investments, build trade relations, reduce the bureaucratic burden and corruption risks, and increase credibility of public institutions**¹. Transparency is only a litmus paper that illustrates how ready the municipal authorities are to use resources efficiently and to develop the potential of their communities. However, in the long run, increasing transparency leads to tangible and measurable results.

At the same time, in reality, both local self-government agencies and citizens often lack understanding **why data need to be open and in what way this can be useful**.

In 2017 **Transparency International Ukraine** (hereinafter TI Ukraine) created the **Transparent Cities** program (hereinafter - Program) to contribute to overcoming corruption and implementing best practices of transparency and accountability of local self-government authorities². The primary component of the Program is measuring the transparency of 100 biggest Ukrainian cities in various aspects of activity of local authorities and their subordinate enterprises, institutions and organizations.

During the past two years, the Program team has held **50 events** for almost **700 participants** in various cities across Ukraine, telling about transparency measurement results, discussing problems faced by local communities and encouraging representatives of public authorities to be more open and ready for innovative solutions. Furthermore, we worked in close cooperation with **12 civil society organizations** in the regions within the subgrant competition³. Regional cooperation made it clear to us that a typical local problem is a formal approach to transparency. Local authorities tend to go no further than legislative requirements, while the community is not always aware of the reasons why they should fight for transparency in city councils.

In this report, we have collected the outcomes of international studies, as well as our own observations and examples of how transparency helps cities to become more successful. As you will see, when municipalities are open, everyone wins:

- **municipal authorities** gain credibility
- **communities** receive more accessible services of higher quality
- **business** discovers new potential markets

Under **transparency**, we mean a situation in which citizens are provided with the right and real possibility to access information and to understand the decision-making through personal engagement in the process, while the authorities, who understand the importance of opening information, making it accessible and engaging the community, take a proactive stance in this process.

This report is based on the results of a desk research that included a review of scientific resources, secondary analysis of social survey results, statistical information, open data provided by public authorities and local self-government agencies, responses to public information requests and results of city transparency assessment conducted by Program analysts over 2017-2018.

¹ Park, H. and Blenkinsopp, J. 2017. Transparency in the Eye of the Beholder: the Effects of Identity and Negative Perceptions on Ratings of Transparency via Surveys. International Review of Administrative Sciences, 83(1S), pp. 177-194.

² Website of the Transparent Cities program: <https://transparentcities.in.ua/en/about/>

³ TI Ukraine 2019: Reporting by Transparent Cities subgrant recipients <https://ti-ukraine.org/news/vony-zminyuyut-mista-sub-grantery-programy-transparent-cities-prozori-mista-zvituyut/>

METHODOLOGY AND RESULTS OF CITY TRANSPARENCY ASSESSMENT

As part of the Transparent Cities program, analysts annually measure **the transparency of 100 biggest cities (by population)** on the territory of Ukraine under the government control. The research is based on the methodology⁴ developed by TI Slovakia and adapted by TI Ukraine in cooperation with the Institute of Political Education.

The main results of transparency assessment is the **City Ranking** (hereinafter Ranking)⁵. Each city in the ranking can score a total of 0 to 100 points for 91 indicators. Indicators are divided into 13 different sectors of local self-government activity. In 2018 a new 14th section, dedicated to investments and economic development, was added to the ranking methodology. The results of transparency measurement in this sector were presented as an independent study⁶. The results of city transparency assessment in the investment sector have also been compiled into a separate ranking⁷, so they need to be analyzed taking into account the special assessment scale independently of the primary Ranking.

Below is a list of sections of the transparency ranking methodology. In each section, cities could receive a maximum of 4 to 10 points. The new section “Investments and economic development” is assessed on a scale from 1 to 20.

The main achievement of the transparency ranking is the gradual progress of cities in terms of transparency. Over 2017-2018, **the average score of transparency has grown by 12%** and currently constitutes 40 points out of 100. Even the cities that were initially at the bottom of the Ranking are starting to change actively. **The lowest transparency score grew from 8 points to 17 points in 2018, while the best result is over 85 points.**

This report will lean heavily on the Ranking analysis in order to demonstrate that city councils that are more open have a greater chance to succeed in other sectors, such as citizens' wellbeing, municipal management and credibility of local self-government authorities.

10 points

Information about the work of municipal authorities

8 points

Municipal property

4 points

Social services

10 points

Land use and construction policy

7 points

Education

10 points

Access and participation

8 points

Budgeting process

5 points

Human resources

10 points

Municipal enterprises

20 points

Investments and economic development

7 points

Procurement

7 points

Housing policy

6 points

Professional ethics and conflict of interest

8 points

Financial assistance and grants

⁴ Methodology of city transparency ranking:

<https://transparentcities.in.ua/wp-content/uploads/2017/03/Metodolohiya-dopovnena-eng-web.pdf>

⁵ Transparency Ranking of Ukrainian Cities: <https://bit.ly/2tY9gtN>

⁶ TI Ukraine. 2018. Ensuring Investment Sector Transparency in Cities. Analytical Report:

<https://ti-ukraine.org/en/research/ensuring-investment-sector-transparency-in-cities/>

⁷ Investment Sector Transparency Ranking of 100 Ukrainian Cities

<https://ti-ukraine.org/en/news/investment-sector-transparency-ranking-of-100-ukrainian-cities/>

WHY IS TRANSPARENCY BENEFICIAL?

How does transparency affect financial capacity of cities?

Data can generate revenue. A research held by the USAID/UKaid project “Transparency and Accountability in Public Administration and Services”/TAPAS has showed that open data have already brought **USD 700 million** to Ukraine’s economy and can additionally bring about **USD 1.4 billion** by 2025⁸.

The need for revenue for local self-government authorities is especially urgent now that decen-

tralization is underway in Ukraine, since communities receive not only more authority, but also a greater strain on local budgets, and local authorities become accountable to their communities for high-quality services.

Below, we will provide examples of how implementation of transparency already allows cities to increase revenue and save money.

Efficient use of community resources

On average, the revenue of one of the 100 biggest Ukrainian cities constitutes less than UAH 15,000 per capita (including inter-budget transfers⁹). However, this does not mean that all these municipal communities are capable, that is, able to resolve local issues independently, using only their own financial and human resources. Currently, local self-government authorities have a major dependence on transfers from the national budget. During 2016-2018, the share of transfers fluctuated between 53% and 55% of the total local budget revenue. In other words, **communities generate only about half of their revenue**: that includes taxes, fees for licenses and permits, rent, state duty, fines, revenue from sales of basic stock, target funds and donor funds, etc¹⁰.

How can we change this situation? One of the options is to start **using resources more efficiently and generate more revenue from possessions owned by the community**.

First of all, we need to pay attention **to revenue from rent and sale of communal property**¹¹. Experts believe that this sector has the biggest potential to increase the revenue of local budgets. How can transparency help cities to benefit from this potential?

Openness of information about municipal assets attracts more potential owners and lessees. Thus, competition grows, and local authorities get a chance to sell property for better prices. One of the examples illustrating this effect of transparency is the use of the electronic trade system **ProZorro.Sale**¹² for sales of communal property.

ProZorro.Sale is an electronic trade system, created in 2016 at the initiative of the Ministry of Economic Development and Trade of Ukraine, TI Ukraine, Deposit Guarantee Fund, the National Bank of Ukraine and Ukrainian electronic plat-

⁸ A. Kovalchuk, V. Khanzhyn, Y. Kudlatskyi, 2018. Economic Potential of Open Data for Ukraine. – Kyiv, 2018: http://tapas.org.ua/wp-content/uploads/2019/03/TAPAS_OD_2018.pdf

⁹ Inter-budget transfers are funds that are irrevocably transferred free of charge from one budget to another. Local budgets can receive such transfers from the National Budget of Ukraine for various purposes under Article 97 of the Budget Code of Ukraine.

¹⁰ The Price of the State. 2019. Revenues and expenditures of local budgets. Essentials put briefly: <http://cost.ua/news/687-revenues-and-expenditures-of-local-budgets>

¹¹ Vasylieva, N., Hrynychuk, N., Derun, T., Kuibida, V., Tkachuk, A. Local budget and financial maintenance of the united territorial community: a handbook. – Kyiv, 2017: <https://bit.ly/2Yvjvvp>

¹² ProZorro.Sale was developed with the participation of TI Ukraine, which administered the system’s development. Website: <https://prozorro.sale/>

forms. It started working in order to ensure open sale of assets owned by insolvent banks and then gradually extended its focus areas to sales of other property across the nation. Since it came into operation, ProZorro.Sale aimed at creating conditions for transparent, fast and efficient sales procedure for national and communal property, devoid of corruption risks.

Case: ProZorro.Sale is the best startup in the world in the sector of public administration.

In 2018, ProZorro.Sale¹³ was recognized internationally as the best anti-corruption initiative in the world at The Shield in the Cloud Innovation Challenge. The award is annually given to projects that have significant impact on anti-corruption activity and can serve as an example for other countries¹⁴.

After the Law of Ukraine “On Privatization of National and Communal Property” was passed, **small-scale privatization objects in municipal property are sold only through electronic auctions**. It means that municipal enterprises, land, stocks, buildings that belong to local authorities can only be sold online through an open auction.

Making sales of small-scale privatization objects through ProZorro.Sale mandatory, the law has also obliged local self-government authorities to ensure utmost transparency of these sales. Not a single instance of small-scale privatization can take place without publication of the list of items to be privatized and information on the objects that have already been privatized.

About **60 councils and subordinate enterprises, institutions and organizations** of the cities included in the Ranking have already used the option to sell property through the open auction (Figure 1)¹⁵.

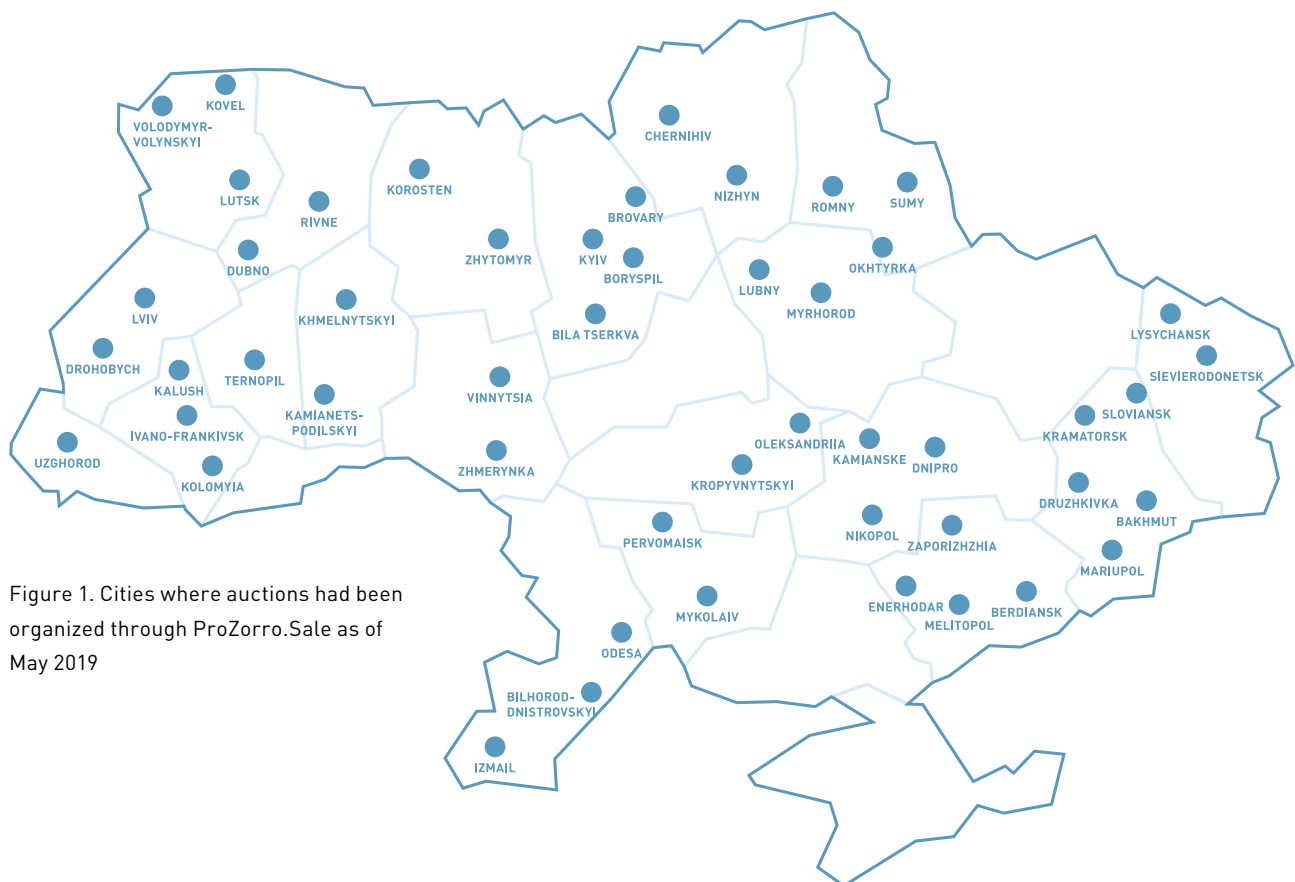


Figure 1. Cities where auctions had been organized through ProZorro.Sale as of May 2019

¹³ ProZorro.Sale. Analytics: <https://bi.prozorro.sale/#!/organizers>

¹⁴ OpenProcurement. 2018. Prozorro.Sale Wins “The Shield in the Cloud Innovation Challenge” Anti-Corruption Award: https://openprocurement.io/en/news/prozorro-sale_wins_anti-corruption_award

¹⁵ As of early May 2019, according to the public BI module ProZorro.Sale: <https://bi.prozorro.sale>

In just four months of 2019, the revenue from sales and lease through ProZorro.Sale exceeded **UAH 195 million**¹⁶ (Table 1). **The average price growth compared to the initial price constitutes 30%**¹⁷.

Table 1. Data on sales of property by local self-government authorities and their subordinate enterprises, institutions and organizations through the ProZorro.Sale system between March and April 2019

Period	Number of cities that held electronic auctions	Announced amount, UAH	Actual revenue, UAH	Number of auctions	Number of organizers
2017	7 cities	6,988,072.76	8,713,584	98	24
2018	35 cities	150,378,174	249,830,452	295	77
January to April of 2019	30 cities	145,827,472	195,431,175	130	59

Case: the use of ProZorro.Sale in Ternopil.

Ternopil City Council joined ProZorro.Sale back in 2018. Today, items in communal property are sold openly through the electronic bidding system, which already benefits the city. A short while ago, the city council put up for sale a nonresidential building - a local landmark in downtown Ternopil. Almost 40 participants competed to get the item, and the price of the facilities grew ten times compared to the initial one¹⁸. Before joining the electronic system, the city council had never been able to engage so many participants in its sales.

Now, **the application of ProZorro.Sale is gradually expanding**. Local self-government authorities use open procedures for small-scale privatization, leasing out communal property, distribution of rights to trade fairs, placement of other items of trade and entertainment, advertising, etc¹⁹. Therefore, the potential of using open electronic auctions to grow budget revenue is only increasing.

Case: Transparency Ranking and ProZorro City Ranking.

Lviv, Mariupol, Dnipro and Pokrov are among the top six most transparent cities in Ukraine according to our Ranking. Chernivtsi ranks 18th. These cities are also the most active users of the ProZorro.Sale system in 2018, according to the ProZorro.Sale City Ranking. The latter, developed by experts of the state enterprise "Prozorro.Sale," takes into account the importance and type of activity in which the city participates in the system (small-scale privatization, lease and sale of communal property, lease of temporary trade locations), revenue from sales, number of successful auctions and activity of municipal enterprises²⁰.

Currently, connection of local self-government authorities to the system is underway, but it should be noted that the earlier cities start using the system of transparent sales, the sooner they will obtain the opportunity to sell property efficiently and increase the credibility of the sales procedure.

¹⁶ According to the public BI module of ProZorro.Sale: <https://bi.prozorro.sale/#!/organizers>

¹⁷ According to ProZorro.Sale: <https://prozorro.sale/prodavcyam>

¹⁸ ProZorro.Sale: <https://prozorro.sale/auction/UA-PS-2019-01-31-000017-3>

¹⁹ Y. Yurchyshyn. Transparent Sales: Reward for De-Corruption.:

<https://ti-ukraine.org/blogs/prozori-prodazhi-vynahoroda-za-dekoruptsiu/>

²⁰ ProZorro.Sale. Lviv, Mariupol and Dnipro were the most active users of the ProZorro.Sale system in 2018: <https://bit.ly/2RodaFR>

Another opportunity that is already widely used by local self-government agencies is procurement through the **ProZorro** electronic system. Its use is intended to minimize corruption, increase competition and thus reduce the cost of the procurement item.

Under the Law of Ukraine “On Public Procurement,” ProZorro is mandatory for procuring entities if the expected cost of goods or services being procured exceeds UAH 200,000, and of works - UAH 1.5 million. In other words, procuring entities are not obliged to use ProZorro for procurement below that threshold, though they have the right to use it. According to information available to us, in 2018, local self-government authorities in 44 cities developed and adopted a regulation or a different regulatory document on pre-threshold procurement conducted by all executive agencies, their structural units and subordinate municipal enterprises, institutions, organizations. If the procuring entity buys something at a price lower than expected, this allows to save funds.

Experts have also developed the **BI ProZorro module**²¹ - a tool for analysis of procurement, which allows to obtain data on the organizers, the suppliers, the procurement item, the amount, complaints, etc. The use of BI ProZorro opens up new opportunities both for controlling the efficiency of procurement conducted by enterprises, institu-

tions and organizations under the city council and for successful business activity.

The BI module functionality primarily allows to track problems that occur in the procurement sector. If the city council does not have an organized database to analyze the reasons for contract termination or changes made to contracts by subordinate enterprises, institutions and organizations, it may be difficult to understand the situation in the procurement sector quickly. The use of BI ProZorro eliminates this problem. Furthermore, analytical data can signal about potential risks that can threaten contract implementation by this or that supplier. For instance, if a legal entity has a tax debt or is under the bankruptcy procedure. Besides, the options of the public BI module are regularly upgraded. For instance, the information on the number of terminated agreements, adherence to deadlines and efficiency of tenders, which is now available only in the pro version, will soon be made accessible to all users of the service.

On the other hand, the BI module can be interesting to potential suppliers as well. Companies can analyze the market, the demand, the competition and whether procuring entities meet their commitments under their contracts in a proper, timely manner.

Engagement of foreign creditor funds

Transparent cities have better chances to obtain another source of revenue - the financial support of donors and creditors. Currently, funds from the European Union, foreign governments, international organizations and donor institutions constitute a relatively small share of local budget revenues. As of the end of 2018, the share of such transfers in the municipal revenue structure was 0.04%, or UAH 94 million²².

As experience of cities shows, **a good proposal is not enough** to implement large-scale projects with donor support. Organizations that provide funding also **pay attention to adherence to good governance principles, including transparency**, in the work of potential beneficiaries²³.

²¹ ProZorro BI Module: <https://bi.prozorro.org/hub/steam/>

²² Open Budget web-portal: <https://openbudget.gov.ua/?month=12&year=2018&budgetType=LOCAL>

²³ Sumanjeet. 2015. Institutions, Transparency and Economic Growth. *Emerging Economy Studies*, 1(2), pp. 188-210. Alesina, A. and Dollar, D. 2000. Who Gives Foreign Aid to Whom and Why? *Journal of Economic Growth*, 5(1), pp. 33-63.

A real example of this approach is the World Bank practice. The World Bank Group is one of Ukraine's biggest creditors. When they make decisions on providing loans, the organization takes into account **the credit rating** (credit profile) of a municipality. The credit rating is calculated using a special formula. For instance, the methodology of the financial services company S&P for U.S. municipalities takes into account **the level of disclosure of financial information**. The assessment of transparency and accountability in this case accounts for 10% of the credit rating. If a municipality fails to provide this information, or provides outdated information, the credit rating decreases: potential creditors are not interested in cooperation with a local self-government agency if its reliability and compliance with undertaken commitments are questionable²⁴.

Currently, publication of the city's credit rating is not a common practice among local self-government agencies in Ukraine. According to the information available to us, in 2018, information on the city's credit rating was available on the websites of just 15 city councils out of 100.

Experience shows that publication of the credit rating and other comprehensive effort towards increasing transparency actually help cities to find loans for implementation of grand infrastructure projects. One such success story is **Mariupol**. In 2018, the city demonstrated significant progress in openness of the budgeting process, communal property management, land and construction sectors. This helped Mariupol to start cooperation with the International Financial Corporation (IFC)²⁵ and

get a loan of EUR 12.5 million for procurement of modern buses in 2019²⁶. The IFC considers transparent and efficient business practices one of eligibility criteria for receipt of financial aid.

Case: Transparency as a prerequisite of successful engagement of credit funding in Mariupol.

"The Transparency Ranking of Ukrainian Cities attests to Mariupol's openness. <...> The good result was made possible by regular work on implementation of e-democracy tools. They include the ProZorro system, Social Inspector, Open Budget, DOZORRO. Additionally, there is a system of local petitions and a single Contact Center. <...> All of this has become an important aspect in Mariupol's international relations. The Government of France is investing EUR 64 million into a comprehensive solution of water supply problems in the city with half a million inhabitants. EBRD E5P is investing about EUR 33 million into development of a modern transportation model, with the funding going towards purchase of almost 140 units of modern vehicles and depot reconstruction. The European Investment Bank is transferring EUR 17 million for reconstruction of street lighting in the city. All of this adds up to over EUR 100 million used to implement crucial projects in Mariupol. Comprehensive, systematic work in this field was going on in Mariupol during several years."²⁷

Investment attractiveness

According to surveys held by Dragon Capital, the European Business Association and the Center of Economic Strategy in 2016-2018, the obstacles to investments into the Ukrainian economy are corruption, monopolization of the market and low

purchasing power of consumers. Authors who researched the reasons for the low level of business activity in cities arrived at a similar conclusion. The main barriers to starting a business are local corruption, lack of a start capital and insufficient

²⁴ World Bank Group. 2017. Development of municipal credits in Ukraine: international experience and recommendations: http://bioenergy.in.ua/media/filer_public/1d/be/1dbe8a18-44b1-44e3-a2f7-ccc9dd0c3525/report-a4fin-preview.pdf

²⁵ Official website of Mariupol City Council. 2018. City mayor Vadym Boichenko meets with the head of Vienna office of the International Finance Corporation: <https://bit.ly/2WVzPvQ>

²⁶ International Finance Corporation. 2019. IFC Launches Cities Initiative in Mariupol to Improve Public Transportation in Ukraine: <https://ifcextapps.ifc.org/IFCExt/Pressroom/IFCPressRoom.nsf/0/05CBF8F3F2D88FC7852583A6004D897E>

²⁷ Official website of Mariupol city council. 2019. On the Way to Transparency: Mariupol Engages over EUR 100 million: <https://mariupolrada.gov.ua/news/na-shljahu-do-prozorosti-mariupol-zaluchiv-ponad-100-miljoniv-evro?fbclid=IwAR2Wzonkp-dzlez4VXEgg6-G9TrukTHjwJJJEYrs7IdicoefEFgscue8zU8g>

guarantees of safety²⁸. In other words, closed-off, inefficient institutions incapable of protecting investments are one of the main reasons why Ukrainian cities remain unattractive for investors²⁹. How can municipal transparency resolve this problem?

It is important to understand that **official websites of cities and local self-government agencies are often the first resource where a potential investor looks up information about this or that community**. Before coming in for a personal visit, an investor will look at the territory where he or she can potentially invest on publicly available resources. Studying the published information answers the questions about the interests of the community, its potential and competitive advantage, whether the business climate is favorable and whether an investor can expect to succeed and have his or her rights protected.

Openness of information, especially that in the sector of land and financial regulations or work with municipal assets, helps to understand whether city councils are capable of making themselves more attractive to investors and engaging direct foreign investments. If the city council website has information available in English, if the investment passport, tax rates, city planning and permit-related procedures are available on the website, the city has a greater chance to catch the eye of a foreign investor. Why are we talking about direct foreign investments³⁰ specifically among the many economic benefits of transparency?

Firstly, in developing countries or countries where the economy is undergoing major transformations, **engagement of foreign investments is an important factor of economic growth**: national resources are often insufficient to fund the needs of the economy³¹. Furthermore, direct foreign investments can often serve as a breath of fresh air for the local economy: they bring new jobs, higher export rates, new technology; local employees learn new skills³². Thus, it is a good indicator of the city's competitiveness overall.

Secondly, our conclusions are based on the results of comparative studies on the impact of transparency on the amount of engaged direct foreign investments. Experts of the World Trade Organization and U.S. Trade Commission have calculated that **if a country goes up one rank on the transparency index, it leads to a 40% increase in the amount of direct foreign investments**. The research used International Country Risk Guide, which covers openness of data on the level of corruption, the quality of management, implementation of contracts and the risk of property expropriation³³. Other researchers have also found that a low level of transparency, measured based on World Competitiveness Yearbook, combined with a low score on Corruption Perceptions Index of Transparency International has a negative impact on the amount of direct foreign investments that the country receives³⁴. Research also shows that budget transparency is an especially powerful factor for engagement of investments³⁵.

²⁸ Rating Sociological Group. Fourth Nationwide Municipal Survey (20 January - 10 February 2018):

http://ratinggroup.ua/files/ratinggroup/reg_files/municipal_survey_2018_final_ua.pdf

²⁹ European Business Association (EBA). 2017. Foreign investors: corruption and distrust in the judicial system still affect the investment climate in Ukraine more heavily than the conflict with Russia does:

https://eba.com.ua/wp-content/uploads/2017/09/2017-09-13_Foreign_Investor_Survey_Results_Ukr_correct.pdf

³⁰ Direct investment, more commonly referred to as foreign direct investment (FDI), refers to an investment in a foreign business enterprise designed to acquire a controlling interest in this enterprise. Direct investment provides capital funding in exchange for an equity interest without the purchase of regular shares of a company's stock. Source: <https://www.investopedia.com/terms/d/direct-investment.asp>

³¹ Drabek, Z. and Payne, W. 2002. The Impact of Transparency on Foreign Direct Investment. Journal of Economic Integration, 17(4), pp. 777-810.

³² EU-UNDP Project "Support of Crimea's Regional Development." 2013. How to Attract Foreign Direct Investment: a Practical Handbook for Ukrainian Cities and Rayons: https://regionet.org.ua/files/02_How_to_attract_FDI_-_UA.pdf

³³ Drabek, Z. and Payne, W. 2002. The Impact of Transparency on Foreign Direct Investment. Journal of Economic Integration, 17(4), pp. 777-810.

³⁴ Zhao, J. H., Kim, S. H. and Jianjun, Du. 2003. The Impact of Corruption and Transparency on Foreign Direct Investment: An Empirical Analysis. MIR: Management International Review, 43(1), pp. 41-62.

³⁵ Zinnbauer, D. Open Government – Open for Business. Open Government Partnership:

https://www.opengovpartnership.org/sites/default/files/OGP_Open-for-Business_20180515.pdf

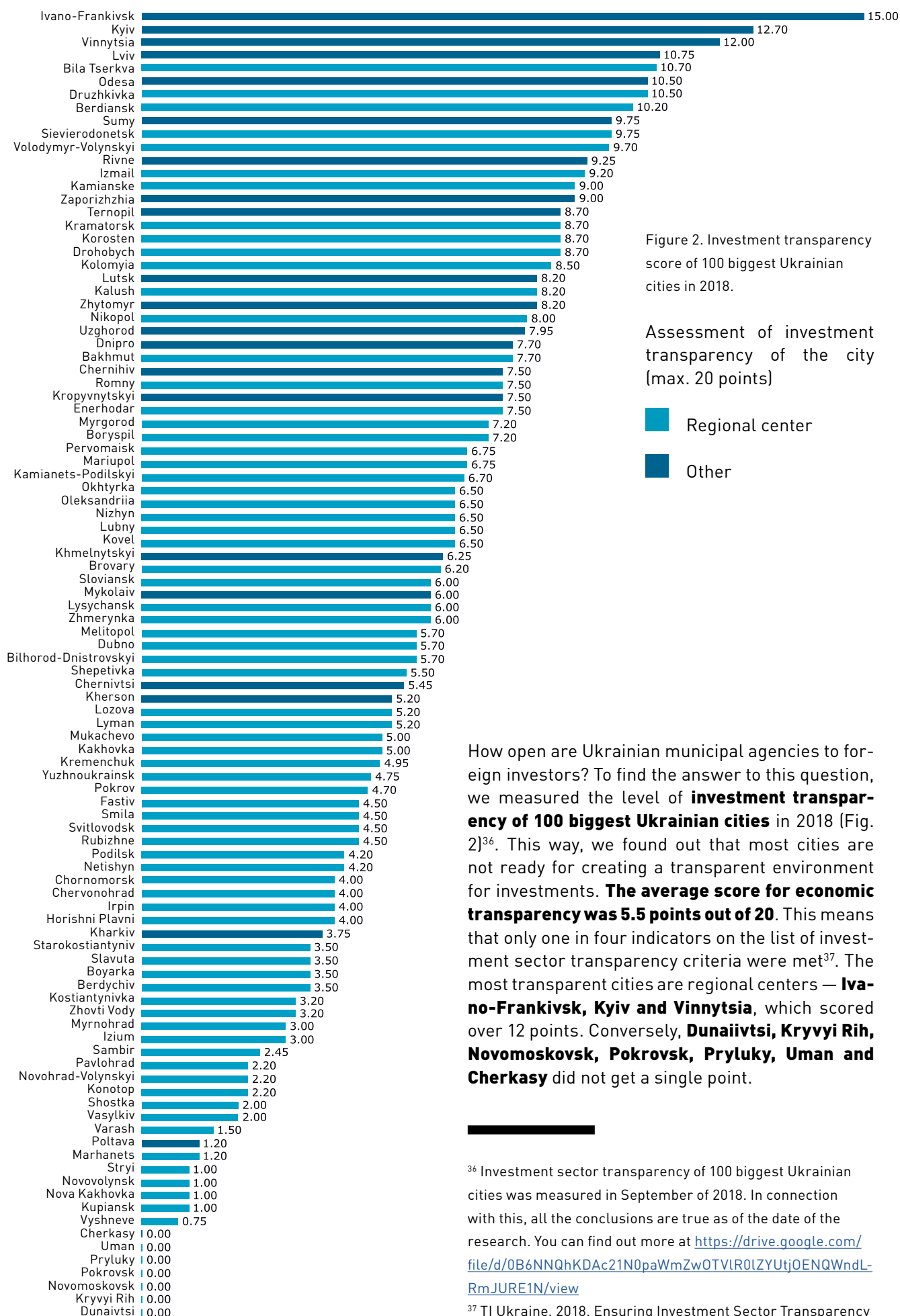


Figure 2. Investment transparency score of 100 biggest Ukrainian cities in 2018.

Assessment of investment transparency of the city (max. 20 points)

- Regional center
- Other

How open are Ukrainian municipal agencies to foreign investors? To find the answer to this question, we measured the level of **investment transparency of 100 biggest Ukrainian cities** in 2018 (Fig. 2)³⁶. This way, we found out that most cities are not ready for creating a transparent environment for investments. **The average score for economic transparency was 5.5 points out of 20**. This means that only one in four indicators on the list of investment sector transparency criteria were met³⁷. The most transparent cities are regional centers — **Ivano-Frankivsk, Kyiv and Vinnitsia**, which scored over 12 points. Conversely, **Dunaiivtsi, Kryvyi Rih, Novomoskovsk, Pokrovsk, Pryluky, Uman and Cherkasy** did not get a single point.

³⁶ Investment sector transparency of 100 biggest Ukrainian cities was measured in September of 2018. In connection with this, all the conclusions are true as of the date of the research. You can find out more at <https://drive.google.com/file/d/0B6NNQhKDAc21N0paWmZwOTVIR0lZYUtiOENQWndLRmJURE1N/view>

³⁷ TI Ukraine. 2018. Ensuring Investment Sector Transparency in Cities. Analytical Report: <https://ti-ukraine.org/en/research/ensuring-investment-sector-transparency-in-cities/>

Overall, the activity to make the investment sector more open in Ukraine is not sufficiently systematic and professional. Here are some figures attesting to it for 100 biggest cities in Ukraine:

Investment passport

The investment passport is a basic document making the city more attractive for investors. It includes success stories, contact information, data on the economic possibilities of the city, its human capital, infrastructure, the living standard and other characteristics³⁸. Without this document, an investor does not have an important source of credible information about the community.

23

city councils failed to publish information for potential investors in a separate section or have not published the community **investment passport**

Infrastructure

For successful business activity, an investor needs adequate infrastructure. The object should have power, gas and water supply, available telecommunications networks and heating. Another significant factor is the absence of illegitimate obstacles and a clear process of starting a business, receiving a permit for a land plot. It is also important to investors to look at the geoportal – the geospatial information on the city in an available format.

The absence of this information in public domain may lead to the conclusion that this object or project is not competitive.

31

city councils failed to publish information on the potential **objects and projects for investment** on the official website

73

cities failed to publish the information on **utility networks** on objects or projects offered for investing in a dedicated section on the website

84

cities do not have **geoportals**

International cooperation

Transparency of implementation of international technical assistance projects helps a potential investor to assess how efficiently funds are used. City councils often do not have consolidated information on the work of international technical assistance projects and programs.

Recently, the Ministry of Economic Development and Trade of Ukraine has launched the portal **ProAid**³⁹. It is currently the biggest database of international assistance projects and programs. Information can be added by those who initiate the project or those who implement it.

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city councils failed to publish information on cooperation with **international technical aid projects** and international organizations

To find out whether municipal transparency really affects success in engagement of investments, we decided to carry out statistical analysis⁴⁰. We have studied the correlation between two indicators: the city council's score in the Transparency Ranking and the total amount of direct foreign investments into the city's economy.

³⁸ EU-UNDP project "Supporting Crimea's Regional Development." 2013. How to Attract Foreign Direct Investments: a Practical Handbook for Ukrainian Cities and Rayons": https://regionet.org.ua/files/02_How_to_attract_FDI_-_UA.pdf

³⁹ Official website for coordination of international assistance to Ukraine ProAid: <http://proaid.gov.ua>

⁴⁰ Data on foreign direct investments between January and September 2017 and 2018 were taken from the official websites of head directorates of statistics

Apart from this data, we have also taken into account a number of other factors that investors might take into account while making the decision to invest in the economy⁴¹: closeness to the customs border⁴², the level of economic activity of the population⁴³; the average salary in the city⁴⁴; the number of enterprises registered in the city⁴⁵, the region, the Regional Business Environment Index⁴⁶ and how proactive cities are in implementation of recommendations on increasing transparency⁴⁷.

Which of these factors actually affect the amount of investments flowing into the city?

Firstly, we have found out that **the growth of the transparency score by 1 point correlates to a 0.04% increase in the amount of engaged investments**. Taking into account the median value⁴⁸ of direct foreign investments into cities in 2017-2018, which was over USD 20 million, this means that **implementation of one additional transparency recommendation can help a city to engage, on average, an extra USD 8,000**. Thus, our analysis shows that transparency actually has a positive influence on the amount of investments received by the city. An improvement of the transparency level even in a few aspects can significantly improve the city's investment attractiveness.

Secondly, the statistical analysis shows that **existence of functioning enterprises in the city** factors into successful engagement of direct foreign investments. Knowing the number of economic entities, an investor can assess the level of economic activity and the business climate in a specific city. This is why it is important to publish information on the situation in the commercial sector: how many enterprises are registered in the city, whether a code of business conduct for employees of municipal enterprises has been approved, financial reporting, the main social and economic results of the city.

We are aware that investors can take into account other factors as well, such as the availability of natural resources or local tax rates. However, even our simplified statistical model attests to a correlation between transparency and engaged investments.

Thus, increasing municipal transparency and supporting business activity in the city are the most important factors that influence the engagement of direct foreign investments.

⁴¹ McDonald, R. and Bailly, A. 2017. What Investors Want: a Guide for Cities: How Should Cities Engage Investors and Developers? Centre for Cities: London: <https://www.centreforcities.org/wp-content/uploads/2017/07/17-07-18-What-Investors-Want-A-Guide-For-Cities.pdf>

⁴² For the purposes of analysis, we divided cities into two categories: (1) those that do not border on the Ukrainian customs border (Dnipro, Kropyvnytskyi, Poltava, Ternopil, Khmelnytskyi, Cherkasy oblasts) and (2) those that are located in oblasts at Ukrainian customs border (the remaining regions).

⁴³ Economically active population (workforce) are individuals of ages 15 to 70 who supply the labor force on the labor market during a certain time. The level of economic activity of the population is calculated as a ratio (expressed as percentage) of the number of economically active people in relation to the total number of people of this age or social and demographic category (Methodological guidelines on classification and analysis of economic activity of the population were approved by the order of the State Statistics Committee of 19 January 2011 No. 12).

The data for each oblast and Kyiv have been taken from the official websites of head directorates of statistics.

⁴⁴ The data on the average monthly wage of full-time employees in each city have been taken from the official websites of head directorates of statistics.

⁴⁵ The data have been taken from the official websites of head directorates of statistics.

⁴⁶ Regional business environment in Ukraine: <http://competitiveness.icps.com.ua/>

The Regional Business Environment Index measures how favorable the business climate in the region is to start and maintain a company. The index consists of 103 indicators in the sectors of economic activity, public administration and legislation, technology and infrastructure, education and human resources.

⁴⁷ During 2018, over 30 city councils approached TI Ukraine analysts to get explanations and advice. We believe this to attest to the fact that in certain cities, the authorities are ready for challenges associated with promoting change in the economic sector.

⁴⁸ The median value is the value located in the middle of a number of values, in this case - the amount of foreign direct investments ranged from low to high or the other way round. Unlike "mean," or "average," the median value is more applicable to irregular samples (in this case, for instance, that big cities like Kyiv receive much higher amounts of investment).

Recommendations

1. Start using the electronic system ProZorro.Sale

To do this, learn about the system's Procedure, legislative requirements, identify communal assets that you are planning to sell or lease out, select the platform you intend to use and register on it. Detailed guidelines for using the system are available on the ProZorro.Sale website⁴⁹.

How do you make money? Generate revenue from small-scale privatization, competitive sales of property, rights for placement of trade objects, placement of temporary structures, rights for advertising, lease of facilities and land.

2. Disclose data on the work of local self-government authorities, especially in the sector of economic development.

Publish information which will help business to be more effective. This includes data on objects funded from the municipal budget and the amount of funding, reports on budget execution, land tax rates, approved regulatory acts, etc.

The basic document which allows to assess the benefits of investing into a specific city is the investment passport. The document should contain information about the population, the labor force, the infrastructure, the investment opportunities, successful cases and useful contacts. There should be at least two versions of the passport available - in Ukrainian and in English⁵⁰.

How do you make money? Draw potential investors' and creditors' attention to transparency of municipal finances and management. The lack of clarity scares off potential investors, while openness encourages them to work with you.

3. Share your achievements, develop the brand of your city.

If your city has been recognized for adherence to management standards or implementation of best practices, talk about it. Investors who know nothing about your community will be interested in things like a high rank in an index compiled by a reputable organization. For instance, Transparency Ranking of 100 Biggest Ukrainian Cities is compiled by TI Ukraine, an accredited chapter of the global and globally known anti-corruption movement Transparency International represented in over 100 countries worldwide.

How do you make money? Talk about your city's progress on the way to openness. If you want information to be more convincing, try to talk about transparency in measurable terms: for instance, how many work hours and what budget funds have been saved, how many violations have been identified and how much faster citizens have been able to obtain certain municipal services. This way, a broader audience, including potential investors, will learn about your reputation as a transparent city where it is comfortable to live, work and do business.

⁴⁹ Guidelines for local self-government agencies on using ProZorro.Sale: <https://bit.ly/2KpprdW>

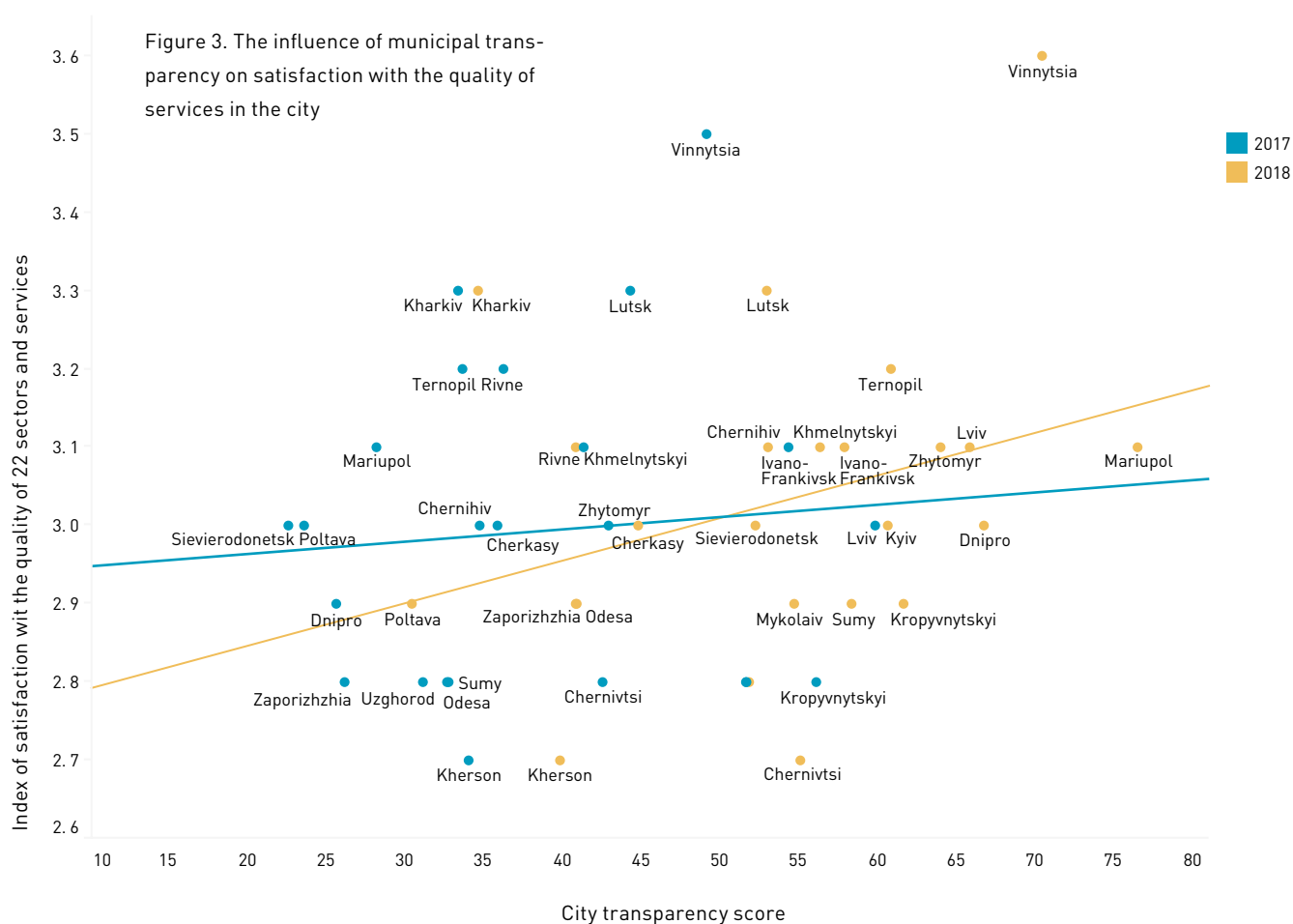
⁵⁰ EU-UNDP project "Supporting Crimea's Regional Development." 2013. How to Attract Foreign Direct Investments: a Practical Handbook for Ukrainian Cities and Rayons"

How does transparency affect management effectiveness?

What do Vinnytsia and Mariupol have in common, apart from the fact that they are among the top three cities on our Transparency Ranking? Turns out, citizens who live there are satisfied with the quality of services provided by their city council more than citizens who live in other regional centers of Ukraine, and the quality of these municipal services is growing every year. This is illustrated by the results of the annual municipal survey held

among the population of 22 Ukrainian regional centers within the government-controlled territory of Ukraine, as well as Donbas cities of Mariupol and Sievierodonetsk⁵¹.

Thus, **transparent cities have a somewhat higher level of satisfaction with the quality of municipal services**⁵².



As Figure 3 shows, the index has improved after the increase in city authority transparency in 11 cities out of the 24 included in the research⁵³. The cities in question are Vinnytsia, Dnipro, Zhytomyr,

Zaporizhzhia, Kyiv, Kropyvnytskyi, Lviv, Mykolaiiv, Odesa, Sumy and Chernihiv. In 10 cities, the score remained the same during the two years.

⁵¹ Rating Sociological Group. Third Nationwide Municipal Survey (20 January – 12 February 2017): http://ratinggroup.ua/research/regions/tretiy_vseukrainskiy_municipalnyy_opros.html

Rating Sociological Group. Fourth Nationwide Municipal Survey (20 January - 10 February 2018): http://ratinggroup.ua/files/ratinggroup/req_files/municipal_survey_2018_final_ua.pdf

⁵² The coefficient of correlation between the score in the Transparency Ranking and the Index of Satisfaction with the Quality of Services constitutes 0.22.

⁵³ The scale of the Index of Satisfaction with the Quality of 22 Municipal Sectors and Services: 1 - "awful," 2 - "bad," 3 - "okay," 4 - "good," 5 - "excellent."

Satisfaction with the quality of services shows that the city authorities work effectively. Since local self-government authorities are directly in touch with the recipient of services, the quality of their work often determines the quality and comfort of life in a specific city.

How can transparency help to improve the effectiveness of management?

Reducing the need for information requests

First of all, local self-government authorities should **proactively publish information** to reduce the need for filing requests for public information.

The law clearly differentiates between two aspects of access to information: **active and passive**. While the first one means providing responses to information requests, public participation in meetings of collegiate agencies and the option to access information in person in the city hall, passive access means that authorities are obliged to publish information on their work, approved decisions and draft decisions in the media, on official websites, in public spaces or in a different way.

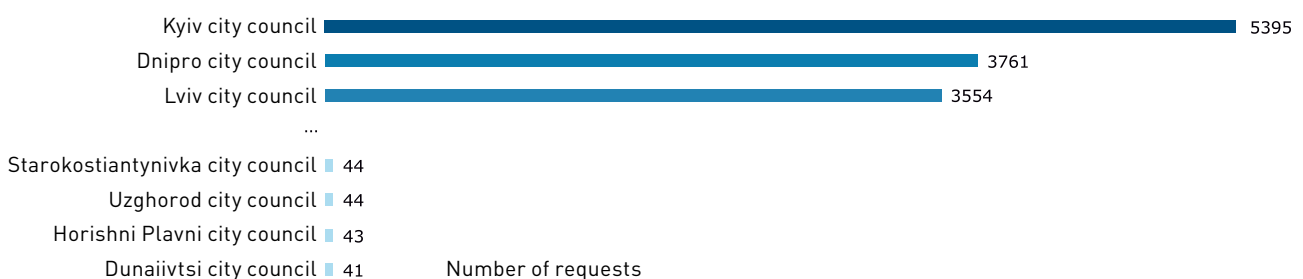
Passive access to information is less costly and more rapid for information recipients. While it takes up to five days to receive a response to an information request, if not longer, information published on a website can be found in just a few minutes.

The authorities also benefit from publication of data. First of all, they save money that would oth-

erwise go to printing responses and mailing services. According to the general rule, information in response to a request is provided for free. If the amount of payment for producing copies and printing is not established by the spending unit, or if the request concerns information that is of public interest or personally pertains to the person requesting it, copies of documents that are 10 pages or shorter are produced for free. The law also does not establish compensation for scanning of documents. Therefore, if response to a request requires scanning several hundred pages, the spending unit is forced to spend a significant amount of working hours on scanning. This can effectively block the work of the local self-government agency.

During 2018, city councils of 100 biggest Ukrainian cities received over **39,000 requests**. This is 6,000 fewer than in 2017. Figure 4 demonstrates the list of city councils that are the leaders by the number of processed requests, as well as councils that received the smallest number of requests.

Figure 4. City councils that received the biggest and the smallest number of information requests in 2018.



It would make sense to hope that city councils who provide passive access to information receive fewer requests. The more data an information admin-

istrator publishes, the more likely people are to receive the necessary information online without having to approach the public authority⁵⁴.

⁵⁴ OPORA civil network. Open data for Ukrainian cities. Recommendations on policy implementation.: <http://storage.decentralization.gov.ua/uploads/library/file/377/2019.02.11.pdf>

Our research shows that transparent cities, conversely, receive more information requests. But this only works for big cities with a population of over 500,000 people. What causes this trend? The reasons may be endless. When the authorities are open, it may stimulate the development of business interested in creating IT solutions based on big amounts of open data. There may be active social sector in the city using information requests as an official source of information on accountability of the local authorities. Finally, the more people live in a city, the more problems catch the eye of the local community.

It is quite possible that gradually, as the quality and amount of open data grow — and so does their credibility — local self-government authorities will receive much fewer requests than they do now. However, it should be understood that publishing information by itself is not enough to reduce the need for information requests. For instance, Civil Network OPORA has found out that the most in-demand information in Ukrainian cities pertains to ecology, financial and economic data, mapping information, communal property, education, etc. How active were city councils in providing this information in 2018? We have found that city councils have implemented only 48% of budgeting process transparency recommendations, 44% of land use and construction policy recommendations, 39% of recommendations on communal property and 37% of procurement recommendations⁵⁵.

Citizens request only the information that has practical value for them⁵⁶. That is why local self-government agencies should systematically study citizens' requests for specific types of information⁵⁷. This will enable them to identify priorities in publication or digitization of those data that the community needs most, and to make websites more user-friendly in terms of information search and analysis.

Case: Design thinking for city council websites

The first municipal websites in the global practice were built based on the traditional bureaucratic model. They often reflected the administrative structure of municipal agencies and rarely reflected the users' needs. In the twenty-first century, local self-government authorities switch to completely different strategies. The first one is a website based on the one-stop-shop concept: the homepage of the website contains as much information as possible, such as the budget, contact information, events, news, vacancies, etc. The other approach, an even more progressive one, is user-oriented. This website design takes into account the needs and interests of different user categories: the community, the business and other visitors⁵⁸.

City councils in Ukraine are gradually starting to switch to new approaches to their work. For instance, experts of Drohobych city council and Lviv city council regularly analyze the behavior of official council website users, using the person-oriented approach. For instance, after the new document website of the city council was launched⁵⁹, it turned out that the data analysis service for local regulatory acts is very popular. This gave them an understanding of what services are a priority to develop. Thus, studying citizens' needs helps to adapt council decisions to reality and make them more effective. After the open data portal was created, Drohobych city council also started to receive much fewer requests for public information⁶⁰.

⁵⁵ TI Ukraine. 2019. The Dynamics of Transparency Growth: How Ukrainian cities have changed over the last two years. Analytical report based on research of transparency in 2017 and 2018: <https://bit.ly/2x2AQl0>

⁵⁶ Islam, R. 2003. Do More Transparent Governments Govern Better? World Bank Policy Research Working Paper, 3077: http://documents.worldbank.org/curated/en/568401468741328131/109509322_20041117183019/additional/multi0page.pdf

⁵⁷ Stern, A. 2018. Open Data Policy and Freedom of Information Law: Understanding the Relationship Between the Twin Pillars of Access to Information. Sunlight Foundation: <http://sunlightfoundation.com/wp-content/uploads/2018/10/alena-white-paper-PDF.pdf>

⁵⁸ Tat-Kei Ho, A. 2002. Reinventing Local Governments and the E-Government Initiative. Public Administration Review, 62(4), pp. 434-444.

⁵⁹ Drohobych city council. Document search: <https://doc.drohobych-rada.gov.ua/>

⁶⁰ Council of Europe Program "Decentralization and Reform of Local Self-Government in Ukraine." 2019. Gallery of Innovations that Change Ukraine. Practice of Drohobych city council (Lviv oblast). "Smart Community": <http://www.slg-coe.org.ua/p16563/>

Civic monitoring

Engagement of the public in the decision-making process **makes for better decisions**. Authorities get more information about the problem. Such decisions are changed in the future less often, since they are in line with the interests of all stakeholders as much as possible⁶¹.

Today, local authorities have numerous tools of public engagement in the decision-making process at their disposal. For instance, in 25 city councils out of 100, citizens can **report unethical behavior**, discriminatory attitudes or a conflict of interest of public officials and employees of municipal enterprises, institutions or organizations.

In one of the least open sectors of city councils' activity -- procurement -- this tool of civic monitoring is the **DOZORRO** portal. DOZORRO⁶² was created and is administered by TI Ukraine with the support of Open Contracting Partnership, Omidyar Network, International Renaissance Foundation, the TAPAS project (Transparency and Accountability in Public Administration and Services; funded by USAID, UKaid and Eurasia Foundation), as well as EBRD's Ukraine Stabilization and Sustainable Growth Multi-Donor Account (MDA) with the aim of controlling the procurement process. Procurement participants can leave feedback available to all portal visitors. City councils that organize procurement voluntarily commit to reviewing and reacting to feedback. This helps local authorities to improve their procurement processes and make them more credible in the eyes of the business, which considers fair rules of the "game" a priority. Supervisory and law enforcement agencies can also respond to feedback⁶³.

In 2018, civil society organizations on the DOZORRO community recorded **thousands of violations in public procurement. The monitoring community usually manages to establish justice in 30% of such tenders**. To identify corruption risks, DOZORRO uses a unique tool -- AI algorithms.

Based on the risk indicators, implemented based on TI Ukraine's recommendations, the State Audit Service of Ukraine automatically receives information on suspicious tenders, publicly verifies them and provides its conclusion⁶⁴. This system allows to identify potential violations quickly and leaves the participants of public procurement with almost no loopholes.

As of the end of May 2019, 22 local self-government agencies (including city councils and their executive agencies) from 100 biggest Ukrainian cities had their registered profiles on the DOZORRO portal.

Case: eliminating discriminatory requirements in healthcare procurement

The DOZORRO community has pointed out corruption risks in healthcare procurement multiple times. One such risk is the requirement that businesses had to obtain letters of approval from medication manufacturers. In reality, this did nothing but hamper the competition, since suppliers that are not medication manufacturers or their subsidiaries or partners could not participate in the tender, while manufacturers decided if they wanted to provide such letters at their own discretion. The letters themselves did not guarantee either timely supply, or high quality of the goods provided⁶⁵.

Even though the Government recommended procuring entities to reject this idea, procurement monitoring showed that they were reluctant to follow through. However, recently, Vinnytsia city council decided to replace this requirement with sanctions for failure to comply with the terms of agreement. This decision was made possible by the joint effort of the city authorities, procuring entities, and the public⁶⁶.

⁶¹ Involve. 2015. The True Costs of Public Participation:

https://www.involve.org.uk/sites/default/files/field/attachemnt/True-Costs-Full-Report2_3.pdf

⁶² DOZORRO portal. <https://dozorro.org>

⁶³ Lakhtionov, I. 2018. How to Restore Justice in Public Procurement: Possibilities of DOZORRO

<https://ti-ukraine.org/en/blogs/how-to-restore-justice-in-public-procurement-possibilities-of-dozorro-2/>

⁶⁴ DOZORRO. 2018. State Audit Service Starts Public Procurement Monitoring Using Risk Indicators:

<https://dozorro.org/news/u-prozorro-zapracyuvali-rizik-indikator-i-dlya-poshuku-pidozrilih-tenderiv>

⁶⁵ DOZORRO. 2019. Demanding to Provide a Letter of Guarantee is Discrimination Rather than Warranty: <https://bit.ly/2Z5NjXi>

⁶⁶ DOZORRO. 2019. Vinnytsia Oblast Eliminates Letters of Guarantee in Medication Procurement: <https://bit.ly/2Z5NjXi>

Eliminating bureaucratic obstacles

Bureaucracy is a typical problem on the local level. Obtaining permits or services and filing applications are often associated with lines, waste of time, low competency, indifference and bribery. Local self-government authorities account for a major part of administrative services. In the municipal sector, they provide services of business registration, resolution of land and housing problems, issuing various certificates, etc.

According to surveys, Ukrainians believe that bureaucracy is one of the biggest obstacles to reforms in Ukraine⁶⁷. International experience illustrates that **implementation of e-democracy tools** significantly reduces the negative impact of this problem⁶⁸. Transparent, available and safe IT services make for cheaper, faster and better provision of administrative services to citizens. Furthermore, the Center for Innovative Development has calculated that **the direct economic benefit from implementation of IT solutions**, such as software for registers for education and dissemination of best practices, **constitutes UAH 5 to 10 million**⁶⁹.

Currently, there are over **250 unique online service projects** in Ukraine⁷⁰. Suppliers of services have quite a good choice, with over 10 possible IT solutions already existing for certain e-services. The NBIT offers a big database⁷¹ of such software developed by the Center for Innovative Development experts. The resource contains information on over 350 e-democracy tools functioning in different Ukrainian cities, as well as on who commissioned, developed and funded those projects.

The City Transparency Ranking methodology contains a number of indicators connected with online access to services (Table 2). Their implementation will allow citizens to receive more services remotely: file applications, sign up to be added to the line for improvement of housing conditions, send applications to educational establishments and social aid services and track their status, and control the legitimacy of auctions. This way, direct contact with public officials is eliminated, and decision-making becomes more clear and transparent.

Table 2. Implementation of recommendations on e-services by cities in 2018.

Indicator code	Implementation criterion/criteria	Number of cities where the e-service works
A16018	The city council has introduced a service that enables citizens to file an electronic appeal, an information request or another document using the Internet.	88
A16021	The city council is registered on the portal www.dozorro.org or a different electronic service where official city council representatives can react to questions, complaints and reports concerning procurement.	49
A16031	There is a system of electronic registration of applications for improvement of housing conditions. The system includes tracking of application status.	6

⁶⁷ Ilko Kucheriv Democratic Initiatives Foundation. 2018. Reforms in Ukraine: Public Opinion:

<https://dif.org.ua/uploads/pdf/3099876305b487fe235b102.39903481.pdf>

⁶⁸ Chen, C. and Ganapati, S. no date. Is Transparency the Best Disinfectant? A Meta-Analysis of the Effect of Transparency on Government Corruption. Open Government Partnership: [http://live-ogp.pantheonsite.io/sites/default/files/OGP_Transparen-](http://live-ogp.pantheonsite.io/sites/default/files/OGP_Transparency-Best-Disinfectant_20180524.pdf)

[cy-Best-Disinfectant_20180524.pdf](http://live-ogp.pantheonsite.io/sites/default/files/OGP_Transparency-Best-Disinfectant_20180524.pdf); OECD. 2013. From Red Tape to Smart Tape: Administrative Simplification in OECD Countries:

https://read.oecd-ilibrary.org/governance/from-red-tape-to-smart-tape_9789264100688-en#page3. Zinnbauer, D. Open Government – Open for Business. Open Government Partnership: https://www.opengovpartnership.org/sites/default/files/OGP_Open-for-Business_20180515.pdf

⁶⁹ Center for Innovative Development. E-Solutions for Communities: <https://cid.center/e-solutions/>

⁷⁰ Litvinova, K. and Maievska, O. 2018. Public Services and Electronic Services for UTC Citizens. Examples. References. Statistics. <https://bit.ly/2wsJ4Jb>

⁷¹ Center for Innovative Development. The National Bank of IT Solutions (NBIT): <https://cid.center/projects/nbit/>

A16062	The official city council website or a special website has the option to file an online application to receive a bed or a service in city social aid institutions (rehabilitation centers, social service centers, at-home social aid, etc.). The service includes tracking of application status.	4
A16083	A regulation, a charter a special tool or procedure enables citizens to report unethical behavior, discrimination (gender-based or otherwise) or the conflict of interest of council members, officials, employees of municipal enterprises, institutions and organizations as well as of community-founded companies with a public share of 50% or more and of organizations which are partly community-funded (a hotline, an electronic form, a special authorized representative etc.).	25
A16095	There is a system of electronic registration of permits for the installation of temporary structures, small architectural forms, terraces etc.	2
A16111	The city administration, its subordinate municipal establishments and organizations has used the system of electronic auctions for sale or lease of property at least once since January 1, 2017 until now.	30
A16123	The official website or a specialized website contains an option to file an online application to receive a place in an educational establishment (such as kindergartens, schools, etc.).	8
A16124	The official website or a specialized website contains a system for electronically tracking applications to educational institutions or a different tool that allows applicants to track their status and check waiting lists online.	20

If online services have so many benefits, why do cities often ignore them?

Firstly, this may have to do with **lack of leadership potential, professional competence or knowledge on available digital opportunities** on site. In practice, it is usually local authorities, not the community, that initiate online services in Ukrainian cities. In 83% of the cities participating in the expert survey held by the Center for Innovative Development together with the Open Cities Association in 2017, it was the local authorities that launched and implemented e-democracy projects⁷². This shows that demand for services is not always the drive behind change. Often, political will combined with the general support of the public is enough.

Case: sign up to a school or a kindergarten using blockchain

Open distribution of places in preschool educational establishments has been implemented in 82 cities, and in 84, there is an electronic form of applications to an educational establishment. Lviv city council decided to go further and introduce the option to sign up to a school or a kindergarten using blockchain. Thus, Lviv has become the first city with more than a million people living in it that started to use this technology⁷³. This approach will make it impossible to forge or lose information due to a special method of storage - in isolated blocks that cannot be forged. The first city in Ukraine where this technology was introduced was Drohobych of Lviv oblast⁷⁴.

⁷² EGAP. 2018. Analytical Notes on Effective Governance. Issue No. 3: E-Democracy on the Local Level: State of Development: <https://bit.ly/2Z049GW>

⁷³ Lviv city council official website. 2019. Lviv Becomes First City with over One Million Citizens to Implement Blockchain in City Management and Services: <https://city-adm.lviv.ua/news/city/lviv-changes/262575-lviv-pershym-sered-mist-milionnykiv-implementuie-v-miske-upravlinnia-ta-miski-servisy-dlia-meshkantsiv-blockchain-rishennia>

⁷⁴ Decision of the executive committee under Drohobych city council of Lviv oblast of 21 February 2019 No. 52 "On Implementation of Electronic Registration for First Grade of Secondary Education and Transfer of Electronic Registration in Pre-School Establishments to Blockchain": <https://bit.ly/2H48anE>

Electronic waiting list to schools with the use of the blockchain technology: <https://school.blogly.com/#/>

Secondly, experts point out that the biggest obstacles to local implementation of electronic tools are the lack of interest from target groups (48% of the respondents), as well as the **high cost of development and maintenance of IT projects** (35%)⁷⁵. However, there are many free resources and platforms, such as electronic petitions and the participatory budget⁷⁶, and benefits from implementation of digital technologies can significantly exceed the expenses.

Case: Kyiv Smart City Initiative

In 2017, TI Ukraine joined the development of the concept KYIV SMART CITY 2020. The document includes implementation of innovative technologies for Kyiv's social and infrastructural development. The city council believes that smart technologies, among other things, speed up decision-making by five times and reduce the number of crimes by 30%⁷⁷. There are numerous digital services in the city now: online appointments with doctors, tracking of municipal equipment, a system of information, online registration at kindergartens, etc.

Recommendations

1. Implement e-services and develop a modern-looking website.

Electronic solutions do not always require significant financial costs. At present, many free IT solutions are available to the community. For example, social organization SocialBoost has developed a platform **Dosvit**⁷⁸, which helps to create modern-looking, official websites, and tailors them according to the needs of each particular community. The platform allows you to, for instance, integrate services such as a participatory budget, an open source budget, an interactive map of utilities, institutions and other facilities in the city, as well as citizen surveys onto your website. Currently, Dosvit is already used in a number of communities in Dnipro, Ivano-Frankivsk, Kropyvnytskyi, Mykolaiv, Ternopil, Kharkiv, and Kherson Oblasts⁷⁹.

Creating a modern, user-friendly website will help reduce bureaucratic burdens and save time. The number of site visitors will surely increase, as it will not only be a source of information, but also an interactive tool allowing for communication for state officials with the community.

2. Study the needs of all those seeking information to ensure the needed information is provided.

For example, you can use professional tools to analyze the behavior of users on your site (so-called thermal

maps). Or use the already prepared data - reports on the satisfaction of requests for information, which local government bodies are obliged to prepare and publish in accordance with the Law of Ukraine «On Access to Public Information,» since 2011 when this law came into effect. Try to identify trends: which topics or sections of the site are most interesting, how is the number of queries or site visitors changing, or how easy is it to find information on your site?

3. Study the experiences of other cities.

One can find many examples of best practices and opportunities for exchanging knowledge. The «Transparent Cities» program actively discusses successful cases of Ukrainian cities at their events, and in materials on their website and social networks⁸⁰. We also created a «Transparent Cities Club,» which aims to motivate cities that are leaders in the rating to continue to actively implement recommendations, to reach the score of 80 points or more, and to share their experiences with other cities. The Competition «Best Local Government Practices,» which is held annually by the Ministry of Regional Development, Construction, Housing, and Communal Services of Ukraine, as well as the Open Data Challenge, a competition for innovative IT projects on the basis of open data, are two other examples from which you can draw inspiration for your projects.

⁷⁵ EGAP. 2018. Analytical notes on effective governance. Issue No. 3: E-democracy on the local level: state of development: <https://bit.ly/2Z049GW>

⁷⁶ Free connection is available, for instance, on the following platforms: "Civic budget" (<http://budget.e-dem.in.ua/#/>), "Consulting the Communities" (https://consult.e-dem.tools/about_us), "Unified System of Electronic Petitions" (<https://e-dem.in.ua/>), "Dosvit" (<http://dosvit.org.ua/>).

⁷⁷ TI Ukraine. 2017. TI Ukraine Joins Project Development of Kyiv Smart City 2020 Concept: <https://ti-ukraine.org/en/news/ti-ukraine-joined-project-development-of-kyiv-smart-city-2020-concept/>

⁷⁸ Dosvit IT platform: <http://dosvit.org.ua/#rec48742211>

⁷⁹ Program "Decentralization Offering Better Results and Efficiency" (DOBRE). 2019. Digital communities. How to reinforce the investment potential of your UTC: <https://decentralization.gov.ua/news/11095>

⁸⁰ Facebook page of the Program: <https://www.facebook.com/transparent.cities.ukraine>

HOW DOES TRANSPARENCY AFFECT TRUST IN ONE'S LOCAL GOVERNMENT?

The authorities in Ukraine are trusted by less than 9% of the population. This is less than in any other country in the world⁸¹. An article with this heading was published at the beginning of 2019 by the Gallup Institute, Inc., a world-known analytical organization. The average trust in government around the world is 56%.

Despite the generally optimistic dynamics of increased transparency of local self-government bodies, **this crisis in trust in the authorities of Ukraine remains**. Traditionally, Ukrainians are more **inclined to trust local government bodies than central authorities**. Thus, 47.3% of citizens say they trust their city or village heads, and 33.8% trust deputies of the local council. However, almost the same number (40.9% and 48.5% respectively) responded that they did not trust them⁸². According

to polls, most city residents believe that local authorities do not adequately inform citizens about the issues that are discussed by the city council nor how taxpayers' money is spent⁸³. **Often, the cause of distrust is the lack of visible results of government institutions, the inappropriate attitude of government employees to citizens, and bureaucracy**⁸⁴.

Why is all of this important? **Trust affects the success of public policies and the support for change among the public**. If public institutions are not trusted, the execution of any decision requires more resources, the community becomes less and less interested in participating in decisions that, as a consequence, gradually lose public support, and civil service in government bodies becomes less attractive to qualified professionals⁸⁵. How can transparency help solve this problem?

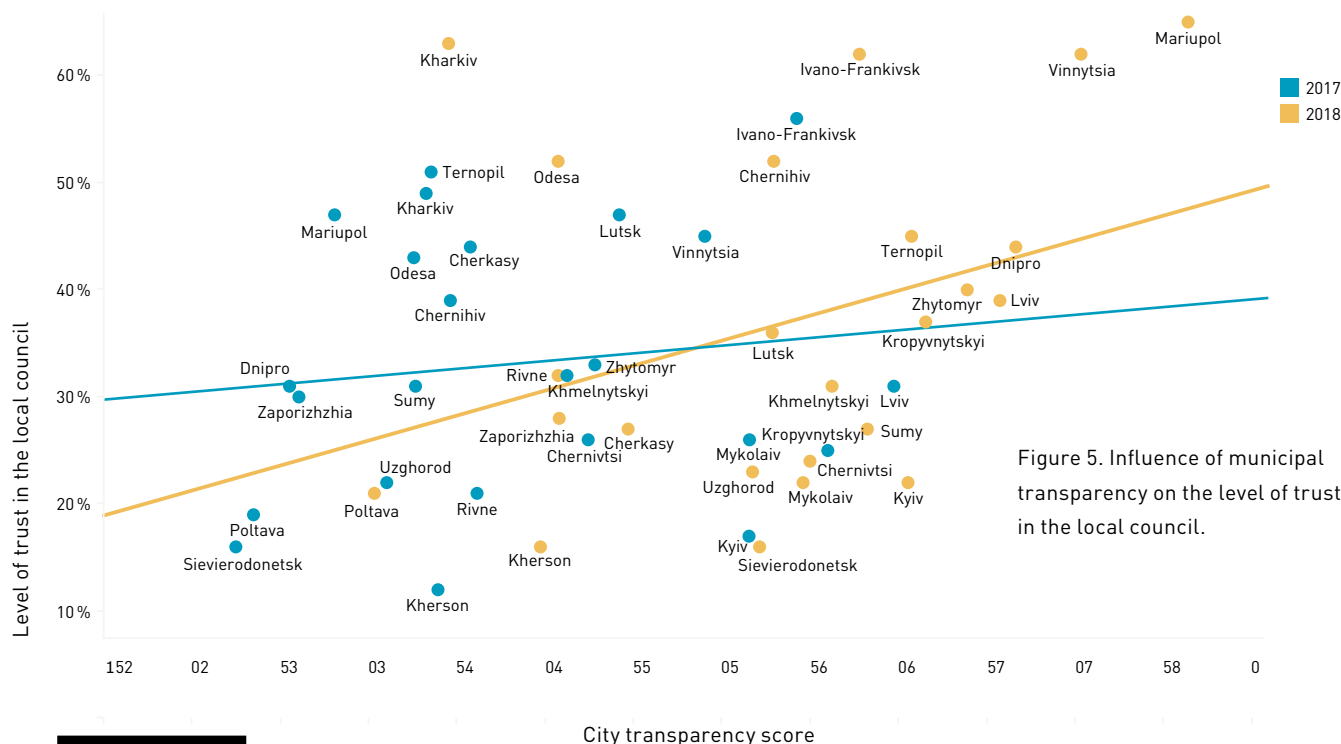


Figure 5 shows the link between the transparency indicators of city councils in oblast centers and the level of trust in these councils⁸⁶. One can conclude that transparent bodies of local government are more trusted than closed ones⁸⁷. How transparent can local communities gain community trust?

First, filling **official websites with information and communication on authorities' actions** is important. Citizens are often not well acquainted with what officials are doing nor the results of local government work. Transparency makes it possible to eliminate this gap⁸⁸. Therefore, the systematic disclosure of data, combined with the active sharing of opportunities for using such data is one way to increase confidence in the integrity of local government bodies.

Second, electronic services are also capable of eliminating risks associated with direct contact with officials and, consequently, positively affect levels of trust⁸⁹.

Case: services for interacting with the public in Odesa and Lviv

Odesa City Council has developed a municipal online platform called "Socially Active Citizen."⁹⁰ The platform offers five services for interacting with the community and engaging citizens in decision-making: e-petition submission and public information access requests, budgeting initiatives, public discussion, as well as SMS-reporting on emergencies, roadblocks, changes in public transport, etc.

Recently, another resource was launched in Lviv, a chat-bot called LvivCityHelper which operates on the basis of open data⁹¹. It provides around-the-clock access to public information: when the street will be repaired, how much money is allocated to the maintenance of a local school, when public transport will arrive at a stop, and who is responsible for servicing a particular residential building.

Recommendations

1. **Proactively publish online information, especially if the official website is the main source of information about the activities of the city council.**
2. **Provide an opportunity for citizens to report on the unethical behavior of officials of the local self-government body.**
3. **Develop different platforms for communication, including social networks.**
4. **Make decision-making processes more understandable and transparent - offer convenient e-services and engage the public.**
5. **Most important: take care of your reputation if you want the community to trust you.**

⁸⁶ Data on the level of trust are based on the results of the Annual Nationwide Municipal Survey of 22 regional centers of Ukraine within the territory controlled by the Government, as well as cities Mariupol and Sievierodonetsk in 2017 and 2018. The data are represented as percentage of respondents who are "definitely" or "rather" satisfied with the mayor or the composition of the city council elected at the most recent elections.

Sources: Rating Sociological Group. Third Nationwide Municipal Survey (20 January – 12 February 2017):

http://ratinggroup.ua/research/regions/tretiy_vseukrainskiy_municipalnyy_opros.html

Rating Sociological Group. Fourth Nationwide Municipal Survey (20 January - 10 February 2018):

http://ratinggroup.ua/files/ratinggroup/reg_files/municipal_survey_2018_final_ua.pdf

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⁸⁸ Porumbescu, G. 2015. Using Transparency to Enhance Responsiveness and Trust in Local Government: Can it Work? State and Local Government Review, 47(3), pp. 205-213.

⁸⁹ da Cruz, N. F., Tavares, A. F., Marques, R. C., Jorge, S. and de Sousa, L. 2015. Measuring Local Government Transparency. Public Management Review, 18(6), pp. 866-893.

⁹⁰ Municipal online platform Socially Active Citizen: <https://citizen.odessa.ua/>

⁹¹ Lviv city council. 2018. Project Team of Lviv Open Data Presents Chatbot Lviv City Helper: <https://bit.ly/31NxBlI>

CONCLUSIONS: HOW CAN WE MAKE TRANSPARENCY “WORK” FOR CITIES?

As our study showed, **the effect of increasing the transparency of local government is not something ephemeral**. Due to the openness and involvement of the community in shaping local policy, Mariupol received 12.5 million euro from the International Finance Corporation. The implementation of one recommendation to increase transparency on average helps cities to attract 0.04% more foreign direct investment. In cities that we consider transparent, residents are more satisfied with the quality of municipal services and trust local government bodies. We hope that this report has convinced you that recommendations for improving transparency are worthwhile and, this is important, that they are profitable to implement. The transparent work of local government bodies is a requirement not only of the law, but also of time.

In the report, we discussed **successful case studies of Ukrainian cities and tools** that will help realize the potential of transparency. These include primarily the ProZorro electronic procurement system, the monitoring portal DOZORRO, e-democracy tools, and IT solutions, such as templates for official websites, information system, and blockchain technology, as well as the exchange of best practices.

It is important to emphasize another conclusion from this study. There is no ready-made recipe for transparency to be transformed into additional revenue, to attract investors, or to build trust in the community. In this process, it is not enough to only publicize the information. As the definition of the concept we presented at the beginning of the report shows, transparency goes far beyond the limits of information openness. Therefore, in order for transparency to bring concrete results, **the involvement and interest of both local authorities and the public is necessary**.

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