

## Expanded abstract

# Does more transparency lead to better management of public resources? The example of Spanish municipalities

### Objectives

The financial crisis that began in 2008 and the appearance of numerous scandals related to the management of public funds have made transparency and accountability key issues in the study of everything that is classified as public. This has occurred in the hope that transparency would improve the information provided by public entities and serve as a barrier to fraudulent political manoeuvres, for which public budgets, among other tools, are used. Therefore, the main objective of this research is to check whether the efforts made in recent years, both at governmental and citizen level, to demand more budget transparency from public administrations have really translated into better management of public resources.

### Methodology

For our analysis, we have selected a sample of 100 Spanish municipalities for the period 2008-2017. We focus on Spanish local governments because Spain is a decentralised country and because this level of administration has the power to establish and manage its own budget. Moreover, taking into account the limitations for data collection with respect to budget transparency, we only used the most populated Spanish municipalities. Specifically, these 100 municipalities were the ones selected by Transparency International (TI) to elaborate the Municipalities Transparency Index (MTI) in its first edition in 2008.

TI publishes its transparency index on the basis of compliance or non-compliance with 80 indicators divided into different areas, publishing a transparency indicator for each one of them. In this paper, in particular, we use the economic-financial transparency index as the main independent variable, which includes the disclosure of accounting and budgetary information, as well as information on expenditure, revenue and financial debt, making it an indicator that meets the definition of budget transparency. In line with previous literature, we have assessed the financial management of local governments using four different indicators: budget balance per capita, debt per capita and budget deviations in revenues and expenditures. Thus, we have proposed four panel data models (one for each indicator), which we have estimated considering either the Fixed Effects or the Random Effects method, depending on the requirements of each of these models.

## Results

In three of the four models, budget transparency has been found to be significant. In particular, it appears to be relevant in explaining the budget balance per capita, revenues deviations and debt per capita. Thus, it is observed that more budget transparency implies a lower deficit or, in other words, a higher budget balance, i.e. the more transparent municipalities have a positive budget balance or, at least, a deficit that is not as large as that of the opaquer local governments.

Our results also show that budget transparency prevents local governments from over-budgeting the revenues they expect to receive and from inflating their accounts to have a higher expenditure ceiling. Thus, more transparency leads in many cases to higher revenues than budgeted, reconfirming that more transparency is correlated with lower deficits (or higher surpluses).

Finally, our results reveal the importance of transparency in local government indebtedness. It is true that a priori they may contradict most of the literature, which postulates that more transparent municipalities are less indebted; however, from our point of view, and taking into account our findings, it could be thought that this indebtedness is not intended to cover the current deficit (i.e. that this debt is not to cover current expenses), but to make investments. Our reasoning makes sense if we think that the more transparent and therefore less loss-making local governments, according to our results, will want to make investments that allow them to grow and improve the provision of the services they offer, for which they need to borrow (the surplus is not usually excessive in most cases, or at least not enough to make certain investments). In this way, these local governments will be able to borrow money and, moreover, they will be able to obtain it relatively easily given the “favourable” position of their accounts and the reliability that a high degree of transparency gives them. In any case, it should not be forgotten that the use of debt to finance investments requires compliance with certain rules related to financial sustainability and budgetary stability.

## Conclusions/Implications

In view of our results, everything seems to indicate that budget transparency does have a positive influence on the management of public resources, since our models show that it is more favourable in more transparent municipalities. However, it should be noted that in some cases the estimated values, although statistically significant, are too low to infer a significant change in management, or at least not as much as we would like, as a consequence of greater transparency.

Our results show that transparency measures appear to be effective or potentially effective, but may need further development. In this sense, we believe that transparency rules must necessarily be accompanied by other complementary policy measures and, of course, by the will to implement them. Taking this into account, and adding the fact that the last law enacted in this regard is from 2013, we believe that it is more than reasonable to think about the need

to update this legisla-tion and to implement a greater number of measures of a political and administrative nature to accompany it.

It is clear that existing legislation is the first step towards improving public management, but updating it, passing new laws and, above all, measures to accompany their application are the next step towards what is already getting closer and closer: greater transparency in our institutions and their better functioning. In short, we believe that there is still much to be analysed in relation to the final effects that the demanded budget transparency has had on our public institu-tions, and this and other studies in this respect are only an initial contribution to this.

## **Limitations/Future research**

We believe that future research should aim to measure transparency in more municipalities (in-cluding smaller ones) and over more years, in order to corroborate the results found in our study. Moreover, taking into account the multidisciplinary nature of the transparency indices developed by TI, we believe that it would also be interesting to use other indicators of municipal transparency, in addition to economic and financial transparency, as independent variables to determine which are more significant in each case. We also think that local management could be analysed through other indicators such as efficiency in the provision of public services or management performance indices. The latter could be of a non-financial nature and would include, among other issues, for example, the speed of service provision to citizens, satisfaction surveys of inhabit-ants or other techniques that allow us to evaluate public management from a non-financial point of view.