Democracy and financial transparency of local governments in Sub-Saharan Africa

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Abstract

Purpose – The study aims at examining the level of financial transparency of local governments in a sub-Saharan African country and how financial transparency is affected by democracy in the sub-region.

Design/methodology/approach – The study applied a panel regression model to data collected from public accounts of 43 local authorities in Ghana from 1995 to 2014. Financial transparency was measured using a transparency index developed based on the Transparency Index of Transparency International and the information disclosure requirements of public sector entities under the International Public Sector Accounting Standards.

Findings – The study finds the low level of financial transparency among the local governments in Ghana, creating information asymmetry within the agency framework of governance. Further, evidence from the study suggests a strong positive relationship between democracy and financial transparency in the local government.

Research limitations/implications – Deepening democracy is necessary for promoting the culture of financial transparency in local governance in sub-Saharan Africa, perhaps in entire Africa.

Practical implications – There is a need for the local governments and governments, in general, to deepen democracy to ensure proactive disclosure of the financial information to the citizens to improve participation trust and eventual reduction in corruption. Effective implementation of the Right to Information Act would also help promote financial and other forms of transparency in the sub-region.

Originality/value – The study contributes to the public sector accounting literature by linking democracy to financial transparency in the local government. Hitherto, studies concentrate on how entity level variables impact on the level of financial information flow in the local government without considering the broader governance infrastructure within which local governments operate.

Keywords Local government, Democracy, Sub-Saharan Africa, Transparency, Financial disclosure, IPSAS, Freedom of information

Paper type Research paper

1. Introduction

Democracy has become a global icon with increasing subscription and endorsement of many countries, including the developing ones (Diamond and Morlino, 2004). In a successful democracy, there is a free flow and access to the public information about government

policies and programmes (Hollyer *et al.*, 2011) and its absence leads to a decline in public trust for the government (Fairbanks *et al.*, 2007). This implies that openness and transparency of government to the citizens in all areas, including financial management, are critical for a successful democracy. In the context of public administration, transparency refers to the ability of stakeholders to find out what is happening within a public sector organization (Piotrowski and Van Ryzin, 2007) and it involves availability and accessibility of information to the public to enable assessment of government performance and actions. Whilst the notion of secrecy is fading out in public administration, transparency is receiving increasing endorsement everywhere (Schauer, 2014).

Abelson *et al.* (2004) suggest that citizens are eagerly looking for accessible and credible information that enhances their ability to contribute constructively to public policy processes. Within the principal–agent framework, duty is imposed on governments to make accurate and relevant information about their operations accessible to the citizens to eliminate the problem of information asymmetry between the government and the citizens. Failure to do so creates citizens' mistrust for the government (Abelson *et al.*, 2004). The need for transparency among citizens is important because it forms the foundation for democratic governance (Hollyer *et al.*, 2011), correlates positively with accountability (Hood, 2010) and serves as an effective disinfectant of corruption (Brusca *et al.*, 2018). Thus, there is growing pressure on the government to demonstrate openness in the deployment of public money because of increasing cases of financial malpractices and corruption in recent times (Guillamón *et al.*, 2011; De Vries and Sobis, 2016). The literature demonstrates that low transparency leads to high corruption (Saxena, 2017; Iyer and R.N, 2017) in the sense that instances of corruption are exposed easily in publicly available data (Levie, 2019).

Adiputra *et al.* (2018) observe that the quality of financial reporting has a significant positive effect on transparency in Indonesian local government. Financial transparency is achieved through active disclosure of information about the organization's underlying economic dealings in a way that is readily understandable by those using the information. In a democratic government, financial information concerning the monies collected, spent and invested are publicly disclosed to enable its citizens to make assessment of the government's demonstration of financial accountability (Adiputra *et al.*, 2018). The availability and accessibility of public information at the local level is essential in the overall perception of transparent government (Armstrong, 2011) because local government is conceived to bring local people closer to the government through increasing participation in the policymaking space and evaluation of accountability of the local government (Dowley, 2006; Crawford, 2009). As much, the local government has a greater need to disclose information about its operations to the local citizens. The disclosure of financial information about local government is critical for the reason that the local taxes are collected from the local citizens for the development of the local community (van Wyk, 2007). The absence of information on how the government spends the public monies is largely construed as corruption and inefficient management of financial resources (Guillamón *et al.*, 2011; Albalate, 2012; De Vries and Sobis, 2016; Saxena, 2017).

Transparency is a prerequisite and a key element of democracy (Rosendorff, 2004; Curtin and Meijer, 2006). Rosendorff and Vreeland (2006) posit that democracies are more transparent than those that are not democratic regimes. Notwithstanding, democracy is new to the governance lexicon of Africa, especially in sub-Saharan Africa. Until the emergence of democracy in Africa, societies were believed to have been socialized on the notion of secrecy to the extent that the principle of freedom of information are stifled in sub-Saharan Africa, in particular (Otenyo and Lind, 2004). African governments turned to be much secretive in their governance practices meanwhile Maret (2011) posits that government secrecy is

antithetical to transparency and an affront to the citizens' right to information and participation in the policy space.

Ghana is the first country to gain political independence in Africa in 1957 and has made many unsuccessful attempts in the past to adopt a competitive political system fashioned on democracy. It was only in 1992 that the country chartered a sustainable democratic path of governance that allows for political competition, the election of executive and legislature as well of rule of law based on the Constitution. Ghana has since become an exemplar of democracy in sub-Saharan Africa (Gyimah-Boadi, 2009; Abdulai and Crawford, 2010). The country has held seven successful national elections over two decades. It is the expectation that the local government in sub-Saharan Africa, particularly Ghana, becomes more transparent with democracy. Notwithstanding, the continent has been afflicted with massive corruption and Warf (2017) confesses that corruption is a highly visible aspect of Africa countries. For example, Ghana was ranked 78th country in the 2018 corruption perception index with a score of 41 per cent (Transparency International, 2018). In the face of rising corruption in Africa, including Ghana, the question that remains unanswered is whether democracy in Africa is incapable of inducing the much-needed dose of transparency to disinfect corruption on the continent? Thus, the aim of the study is to determine the level of financial transparency in the local governments and the effect of democracy on the culture of financial transparency in local governance in sub-Saharan Africa, with a focus on Ghana. The objective is achieved through the use of a panel regression analysis of data collected from 43 Ghanaian local governments. The study contributes to the public sector accounting and governance literature by providing insight into how democracy affects the flow of financial information between the local citizens and the local officials within an agency framework in sub-Saharan Africa.

The remaining part of the paper has been organized into four sections. The next section reviews the literature and this is followed by the methodology section that discusses the research methods and procedures used in achieving the result. The next section presents and discusses the results of the study, whereas the final section provides the conclusion and recommendations.

2. Literature review
2.1 Theoretical underpin
The argument that democracy promotes transparency is often based on agency theory, which is a very popular theory across the social sciences. Agency theory explains the role and behavior of agents in a fiduciary relationship with the principal and makes propositions towards addressing the likely agency problems (Fama, 1980; Fama and Jensen, 1983). The central feature of this relationship is the separation of ownership and control (Fama, 1980). The agency theory predicts the likely existence of agency problems which may undermine the outcome of the relationship. A problem of a principal–agent relationship is the inherence self-interest disposition of an overzealous agent to act in his own best interest rather than the interest of the principal (Schillemans, 2013). In a self-interest seeking mode, an agent is likely not to provide relevant information to the principal to evade monitoring and evaluation rights of the principal, and this creates asymmetric information relationship where the principal fails to obtain the relevant information for proper monitoring of agent's behavior (Miller, 2005). To address these problems, the principal establishes a system that ensures alignment of the agent's interest and reducing information asymmetric problem. This theory provides a theoretical lens for the current study in the sense that citizens–public managers' relationship can be likened to the principal–agent relationship where the citizens are the principal and the managers are the agent. The pubic managers have the tendency to

pursue their own interest in conflict with the citizens' interest, thus withholding information from the citizens to avoid monitoring. In this sense, the provision of accessible financial information about the local government is of citizens' right not a privilege and therefore the local managers have no discretion in determining the amount and kind of information that should be provided about the local government to the citizens. Thus, in this study financial transparency is treated as citizens' right and not privilege within the agent-principal framework.

2.2 Concept of good governance

Governance connotes a complex set of structures and processes through which the goal of public sector management is achieved (Weiss, 2012). The World Bank conceives governance as the manner in which power is exercised in the management of a country's economic and social resources (Weiss, 2012). Further, the international organizations successfully created a dichotomy of governance as "good governance" and bad "governance" based on certain clearly defined indicators (Langbein and Knack, 2010; Weiss, 2012). The absence of good governance indicators such as democracy, transparency, accountability, responsibility, rule of law and so on is taken to be bad governance (Yung, 2012; Melville and Mironyuk, 2016). Sancino *et al.* (2018) posit that good governance is a broad and value-laden concept that drives certain dispositions and actions of the government. Good governance is considered as a tool for improving societal development and reducing corruption (Hooghe and Quintelier, 2014). Whilst there are different principles of good governance in the literature, our study focuses on the nature of power in society (Sancino *et al.*, 2018), in terms of democracy and transparency.

Democracy means different things to different people and it can be examined from economic, social, communitarian and political perspectives (Rahman, 2014). Whilst political democracy is concern about the governance processes within a country, all other perspectives of democracies focus on certain outcomes. For this study, democracy is examined from a political perspective. Thus, democracy is a political system in which crucial government offices such as the executive and legislature are filled through contested elections (Przeworski, *et al.*, 2000). To Dahl (1989), democracy is a unique process of coming up with collective and binding decisions. In a democracy, political competition is encouraged in an atmosphere where incumbents have some chances of losing the elections, and all contestants comply with the results of the elections (Rosendorff and Vreeland, 2006). Democratic regimes pivot around voting equality, enlightened understanding, citizen participation, free information flow and accountability of the government to the people (Geiselhart, 2004). Democratic institutions and processes permit voters to exert pressure on politicians to formulate policies that respond to public needs. Sustained democracy over time deepens the participation of citizens in governance through the free flow of information.

Transparency, on the other hand, is a nebulous concept (Grimmelikhuijsen, 2010), however, it generally means openness or allowance of transmission of light to enhance visibility (Fairbanks *et al.*, 2007). Grimmelikhuijsen and Welch (2012) explain transparency as the disclosure of information by an organization that enables external actors to monitor and assess its internal operations and performance. French (2011) expresses a similar view that an open and transparent government allows information about governmental actions to be easily accessible and understandable. Transparency is about the availability and accessibility of relevant information. Thus, a transparent political regime is one that provides accurate information about itself, its operations, and the country as a whole whilst permitting information to be made available and accessible (Rosendorff and Vreeland, 2006). Many citizens are interested in knowing how the government is spending their money

(Abelson *et al.*, 2004) making financial transparency a critical area for governments. Generally, financial transparency is about the disclosure of all relevant financial information in a timely and systematic manner. The level of government's financial transparency is gauged by the amount of information available in the financial reports of an organization (Guillamón *et al.*, 2011). It involves the disclosure of financial information and the access to such information by the stakeholders (Araujo and Tejedo-Romero, 2016). Financial transparency may take the form of mandatory disclosure or voluntary disclosure (Ryan *et al.*, 2002; Herawaty and Hoque, 2007). Mandatory disclosure refers to the minimum information disclosure required by law or regulations and this leads to passive transparency (Meijer, 2014). On the other hand, voluntary disclosure is the provision of additional information in the financial report or enhancing access to such information in the form and medium that the entity determines appropriate. Voluntary disclosure, according to Meijer (2014), yields proactive transparency.

2.3 Relationship between democracy and transparency
The relationship between political democracy and transparency have been examined in the extant literature. In general, transparency is acknowledged as a tenet of democracy (Curtin and Meijer, 2006; Piotrowski and Van Ryzin, 2007; Fairbanks *et al.*, 2007; Bauhr and Grimes, 2014). Transparency is seen as an element of democracy and that democratic regimes are more transparent than those that are not (Curtin and Meijer, 2006). This implies that there is a positive relationship between democracy and transparency. The close association has led Fung (2013) to develop the notion of democratic transparency, which conceptualizes information politically as a resource to transform the behavior of large organizations in socially beneficial ways. Fung (2013) ascribes four principles to democratic transparency. First, information about the operations and actions of large organizations, such as the government, that is of interest to the citizens should be made readily available to the public. Second, the quantum of available information should commensurate the extent to which operations and activities of the organization jeopardize citizens' interests. Third, the information should be organized and provided in ways that are accessible to targeted user groups. Finally, the social, political, and economic environment of society should be organized in ways that allow individuals and groups to take action based on the information disclosed. Accordingly, democracy offers citizens the sovereign right to know what goes on in government, including financial matters. It empowers citizens to enforce obligations on public organizations to disclose more information to reduce or eliminate information asymmetry within the principal–agent framework.

2.4 Political ideology and transparency
Political ideology has been found to have a strong relationship with transparency (Piotrowski and Van Ryzin, 2007) and this is because governing party's ideology influences information disclosure in a political democracy (Sol, 2013). The political party's transparency disposition is basic to the extent to which information about government is made publicly available and perhaps this has led Cuadrado-Ballesteros and Vaquero-Cacho (2015) to study transparency among political parties in Spain. The result shows that there is a lack of transparency among political parties, especially in relation to financial information and therefore the fight against corruption will be difficult to win. Similarly, Bastida *et al.* (2019) observe that political integrity, which reflects the absence of agency problems between the citizens and the public managers, affects the financial situation of the government. They bemoaned the effect of corruption of mayors of local government on the cost of municipal borrowing in Spanish local government.

This implies that political ideology is capable of influencing the level of transparency of the government. Meanwhile, the findings are inconsistent. Cuadrado-Ballesteros *et al.* (2013) find that left-wing political parties are associated with higher transparency than the right-wing political parties on the ground that left-wing governments defend a larger public sector, thus they are expected to make information readily available and accessible to all the constituents (Ferejohn,1999). Contrary, Araujo and Tejedo-Romero (2016) provide evidence that supports the view that local governments governed by the right-wing party are more transparent than those governed by left-wing parties. The current study joins the debate to provide further evidence on whether the political party influences the culture of financial transparency.

2.5 Population size and transparency
The literature demonstrated that the population of the local government is associated with transparency in local government. Guillamón *et al.* (2011) found a positive and significant relationship between the population of local government and financial transparency. Enikolopov and Zhuravskaya (2007) conclude that smaller local governments were associated with less transparency resulting in increased corruption. The positive influence of the population size of a local government on transparency was confirmed by many studies (Esteller-Moré and Polo Otero, 2012; Styles and Tennyson, 2007; Araujo and Tejedo-Romero, 2016). These studies explained that large local governments may have much pressure from the citizens because of sizeable resources made available to them. Thus, this study expects that the size of the local government will have a positive influence on financial transparency.

2.6 Local government in Ghana
Ghana is a sub-Saharan African country and the first to gain independence from colonial rule in Africa in 1957. Ghana is a unitary constitutional democracy but has suffered from military interventions several times between 1966 and 1992 to cut short the life of three democratically elected governments. It was in 1992 that the 1992 Constitutions of the 4th Republic was ushered into the country's political system. This paved way for a new democratic government system in which ballot boxes have become a norm of choosing persons into the office of President and Parliament. And ever since the system has been jealously guarded, protected and sustained. The country has seized every opportunity to promote the tenets of democracy and invested heavily in deepening democracy at the local levels to ensure participation of the local people in decision-making process (Ahwoi, 2010; Adusei-Asante, 2012). Unfortunately, corruption is high in the face of democracy and the country's fight against corruption seems not to achieve the desired result over the years (Transparency International, 2018). Meanwhile, democracy is expected to promote transparency, which will eventually disinfect corruption in the country.

At the time of the study, the country has 10 administrative regions within which the local governments operate. The regional distribution of the local government is shown in Table I. In Ghana, the local government is categorized in accordance with the Local Government Act 1993 as Metropolitan Assembly, Municipal Assembly and District Assembly (MMDAs) based on the citizen's population and the economic viability of the area. In the categorization, a local government with at least 75,000 people with commensurate economic viability is designated as District Assembly, Municipal Assemblies have at least 95,000 people with tested economic viability whilst Metropolitan Assemblies have at least 250,000 people with required economic viability. The number of MMDAs rose from 110 in 1993 to 216 in 2012 because of the creation of new ones in accordance with the Local Government Act 1993. Therefore, on the onset of the 4th Republic of Ghana in 1992, which is the cradle of

Regions	Metropolitan Assembly	Number of Municipal Assembly	District Assembly
Ashanti	1	8	21
Brong-Ahafo	0	8	19
Central	1	7	12
Eastern	0	10	16
Greater Accra	2	9	5
Northern	1	2	23
Upper East	0	3	10
Upper West	0	1	10
Volta	0	5	20
Western	1	3	18
Total	*6*	*56*	*154*

Source: National Association of Local Authorities in Ghana retrieved from http://countrystudies.us/ghana/104.htm

Table I.
Regional distribution
of local governments
in Ghana

sustained democratic governance, there were only 110 MMDAs existing. The study focuses on these 110 MMDAs as target population because they have existed over the span of the Fourth Republic and therefore met the selection criterion.

3. Methodology

Panel regression is considered most appropriate for the study because of the cross-sectional and time-series attributes of the data set (Gujarati,2013) and de Jager (2008) encourages accounting researchers to explore the benefits of panel regression. The data was collected from 43 local governments over a 20-year period (1995-2014), a period for which data was available. Panel regression was chosen because it combines time series of cross-section observations which gives more informative data with more variability, less collinearity among variables and a high degree of freedom (Baltagi, 1995). In addition, Panel data has the advantage of enabling the researcher to model the heterogeneity across groups which is common in panel data (Gujarati, 2013; Hsiao, 2014). The data was analyzed using STATA 13. The panel regression model specification is:

$$FinT_{it} = \beta_0 + \beta_1 Demo_{it} + \beta_2 Polideo_{it} + \beta_3 Size_{it} + \varepsilon_{it}$$

where
$FinT_{it}$ = financial transparency of enity "i" in time "t";
$Demo_{it}$ = the duration of democracy of entity "i" in time "t";
$Polideo_{it}$ = the political ideology of the government in power that influences entity "i" in time "t";
$Size_{it}$ = the size of the local government "i" in terms of population and economic viability in time "t";
β_0 = the constant;
β_1, β_2 and β_3 = the intercepts of the independent variables, respectively; and
ε_{it} = the error term.

3.1 Measurement of variables

The core variables of interest to the study are financial transparency as dependent variables and democracy, political ideology and population size as the independent variables.

3.2 Financial transparency

This is the dependent variable of study obtained from the financial reports of 43 local governments from 1995 to 2014 using content analysis to develop a disclosure index. Content analysis is a process by which the investigator seeks to examine the content of written or published communication by a systematic, objective and quantitative analysis (Gibson and Guthrie, 1995). According to Gibson and Guthrie (1995) content analysis involves systematic classification and description of communication content (often limited to documentary evidence such as annual reports, published articles and online database) in line with certain predetermined categories, including the development of disclosure index. A disclosure index has been extensively used by scholars in measuring the level of disclosure in annual reports (see, for example, Ryan *et al.*, 2002; Hooks *et al.*, 2002; Cheung *et al.*, 2010). A disclosure index, according to Guthrie and Abeysekera (2006), is a research instrument comprising a series of pre-selected items that, when scored, provide a measure that indicates a level of disclosure for the purpose for which it has been constructed. In developing a disclosure index, Cheung *et al.* (2010) recommend that consideration is given to previous literature when identifying the items that make up the index. Therefore, the study considers the financial transparency index developed by Transparency International (TI) Spain in 2008 (see, for example, Guillamón *et al.*, 2011; da Cruz *et al.*, 2016) together with the reporting requirements of International Public Sector Accounting Standards (IPSASs) in crafting the index for the study.

TI- Spain developed a survey instrument that measures the transparency of local governments of which financial transparency was an aspect of the instrument. The TI-Spain index considers three broad indicators of financial transparency: accounting and budget, revenue and expenditure and municipal debt. The accounting and finance indicator has 11 items covering publications of vital financial information about the municipal. The indicators for transparency on revenue and expenditure were made up of 5 items relating to basic financial ratios of the municipal in relation to revenue and expenditure. Transparency on debt is measured by four items focusing on the analysis and disclosure of the debt status of the municipal.

In respect of the IPSAS, it provides the minimum disclosure requirements of all public sector entities, including the local governments. IPSAS 1 paragraphs 16 and 17 deal with financial information that should be reported in the general-purpose financial statement of public sector entity, which is largely consistent with the TI-Spain index. The key areas that disclosure was required are the source and application of revenues, the financial condition, the cash requirements cost and sustainability of public services and budget information of the entity.

Based on the methodology of these prior indexes, a 20-items financial transparency index was developed for the current study taking into account the local context adaptability. Similar to the TI-Spain's index, our index focuses on five broad areas of transparency of the local government: budget information, financial performance, financial condition, financing and general information. The budget information disclosure is measured by four items relating to the provision of information on the budget in the financial report. Financial performance is measured with five items centered on the publication of information relating to revenues and expenditure. The financial condition assesses the disclosure on cash and other resources, including the payables using three-items. Transparency in terms of financing of the local government considers three items on the source of funding of the entity, clearly providing information on the internally generated revenues, intergovernmental transfers and debt. The general information transparency is assessed based on five-items covering timeliness, auditors' reports, notes on accounting policies and

level of disaggregation of revenues and expenditure. To enhance the validity of the index, the views of three independent accountants in the local government sector were sort on the appropriateness of the items. These experts confirmed all the items but few as an appropriate measure of financial transparency in the local government. Where there were dissenting views, the items were modified accordingly to reflect the general view of the experts.

In relation to the scoring, each item was scored 0, 1 or 2. The value "0" was awarded to an item when it was not disclosed at all in the financial report, "1" is awarded when the item is not explicitly disclosed and "2" when the item is explicitly disclosed. The scores were reviewed by three independent financial experts to ensure the reliability of the interpretations associated with content analysis (Yongvanich and Guthrie, 2005). Where the result of the independent reviewers varies from the assessment made for a given item, a reconciliatory procedure is carried out together with the independent reviewers to reach a consensus on the appropriate scores. Note that the experts used in the scoring are the same as those who had validated the index in the developing stage.

The next stage is the computation of the financial transparency index. The index has been expressed in percentage for each of the local governments involved in the study. Further, the mean financial transparency index was computed to represent the transparency of the local governments in Ghana for a given year. The formula used is given as:

$$FTi = \frac{\Sigma FDi}{EDSi} \ x \ 100$$

where
FTi = financial transparency index of a given local government;
$\sum$FDi = aggregate financial disclosure score obtained by a given local government for a given year; and
EDSi = expected disclosure score (which is the sum of the maximum score for each of the 20-items) for each local government.

3.3 Democracy

There is no agreement on how to measure democracy as the definitions of democracy are far from consensus (Kekic, 2007; Horowitz, 2006; Giannone, 2010). Consistent with Rosendorff and Vreeland (2006), the study used a minimalist definition of democracy which focuses primarily on the role of elections in a political system. In this context, democracy refers to a practice of a political regime in which elections are used to select key officers into political office. This is a fundamental feature of democracy and its continuity may define the success of democracy. A democracy index developed by the Economist Intelligent Unit (EIU) is largely acknowledged as the most comprehensive measure of democracy of states (Unit and Britain, 2011), however, such index could not address the needs of this study for two reasons. First, the EIU index started only in 2006 and therefore does not fit the time span of the current study hence inappropriate for use. Second, the index uses several variables including transparency to construct the index and its use to measure a casual effect of democracy on transparency will create collinearity problems. The most appropriate way to measure democracy is the duration of the democratic period as Rosendorff and Vreeland (2006) argue that it offers an opportunity to explore interesting possibilities. In other words, the study wants to avoid measures of the regime that define democracies as transparent as

this creates multicollinearity problems. Thus, in this study democracy is measured by the duration it has covered. In 1995, for example, Ghana's democracy was three years old therefore democracy was coded as "3" and democracy in 2014 was coded "22". The assumption is that democratic virtues improve with time as more investment is required to sustain it.

3.4 Political ideology
Political ideology in Ghana could be classified conveniently as left-wing and right-wing (Piotrowski and Van Ryzin, 2007). The left wing party is a social democrat that promotes social interventions and inclusion whilst right-wing party has capitalist ideology with a focus on the market forces to develop society. The political ideology of the central government is reflected at the local government level as the President is Constitutionally empowered to appoint the Chief Executives of the local government. Our study proxied the political ideology of the local government in a given year as follows: code of "1" is assigned when the government in power is left-wing and "2" when the government in power is right-wing. The data on the regimes of the political parties were obtained from the Electoral Commission Database, which is publicly available on the website. The Electoral Commission is the state institution solely responsible for conducting national and district level elections.

3.5 Size of local government
The population of local government has been used in the literature to represent the size of the local government (Piotrowski and Van Ryzin, 2007; Araujo and Tejedo-Romero, 2016). In Ghana, Local Government Act 1993 (Act 462) categorized the local governments by population size as Metropolitan Assemblies (250,000 people and above), Municipal Assemblies (95,000 people and above) and District (75,000 people and above). Thus, the data for size is proxied as follows: "3" Metropolitan Assembly, "2" for Municipal Assembly and "1" District Assembly. The status of the local government is explicitly contained in the name of that local government so this helps in easy coding. For example, the Accra Metropolitan Assembly suggests that it is a Metropolitan Assembly hence will be scored 3 points. The categorization of the local government as Metropolitan, Municipal and District Assembly encapsulates wider measures of population and economic viability and therefore the inclusion of any economic specific data such as urban status and literacy rate are found to cause multicollinearity problem. In addition, the information on local government characteristics such as the age of the local government will not be informative as all the local governments involved in the study were assumed to be in existence from the time of the 4th Republic.

4. Results and discussions
This section provides empirical results of the study by using descriptive and multivariate analyses.

4.1 Descriptive statistics
Table II summarizes the descriptive statistics for the dependent and independent variables. The results show that financial transparency has a mean of 30.49 and a standard deviation of 8.14. The mean score of 30.49 per cent implies that financial transparency is low in the Ghanaian local governments. However, the agency theory suggests that lack of information flow between the principal (in this case the local citizens) and the agents (the local officials)

will create a problem of asymmetry in the agency relationship which spurs citizens mistrust for the government (Schillemans, 2013). Financial transparency in governance reduces or eliminates the asymmetric challenges in the relationship. The standard deviation of 8.14 and the range of 17.5 and 55.00 indicate a wide variation in financial transparency among the local governments, perhaps because of size and other differences among the local governments across the country.

An assumption of linear regression model is that the independent variables should not correlate significantly as this reduces the explanation power of the variables (Stock and Watson, 2015). The violation of this assumption creates the problem of multicollinearity. The study checked for multicollinearity first by observing the correlation matrix and second by performing variable inflation factor (VIF) test, which is a widely used measure (Gujarati, 2013). Table III shows that there is a weak correlation between the independent variables suggesting that the multicollinearity problem is unlikely. This was confirmed by the VIF result of 1.19. A VIF greater than 10 indicates the possible existence of a multicollinearity problem (Gujarati, 2013). The correlation results show that there is a strong positive association between financial transparency and democracy ($r = 0.6478$) and size ($r = 0.6805$). It also shows a negative correlation between financial transparency and right-wing political orientation. This implies that where there is a strong democratic culture financial transparency is high.

In panel regression, decision must be made between fixed effect (FE) and random effect as to the most appropriate model to achieve consistent and efficient results. The FE model assumes that each of the local governments selected is different, therefore the error term and the constant (which captures individual characteristics) are not correlated. If the error terms are correlated, then FE is not suitable because inferences may not be correct and one needs to model that relationship using random-effect. Hausman test was therefore carried out to aid the decision and the result is shown in Table IV.

Hausman test hypothesizes that the difference in the coefficient is not systematic. The test result (Chi-square =9.55, Prob > 0.0228) fails to accept the null hypothesis and conclude that FE model is an optimal methodology to use in this study (Katchova, 2013). Thus, FE model was applied in this study.

Variable	Obs	Mean	SD	Min	Max	
FinT	860	30.49128	8.144053	17.5	55.0	
Democracy	860	12.48140	5.777672	3.0	22.0	
Size	860	1.51977	0.658661	1.0	3.0	**Table II.**
Pol-ideo	860	1.40000	0.490183	1.0	2.0	Descriptive statistics

Variables	FinT	Democracy	Size	Pol-ideo	
FinT	1.0000				
Democracy	0.6478	1.0000			
Size	0.6805	0.4401	1.0000		**Table III.**
Pol-ideo	−0.0843	0.0026	−0.1579	1.0000	Correlation matrix

4.2 Panel regression results

The regression result is shown in Table V. A cluster-robust estimates of the standard errors were used in the analysis to address any possible issue of heteroscedasticity. Under the FE model, there is a positive significant relationship between financial transparency and democracy at a significance level of 0.01 (coefficient =0.76028, *p*-value = 0.000). When the AR1 option is applied to the FE model the same conclusion was reached, however, the coefficient and the standard error reduced marginally. The size of the local government was also found to influence financial transparency significantly in a positive manner (coefficient = 3.03338, *p*-value = 0.000). The result under autoregression (AR) option confirms that size is a significant explanatory variable of financial transparency in the local government. However, it resulted in lower coefficient and standard error. The political ideology of the government is found to influence financial transparency at 0.05 level of significance under the FE model (coefficient = −0.78006, *p* value 0.045). This indicates that a right-wing government is less transparent than the left-wing party. However, political ideology is found to be insignificant under the AR option of the fixed model (coefficient =−0.2196804, *p*-value = 0.373).

Thus democracy, size of local government and the political ideology together explained 57.20 per cent of the change in financial transparency at the local government. FE with AR option however reports lower *R*-square of 53.23 per cent. The aim of the AR option is to transform the model to remove the nuisance parameters and leave behind the parameters of interest in an estimable form (Gujarati, 2013; Stock and Watson, 2015). To check the robustness of the estimated relationship between financial transparency, democracy, size and political ideology, two other estimation techniques were used: least square dummy variable (LSDV) FE model and the population average estimator. Whilst LSDV shows a

Variable	FE	RE
Democracy	0.76028 (0.02457)	0.74618 (0.02419)
Size	3.03338 (0.35581)	3.31517 (0.34393)
Pol-ideo	−0.78006 (0.21316)	−0.71982 (0.21299)
Cons	17.48391 (0.55831)	17.14740 (0.84778)
Hausman test	Chi^2 = 9.55; *p*-value = 0.0228	

Table IV.
FE and RE model

		Estimators		
Variables	FE (within)	FE (AR option)	LSDV	Pooled average
Democracy	0.76028*** (0.06312)	0.73791*** (0.05056)	0.76028*** (0.06473)	0.74762*** (0.06128)
Size	3.03338*** (0.84711)	1.94745*** (0.39106)	3.03338*** (0.86868)	3.28630*** (0.79296)
Pol-ideo	−0.78006** (0.36898)	−0.21968 (0.24644)	−0.78006** (0.37838)	−0.72599 (0.36034)
Cons	17.48391 (1.31839)	18.68468 (0.25577)	17.48391 (1.35197)	17.18187 (1.42276)
R-square	0.5720	0.5323	0.8831	–
Model (*p*-value)	0.0000	0.0000	0.0000	0.0000
F stat	115.24	117.20	109.59	–
Wald Chi^2	–	–	–	53.57

Table V.
Regression results

Notes: Significance are denoted as follows: 1% ***; 5% ** and 10% *. Standard errors are shown in brackets below the respective coefficients

very high R-square, the Wald Chi^2 under the pooled average estimator was 53.57, very close
to the FE model with AR option. In line with the earlier result, the significance and the signs
of the coefficient were the same under the FE within and AR models. Therefore, the
relationship between the variables under investigation is consistent and efficient.

Further, a sensitivity analysis was carried out to see the explanatory power of each
independent and controlled variable included in the step-wise model and the result is shown
in Table VI.

Table VI shows that democracy alone explained over 40 per cent of the variation in
financial transparency. An addition of the size of local government in Model 2 improves the
explanatory power to 53.61 per cent and further inclusion of political ideology variable
slightly dropped the R-square to 53.23 per cent indicating that the political ideology offers a
weak explanation of financial transparency in Ghana. In all scenarios, the explanation
power of the model is found to be robust and consistent.

Democracy is found to significantly improve financial transparency and this is
consistent with earlier studies that conclude that democracy promotes transparency (Curtin
and Meijer, 2006; Fairbanks et al., 2007; Bauhr and Grimes, 2014). This implies that as
democracy grows in Ghana, the financial transparency disposition of the local governments'
increases. Therefore, transparency can be improved in the local governments by deepening
the culture of democracy in the country. In extension, when the transparency of the local
governments becomes high corruption and other malpractices in financial management will
be easily exposed, thereby reducing them. Despite the belief that transparency is rhetoric in
Africa because of socialization on the notion of secrecy (Otenyo and Lind, 2004), the results
of the study show that the introduction of democracy has the potential to promote
transparent governance in the local government in the specific and public sector in general.

Further, political ideology is found to affect transparency in the local government.
Specifically, the right-wing orientation of a government makes it less transparent probably
because of capitalist policies that encourage market forces in national development. This
result corroborates the prior conclusions of Piotrowski and Van Ryzin (2007) and Cuadrado-
Ballesteros et al. (2013) but counter the result of Araujo and Tejedo-Romero (2016) which
suggest that local governments governed by right-wing parties are more transparent than
those governed by left-wing parties. Even though the debate continues as to which
ideological orientation promotes transparency, there is a consensus that the orientation of
government significantly affects the level of disclosure to the public (Sol, 2013). In this
regard, the convergence of political ideology on making local government more transparent
should be the concern of civil society organizations and major political parties in the

Variable	Model 1	Model 2	Model 3
Democracy	0.79537*** (0.05262)	0.73815*** (0.05074)	0.73791*** (0.05056)
Size		2.06460*** (0.36662)	1.94745*** (0.39106)
Pol-ideo			−0.21968 (0.24644)
Cons	20.70646 0.19718	18.17523 (0.20773)	18.68468 (0.25577)
R-square	0.4097	0.5361	0.5323
F-statistics	228.4300	171.9600	171.9800
P-value	0.0000	0.0000	0.0000

Notes: Significance are denoted as follows: 1% ***; 5% ** and 10% *. Standard errors are shown in
brackets below the respective coefficients

Table VI.
Step-wise estimation
models

country. The expectation is that the campaign for high transparency is politically indifferent.

The study reveals that the size of the local government has a significant positive relationship with the level of financial transparency of local governments, supporting the position of the earlier studies (Guillamón *et al.*, 2011; Enikolopov and Zhuravskaya, 2007; Styles and Tennyson, 2007; Esteller-Moré, and Polo Otero, 2012; Araujo and Tejedo-Romero, 2016). The size of the local government is found to have a positive impact on transparency probably for two reasons. First, large local government has more pressure from the large constituents to provide information on the resources mobilized from them. In Ghana, for example, the Metropolitan and Municipal Assemblies are located urban areas of the country and therefore are able to collect a lot of monies from commercial activites and other operations. The smaller assemblies, the district assemblies are unable to raise such monies because there are mostly located in deprived parts of the country. Second, large local governments (metropolitan assemblies and municipal assemblies) are more likely to have a cosmopolitan character with higher literacy level and the enlightened citizens may demand more information from the local authority, propelling them to be more transparent. In the District Assembly, the literacy of citizens is low and perhaps less pressure on them to disclose financial information to the citizens.

5. Conclusion and recommendations

The study examines whether democracy affects the level of financial transparency in local governments in sub-Saharan Africa, specifically Ghana. The evidence from the panel regression analysis shows that financial transparency is generally low among the local governments thereby creating information asymmetric problem, an agency problem, in the governance of the local government. Meanwhile, democracy is found to improve financial transparency in local governments in Ghana. In other words, sustained democracy is likely to erode the presumed notion of secrecy of African societies (Otenyo and Lind, 2004). Further, the size of the local government was found to have a significant positive relationship with financial transparency. Large local governments turned to be more transparent than the smaller ones, suggesting that the government makes policies towards the rapid development of rural local governments to promote transparency. Further, political ideology was found to impact transparency significantly at 5 per cent level of significance. Right-wing political orientation is associated with less financial transparency in the local government, probably because of the market inclination such as new public management policies. The overall implication of the study is that a well functioning democracy is inherently transparent, and this may serve as a disinfectant of corruption. Probably, African countries are unable to deal with corruption because of weak democracy with the resulting low transparency (Brusca *et al.*, 2018).

As a practical implication, we recommend that the fight against corruption in Africa should begin with the enhancement of democracy that supports the free flow of financial information to the citizens, as this increases the chances of the citizens finding out corrupt acts within the government. Governments should direct efforts toward creating sustainable democracy so that financial transparency could become the norm in the local governments and the public sector at large. A way of achieving financial transparency in government is to promote open government through e-governance policies that require all local governments and other public sector entities to publish their financial information on their websites and social media platforms. Currently, the practice is for entities to submit their financial information to the limited number of public institutions such as the Minister of Finance, the Controller and Accountant General, the Auditor General and Minister of Local Government

and Rural Development. Another way is for central government to promote the adoption and implementation of the IPSASs in the local governments and across the entire public sector to enhance the quality of financial information disclosure to the citizens.

We also recommend that passage and operationalization of Freedom of Information Law (FOL) are necessary to promote the culture of financial transparency in Ghana and sub-Sharan Africa. FOI law is known to reduce corruption and increasing the chances to detect corrupt actions through increasing information flow between the public officers and their principals in an agency relationship (Peisakhin and Pinto, 2010; Worthy, 2013; Cordis and Warren, 2014). As an exemplar, Ghana has recently enacted the FOL (titled Right to Information Act 2019, Act 989) but its operationalization is yet to take effect.

Furthermore, we recommend that local governments and other public institutions should be well resourced and strengthened to enable them to meet the information disclosure obligation imposed on them as our result shows that large local governments are more transparent. The question of how much efforts are being made by local governments in sub-Saharan Africa to become transparent begs for research. The study, therefore, recommends a study into the strategies that governments are putting in place to advance open and transparent governance in Africa.

Our study focused on how democracy can improve financial information between the local citizens and the local officials within the agency framework. Corruption may produce immunity to transparency as its disinfectant and therefore future accounting researches are encouraged to focus on how auditing and auditors step up the fight against corruption within the public sector. Interestingly, corruption is not only found inside the government, but in other non-parastatals and therefore research on corruption and transparency should be directed to these unassuming segments of the public sector.

We noted some limitations of the study. Firstly, formulation and application of disclosure index require the use of judgement which brings forth to some subjectivity in the estimation, however, this is minimized by the involvement of independent experts during the formulation and the application stages of the index (Yongvanich and Guthrie, 2005). Secondly, in an attempt to measure democracy, the study used the duration of democracy in Ghana as a proxy with the assumption that democracy improves with repeated elections. However, a democracy index that captures comprehensive democratic data might have been most appropriate but such data is either unavailable or has equated transparency to democracy that is likely to cause collinearity issues. The study went around this problem by using the duration of the democracy measured in years as a proxy. A similar measure of democracy was used by Rosendorff and Vreeland (2006), arguing that the use of the minimalist approach to defining democracy provides interesting possibilities.

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