



The Distinctive Roles of Public Financial Information Transparency and Certification

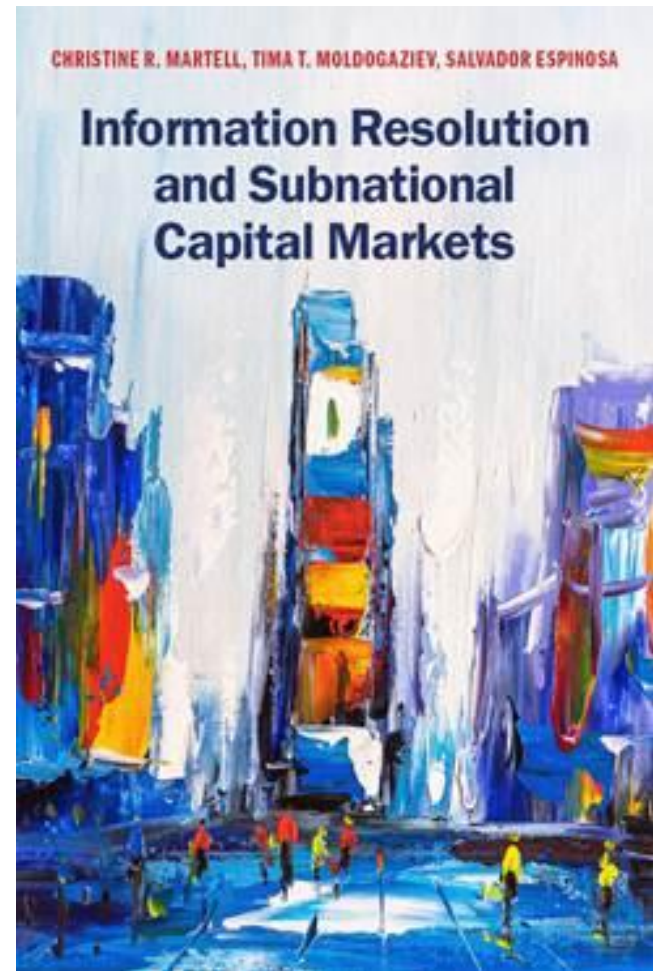
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SECTION 1

The Context

Background and Motivation

- The “project”: What facilitates SNG access to external capital resources?
- “New Masters of Capital”: Why is pessimism unhelpful?
 - Cities do provide critical services, often capital-intensive ones, to more than half of the planet’s population.
 - They must utilize both internal and external resources: Many do so in organized markets, others do it in emerging, unstructured contexts.
- Information resolution matters for aggregate SNG debt volume—52 countries; in addition, higher credit quality matters for debt volume and debt composition for about 80 cities.



Theory: Information resolution

- Rajan and Zingales (1998): “Who’s Capitalism Is It Anyway?”
 - Credit in low-information and low-disclosure environments, if it exists, does not reflect risks.
 - From no credit to relationship-based credit to arm’s length credit--the role of information resolution.
 - Conditional on information resolution institutions in the environment, “contractibility” becomes possible.
 - Interaction between contractibility and capital availability (from local users to global supply): from no market to an efficient market.
- Information resolution is key for moving toward arm’s length → **high contractibility & high capital availability**.



Theory: Information resolution

- Information Resolution (Macro) context matters.
- While cities operate within national contexts, they may utilize credit quality resolution mechanisms (Tools), both public and private, which relate to debt activity and composition.
- This may be required for capital market access, or regulatory guidelines. At times, it simply makes sense to use external resources, whether debt or co-financing.
 - ‘Glocalization’ as a process, whereby global financial intermediaries connect localities to capital worldwide.
 - Financial innovations and requirements for specific information.
 - Even if not needing or wanting a credit rating, gaining competence and agency vis-à-vis financial sector firms is key to delivering on fiscal governance tasks, for example financial resilience.



Evidence on Information resolution

- We are familiar with what goes into international public finance city fundamentals (Martell et al. 2021; Ivonchyk & Moldogaziev 2021). This universe is expanding.
- Most recent public finance research is shifting to “sustainable finance” and “financial resilience measurement”.
- Local governments and cities can become resilient to bounce-back and/or bounce-forward (Barbera & Colleagues; Hines et al. 2021).
- Cities must deal with inconsistencies in central government attention to climate change and the increasing role of local governments in service delivery and infrastructure provision (Batty 2008; Godchalk 2003; Meerow et al. 2015).



SECTION 2

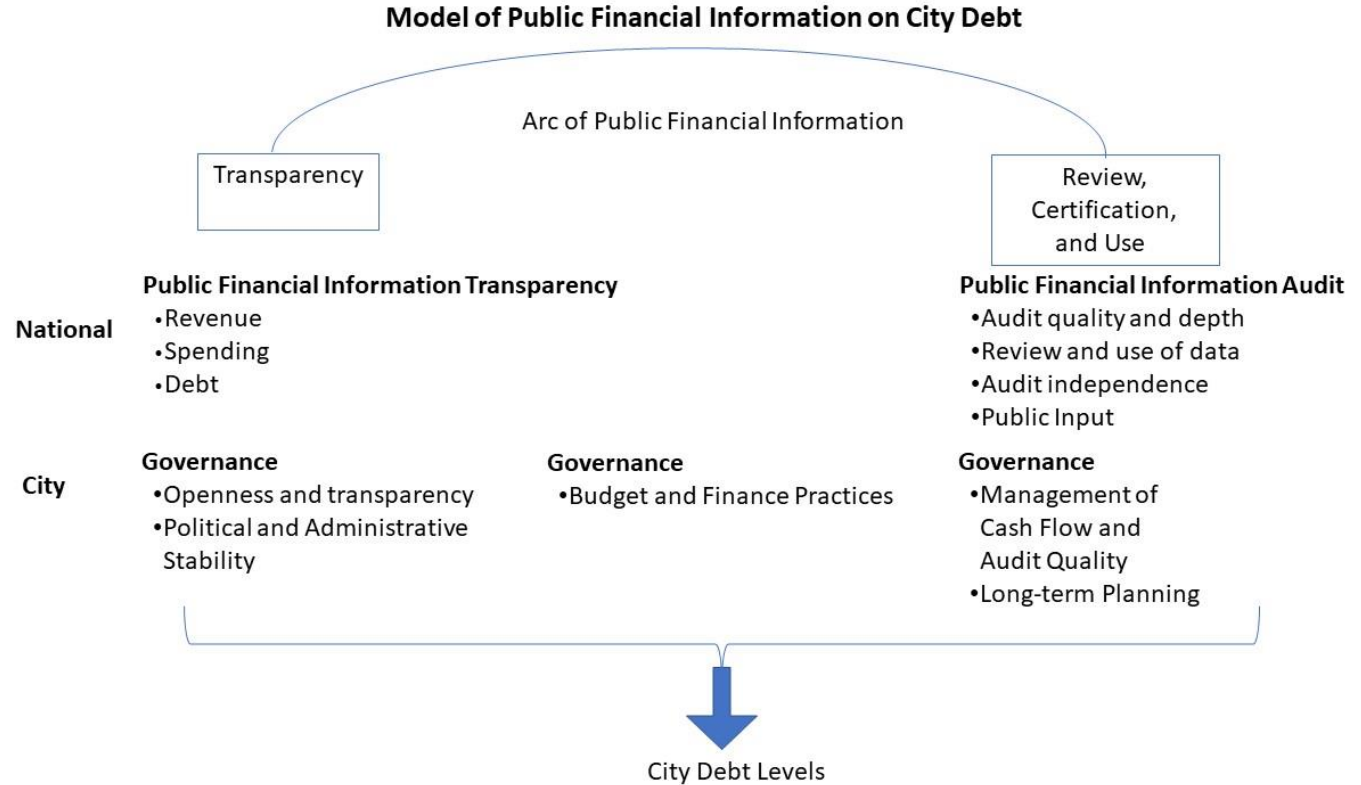
Current Study

Beyond Transparency: Gaps in Broader Literature

- Prescriptions and attention has been primarily on top-down policies and transparency
- Public Financial Information institutions and SNG borrowing not evaluated
- “Paternalism” and “control”?
 - Does not leave room for “agency”.
 - Open to stories that SNGs are servants to “masters”.
- Bottom-up processes are ignored, as is information resolution beyond transparency.



The Information Arc



Expected Relationships

- National or System level: Hypotheses
 - PFIT vs. PFIC
- City level (could also be the SNG level in many countries): Hypotheses
 - Management openness and transparency vs. Quality of cash flow management/accounting/auditing.
- Additional story: Does the level of economic development matter?



Data and Measures

- Sample and years: 59 cities (29 countries) during 2007-2016
- PFIT and PFIC, and their sub-components (not an annual measure)
- City level transparency and certification measures.
- Final data set consist of national surveys for context measures, national/macro indicators, city level financial data, and credit reports
- Panels are unbalanced and not random, feature micro-numerocity



SECTION 3

Research Methodology

A model of city debt: Bayesian GLM FE models

$$\underline{\ln(\text{CityDebt}_{it})} = \mathbf{x}'\boldsymbol{\beta} + \gamma_t + v_i + \epsilon_{it}$$

$$\epsilon_{it} \sim \mathcal{N}(0, \sigma^2)$$

$$\beta_j \sim \text{flat} \tag{1}$$

$$\gamma_t \sim \text{flat}$$

$$v_i \sim \text{flat}$$

$$1/\sigma^2 \sim \mathcal{G}(0.001, 0.001)$$



Methodological Approach

- Why Bayesian GLM vs. “frequentist” panel regressions? See--Gill (2001) and Gill and Witko (2013)
- Robustness models are in the appendix



SECTION 4

Empirical Results

Figure 2. Posterior HDI Summaries for the Covariates of City Debt, National Focus: Transparency and Certification Covariates.

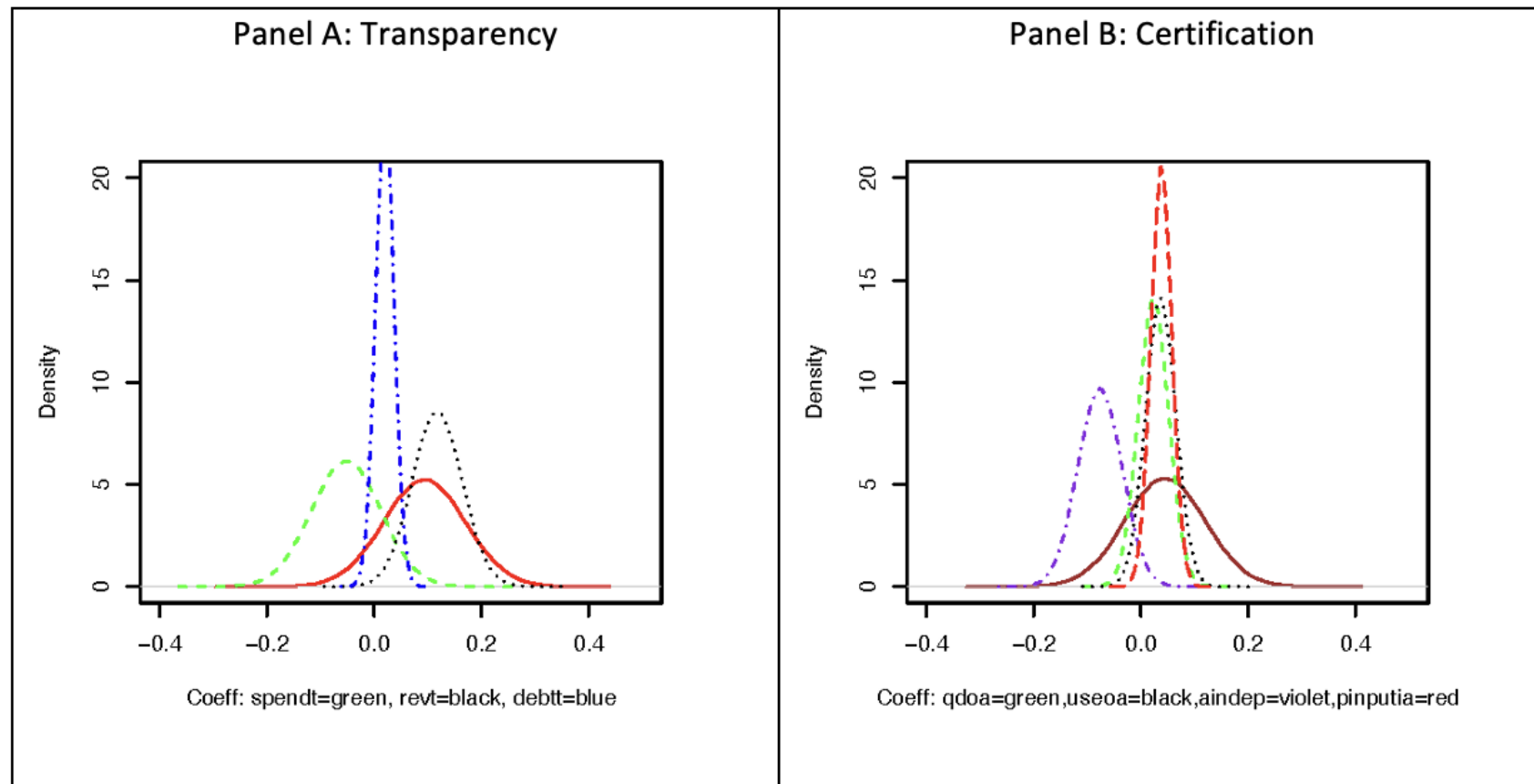
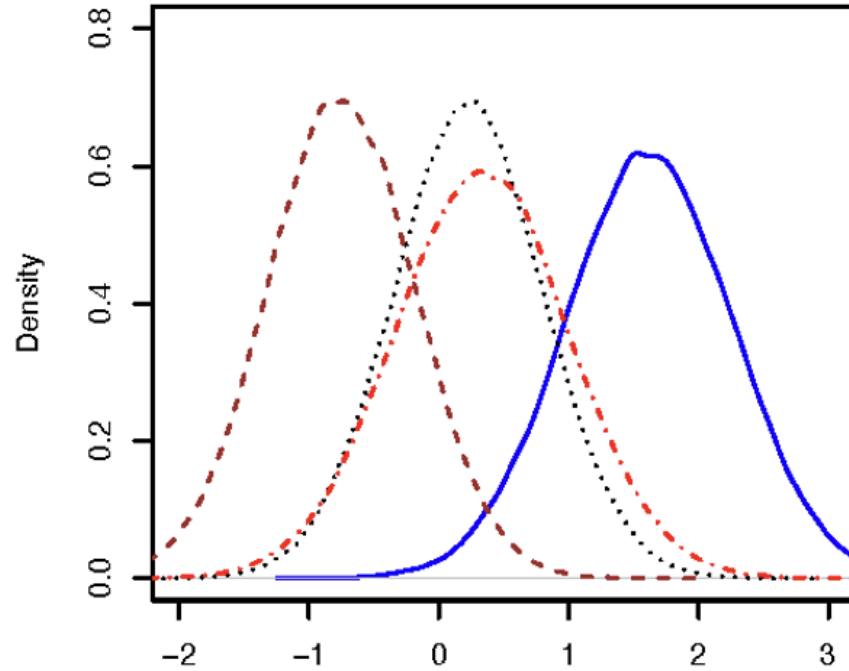


Figure 3: Posterior HDI Summaries for the Covariates of City Debt, City Level Focus: Management Covariates.



Coeff: GOT=blue,MCFAQ=brown,BAFF=black,LTP=red



Implications to Theory and Practice

- Both top-down and bottom-up pressures are at play
- Both ex ante and ex post information resolution is important
- In developing economies, political and managerial stability as important as transparency.



Implications to Theory and Practice

- City agency is possible and real
- Auditing and accounting of information are as important as ex ante transparency
- But subcomponents of transparency and certification must be better understood for cities to truly understand the levers at their disposal
- Get into other ways of measuring not only the “management” quality at the city level, but it’s varying facets
- Are cities different from other forms of SNGs?



Thank You!

Questions and Comments?

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