

Government Choices of Debt Instruments

LAYNA MOSLEY 
Princeton University, USA

AND

B. PETER ROSENDORFF
New York University, USA

Governments borrow from a range of creditors—commercial banks, sovereign bondholders, official bilateral creditors, and multilateral financial institutions. Sovereigns' creditor portfolios vary significantly across space and time. While creditor portfolios partly reflect supply-side considerations (macroeconomic profiles and associated default risk), they also reflect governments' preferences over fiscal transparency. Governments that prefer to disclose less information about economic outcomes will choose borrowing instruments that are less public, such as private loans from banks (versus bondholders) and official sector borrowing from bilateral (versus multilateral) creditors. Empirical analyses of government debt composition across developing nations confirm these predictions. We also find support for our claims at the subnational level, using data from Mexican municipalities. We treat various types of credit (bilateral lending, multilateral finance, and sovereign bonds) as related, rather than distinct.

Los gobiernos obtienen préstamos a través de una serie de acreedores: bancos comerciales, tenedores de bonos soberanos, acreedores bilaterales oficiales e instituciones financieras multilaterales. Las carteras de acreedores de los bonos soberanos varían significativamente a través del espacio y el tiempo. Si bien las carteras de los acreedores reflejan, en parte, consideraciones del lado de la oferta (perfiles macroeconómicos y riesgo de incumplimiento asociado), también reflejan las preferencias de los gobiernos en materia de transparencia fiscal. Los gobiernos que prefieren divulgar menos información acerca de los resultados económicos preferirán obtener préstamos a través de instrumentos que sean menos públicos, tales como préstamos bancarios privados (en contraposición a tenedores de bonos) y préstamos oficiales sectoriales de acreedores bilaterales (en contraposición a multilaterales). Los análisis empíricos de la composición de la deuda gubernamental llevados a cabo en países en vías de desarrollo confirman estas predicciones. También encontramos apoyo para nuestras afirmaciones a nivel subnacional, utilizando datos de municipios mexicanos. Tratamos varios tipos de créditos (préstamos bilaterales, finanzas multilaterales, bonos soberanos) considerándolos como relacionados entre ellos, en lugar de considerarlos distintos.

Quand il s'agit d'emprunter, les gouvernements s'adressent à un éventail de créanciers : les banques commerciales, les porteurs d'obligations souveraines, les créanciers bilatéraux officiels et les institutions financières. Le portefeuille d'obligations souveraines des créanciers varie grandement en fonction de la date et du lieu. Bien que les portefeuilles des créanciers reflètent en partie les considérations relatives à l'offre (profils macroéconomiques et risque de défaut associé), on y décèle également les préférences gouvernementales en matière de transparence fiscale. Quand un gouvernement préfère limiter sa communication sur les résultats économiques, il favorise les instruments d'emprunt moins publics, comme les emprunts privés auprès de banques (et non de porteurs d'obligations) ou les emprunts dans le secteur officiel auprès de créanciers bilatéraux (et non multilatéraux). Grâce à des analyses empiriques de la composition des dettes publiques dans les pays en voie de développement, nous confirmons ces hypothèses. Au niveau sous-national, des données issues de municipalités mexicaines permettent également d'étayer nos affirmations. S'agissant des différents types de crédit (emprunt bilatéral, finance multilatérale, obligations souveraines), nous nous intéressons à ce qui les unit, et non ce qui les distingue.

Introduction

Nearly all governments borrow to finance their activities. However, the ways in which they borrow vary markedly:

Some governments access credit mostly from official sources (international financial institution (IFI)s or individual governments), while others seek capital largely from private sources (commercial banks or buyers of sovereign bonds). Government choices among financing instruments have important implications for governments' policy-making autonomy (Mosley 2003b; Stone 2008), as well as for exposure to and the resolution of debt and financial crises (Ballard-Rosa 2020).

Creditor composition partly reflects supply-side considerations: Underwriters of government bonds, for instance, are unwilling to offer such instruments to each and every sovereign. Yet all, but the weakest borrowing governments have some agency in choosing from where to borrow. We know surprisingly little, however, about the demand-side process which drives governments' borrowing choices. International political economy scholars have largely treated developing country governments as price-takers, with

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little agency relative to supply-side creditors (Ballard-Rosa, Mosley, and Wellhausen 2021). Domestic politics is viewed as affecting the allocation of finance via creditors' assessments of default risk or willingness to impose loan conditions (Beaulieu, Cox, and Saiegh 2012; Mosley 2003b; Stone 2011). The relative inattention to demand-side factors also reflects international political economy's siloed approach: IFIs, sovereign bond markets, and foreign aid (which includes concessional lending) are treated as distinct entities.

Borrowing governments, however, make choices across potential sources of financing, considering their costs and benefits. These choices are informed by the logic of political survival. Motivated by domestic political dynamics, governments vary in their desire to obfuscate their fiscal policy choices. All else equal, they will choose credit instruments with features that align with their preferences over disclosure versus opacity. Some leaders benefit from greater transparency—competent executives presiding over economic booms, for example—and will choose debt instruments consistent with these preferences. Others benefit from greater opacity—perhaps economic policy benefits insiders or elites—and these governments tend to prioritize financing sources which involve less public disclosure of debt commitments, even when these sources of credit are more expensive.

Transparent leaders will be more likely to borrow on the sovereign bond market rather than from commercial banks; with respect to official credit, such governments seek financing from the official multilateral institutions rather than bilateral creditors. Leaders who prefer more opacity (induced by their specific domestic political constraints) prefer a different portfolio—more private bank and more bilateral official borrowing. We test these hypotheses with a study of non-Organisation for Economic Co-operation and Development (OECD) countries from 1980 to 2015. Using the World Bank's International Debt Statistics (IDS), we find that fiscal transparency is a strong predictor of the choice of borrowing instruments. Countries with less transparent fiscal institutions and practices tend to exhibit a greater reliance on bank borrowing within private credit, as well as a greater share of bilateral borrowing within official credit. This finding is remarkably robust to alternative proxies for fiscal transparency (such as subscription to the International Monetary Fund [IMF]'s Special Data Dissemination Standard [SDDS] or the adoption of freedom of information [FOI] laws) to alternative estimation specifications (from Ordinary Least Squares [OLS] and seemingly unrelated regression [SUR] models to differences-in-differences designs) and to alternative controls for the degree to which the sovereign borrower is credit-constrained.

To address the risks to inference that inhere in cross-country statistical analyses, we also test—and find support for—our claims at the subnational level, where presumably unobserved heterogeneity is reduced. Mexico offers a good case to test our argument: Its municipalities not only have the independent ability to borrow, but also often choose between accessing the bond market and commercial banks. These analyses confirm that bond credit as a share of total private credit rises with municipal-level transparency.

Our findings also suggest that international financial markets may not create incentives to improve domestic institutions (Eichengreen and Leblang 2008; Queralt 2022). Rather, governments with a desire to obfuscate, and perhaps facing pressure from the IFIs or bond market investors to improve their domestic informational environments, can circumvent such pressures by accessing bilateral credit or commercial bank loans. Moreover, global market conditions can further dampen incentives to disclose: When global liq-

uidity is high, low transparency borrowers are even better able to access credit markets. This suggests another pernicious effect of capital market booms.

Borrowing governments determine not only how much but also from whom to borrow, with an eye on political survival, suggesting a *domestic* political economy of government finance. States are active players in their own financing strategies on competitive international markets, rather than as passive recipients of market assessments (Campello 2015; Kaplan and Thomsson 2017). As such, this analysis contributes to an emerging literature on the *financial statecraft* of debtor governments (e.g., Bunte 2019; Kaplan 2021; Zeitz 2021). Our analyses also underscore the importance of treating sovereign credit as a broader phenomenon than bond-based borrowing, or infrastructure projects via Chinese lending. Governments make choices across financing instruments; scholars of sovereign finance therefore should broaden their analytical frameworks to include not only sovereign bonds, but also multilateral development bank lending, bilateral credit (sometimes with elements of foreign aid), and commercial bank (sometimes with resource-backed) credit.

The Domestic Politics of Sovereign Finance

Political leaders fund government activities via taxation (on income, consumption, and imports), “unearned” income (resource rents, the profits of state owned enterprises, or foreign aid), or borrowing. While taxation may contribute to state-building, taxes are often politically costly as well as consequential (Flores-Macías and Kreps 2017; Levi 1989). Other windfalls, such as oil or aid, are not always available.

Borrowing is different in that creditors expect repayment,¹ often made via future tax revenues or resource rents.² Whether to smooth expenditures, to engage in counter-cyclical fiscal policy (Alesina and Passalacqua 2015), to buy political support (DiGiuseppe and Shea 2016; Arias 2019), to finance wars (Slantchev 2012), or to address balance of payments deficits, leaders usually have access to credit.

Yet there is substantial heterogeneity—even among low- and middle-income countries—not only in how much governments borrow, but also from what sources they borrow. Leaders can access private debt markets, which include bonds that are typically publicly issued and traded in secondary markets; and loans from commercial banks and other financial institutions. Governments also may draw on private credits from manufacturers, exporters and commodity traders. Alternatively, leaders can seek funds from official creditors, including IFIs (such as the World Bank and regional development banks) as well as bilateral creditors (national governments and government agencies, including national central banks and export credit agencies).

Within the subset of borrowing from private sources, sovereign bonds were most common during the last 2 decades, expanding to more than 50 percent of private sovereign lending (see figure 1). Especially in periods of high global capital market liquidity, many lower-income sovereigns have been able to join the ranks of sovereign bond issuers (International Monetary Fund 2018; Zeitz 2021).

There also is variation across time within official lending. Recent decades have witnessed a significant decline in the

¹ We treat borrowing as distinct from other forms of non-tax revenue, such as resource-based revenues; Morrison (2014) treats all non-tax revenue as somewhat equivalent.

² Ricardian equivalence suggests that borrowing today reduces private spending today in anticipation of future taxation.

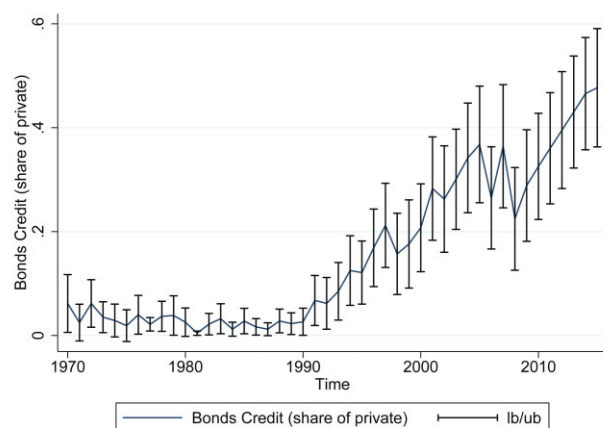


Figure 1. Private borrowing: Bonds versus Commercial Banks.

Note: Error bars indicate 95 percent confidence intervals around each year's mean value.

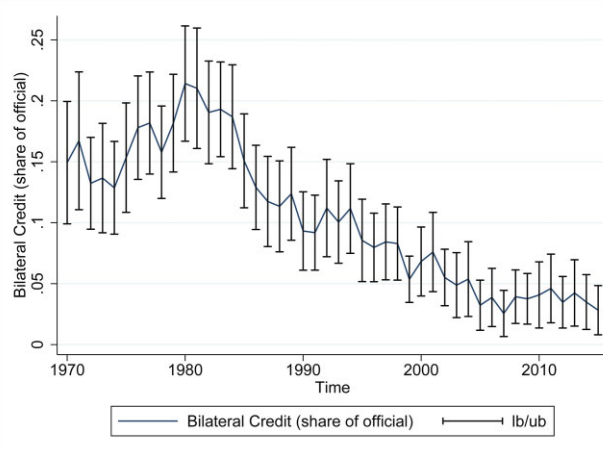


Figure 2. Bilateral versus multilateral official borrowing.

Note: Error bars indicate 95 percent confidence intervals around each year's mean value.

share of bilateral lending in total official credit. This is strikingly evident in figure 2, although the more recent rise of China as a bilateral creditor has offset some of this decline.³

While there is a growing literature on governments' choices among tax instruments (e.g., Bastiaens and Rudra 2016; Scheve and Stasavage 2016), much less is known about government decisions regarding borrowing. On the supply side, we know that professional investors are attentive to political institutions and events, as well as to peer group effects, when evaluating the risks associated with government bonds (Brooks, Cunha, and Mosley 2015; Ballard-Rosa, Mosley, and Wellhausen 2021; Gray 2013). And in the foreign aid sector, domestic publics' concerns over burden-sharing and control affect the choice between multilateral and bilateral aid delivery (Milner and Tingley 2013). Similarly, Schneider and Tobin (2020) suggest that the provision of bilateral bailouts—often in conjunction with multilateral loans—is constrained by donors' domestic audiences. These accounts, however, typically say much less about demand-side processes in debtor countries. Moreover, in analyzing

the political economy of sovereign borrowing, political scientists have focused their recent analyses on bond markets as the prominent form of (at least private) credit. For developed economies, private market bond finance indeed dominates; developing countries however choose among a range of creditors and financing instruments.

These borrowing choices are crucially important not only for meeting governments' fiscal needs, but also in affecting creditors' future influence over governments. The traditional "market constraints" view is that governments' dependence on capital gives investors the upper hand in influencing government macroeconomic, and perhaps microeconomic, policies (Bodea and Hicks 2015; Mosley 2003b; Przeworski and Wallerstein 1988). IFIs may be even more effective at extracting concessions from borrowers, especially those with limited strategic or economic importance (Copolovitch 2010; Stone 2011; Clark and Dolan 2021). More recently, some observers would suggest that borrowing from "new" creditors such as China frees governments from the constraints imposed by IFIs; allows them to express displeasure with the global financial system (Broz, Zhang, and Wang 2020); but also subjects them to diplomatic pressures (Bunte 2019).

Creditor composition also affects the likelihood of debt restructuring and crisis resolution. Recent worries about unsustainable debt burdens are exacerbated by uncertainty over creditor coordination: It is unclear, for instance, whether Chinese creditors will participate in Paris Club debt reschedulings. Additionally, sovereign borrowers might default strategically: Schlegl, Trebesch, and Wright (2019) show that developing country governments repay and default on their debt at different rates, depending on the type of creditor, suggesting a *de facto* seniority among creditors. Furthermore, disintermediated finance (sovereign bonds are held by a large and varied set of investors) presents challenges to orderly debt restructurings.

By contrast, when commercial bank loans are the primary instrument, the number of creditors is significantly smaller, making collective action problems less severe. Furthermore, Kaplan and Thomsson (2017) argue that, because commercial banks tend to extend credit even during crisis, whereas bondholders more quickly exit, Latin American governments with a greater reliance on bond rather than bank financing face greater pressures for fiscal austerity.

To the extent that governments make choices among borrowing instruments, they can exercise some autonomy from the demands of specific sets of creditors.⁴ Our demand-side analysis, focused on governments' choices over credit instruments, highlights the agency of developing country governments in choosing how to borrow. This focus echoes scholarship on conditional borrowing from IFIs (Vreeland 2003).⁵ At the same time, governments on the brink of default may avoid IMF lending, as they worry about how loan conditions could be detrimental to their political survival (Stone 2008; Ballard-Rosa 2020). Likewise, analyses of foreign aid note that governments use aid revenues not only to provide benefits to politically-important domestic constituents, but also to claim credit domestically for attracting aid (Cruz and Schneider 2017).

Similarly, Betz and Pond (2019) illustrate how, to facilitate their capacity to raise funds domestically, many

³Much of the increase in Chinese bilateral lending occurs after the time frame of our analyses; we discuss our expectations regarding Chinese bilateral credit in the conclusion.

⁴On heterogeneity among investors in responses to political events and institutions, see Bernhard and Leblang (2006), Cunha (2017), and Wellhausen (2015).

⁵Also see Humphrey and Michaelowa (2013) on governments' choices across multilateral financial institutions.

governments impose financial regulations which privilege national or sovereign debt relative to other assets. Focusing on interest group coalitions more broadly, Bunte (2019) posits that as the domestic political strength of finance, industry and labor varies, so do governments' preferred combinations of multilateral official, bilateral official, and private sector creditors.⁶ We contribute to this emergent domestic political economy of the choice across creditors.

Transparency and the Choice across Instruments

The Domestic Politics of Transparency

Governments vary, as a function of their domestic political environments, in their willingness to disclose information about policies and their associated economic outcomes. Governments experience both costs and benefits from economic policy transparency; as these costs and benefits differ across time and space, so do governments' induced preferences over transparency. Here, we briefly discuss these considerations as they relate to sovereign debt and to governments' underlying concern with political survival; other analyses explore the domestic determinants of transparency at some length (Berliner 2014; Hollyer, Rosendorff, and Vreeland 2018).

Governments may wish to obscure both the amounts and the terms of their sovereign borrowing.⁷ Domestic audiences may fear that debt puts countries at risk of financial crisis (and, perhaps, of austerity measures); that debt will serve the interests of a narrow group of domestic actors; and that debt (and debt service) can increase future tax burdens (Alt and Lassen 2006; Bansak, Bechtel, and Margalit 2021; Barnes and Hicks 2022). Opposition parties or mass publics may use information regarding borrowing to challenge the incumbent government.⁸

When borrowed funds are used for shoring up domestic support among narrow special interests, or redistributed toward elite inner circles, leaders are likely to prefer more opacity. Public revelation can damage the prospects for political support or survival.⁹ Publics may disapprove of debt contracts that concede too much to creditors. For instance, in 2020, the disclosure of Nigeria's previously confidential bilateral loan contracts with China led to legislative inquiries as well as mass protests. Opposition parties accused the government of conceding its sovereign ownership of assets to China.¹⁰

In some countries, little budget or borrowing information is shared with publics or even with opposition parties: Governments may use extra-budgetary funds, often without legislative or bureaucratic oversight. We expect that governments in such systems will strongly prefer financing instruments that align with these *de jure* rules and *de facto* practices.

⁶ Bunte does not explore variation in choices with private sector creditors, as we do. He does, however, distinguish between traditional (OECD) official bilateral creditors and new bilateral donors and lenders, such as Brazil and China.

⁷ Terms include the interest rate, as well as the maturity, currency denomination and governing law. See Ballard-Rosa, Mosley, and Wellhausen (2022).

⁸ The domestic benefits of debt, perhaps from income smoothing or via buying political support, imply that debt may have proponents. We argue that debt is a *salient* political issue only when mass publics or rival elites perceive debt as a source of potential economic hardship.

⁹ Perhaps the best-known recent case involves Mozambique: In 2013 and 2014, three government-connected firms took out loans from three European banks equivalent to nearly 13 percent of GDP. The government guaranteed these loans, even though they were not—as legally required—approved by parliament. Criminal trials of senior cabinet officials resulted in jail terms and the scandal resulted in a severe decline in support for the ruling Frelimo party in the 2014 elections.

¹⁰ See <https://qz.com/africa/1890276/china-denies-plan-to-seize-nigeria-assets-over-debt/>.

Zeit's (2021) qualitative study of borrowers in sub-Saharan Africa finds that government officials often dislike the reporting requirements associated with multilateral development finance. We also expect that the tendency to obfuscate is especially pronounced in countries with a history of debt crises and austerity (Ballard-Rosa 2020), as well as in those with high levels of existing debt (so that opposition parties and the public worry about the potential for new crises).

On the other hand, there often are political incentives for greater fiscal transparency. Accurate, commonly held information permits better investment decisions and resource allocation, contributes to market discipline, and improved economic efficiency, all of which may have political benefits to incumbents. Transparency reduces uncertainty, reducing the risk and duration of crises (Stiglitz 2002), and the effectiveness of monetary policy (Geraats 2002).

Where there are employment or public goods benefits from debt-financed projects, leaders can benefit electorally from claiming credit for them (Cruz and Schneider 2017). Leaders also may receive electoral benefits from enhancing domestic employment—which may require capital from abroad (Arias, Hollyer, and Rosendorff 2018). Governments in countries that have not previously had access to sovereign bond markets, may point to international bond issues—typically covered on the front page of local newspapers—as evidence of their policy capacity (Zeit 2021).

Leaders often perceive that public debate about the benefits of debt financing for development projects, and associated “buy-in” from political rivals, insulates them from the political costs of potential future debt crises. Governments also may want to avoid the appearance of corrupt behavior, as corruption can lead to significant vote losses for incumbents (Callier 2010; Costas-Pérez, Solé-Ollé, and Sorribas-Navarro 2012). Transparency regarding borrowing can therefore offer rewards, especially in the presence of an active political opposition and an independent press.

More broadly, fiscal policy transparency can bring broader economic benefits, including higher levels of foreign direct investment and lower interest rate spreads. And in non-democratic settings, leaders may use transparency to reduce the risks of coups from rival elites (Bastida, Guillamon, and Benito 2017; Copelovitch, Gangrud, and Hallenberg 2018; Hollyer, Rosendorff, and Vreeland 2018).

Transparency therefore has domestic benefits as well as costs. A support-maximizing leader takes these into account when choosing a level of fiscal transparency. Politically astute leaders balance the benefits of opacity—buying domestic political support and rewarding insiders—with the benefits of transparency—avoiding scandal, increasing employment and economic activity, satisfying foreign lenders or investors, or staving off coups.

Governments balance these concerns differently. We assume that leaders have implicitly solved this maximization problem, calculating how much (or little) fiscal transparency is politically optimal. The leader's political calculation “induces” a preferred level of information disclosure.¹¹ We take a government's induced preferences over transparency as an important primitive (among others) with respect to its choices across debt instruments.

¹¹ Persson and Tabellini (2002) describe a leader's ideal policy as “induced” by economic and political fundamentals; a policymaker's utility is a function of these induced preferences. We adopt a similar approach.

Transparency and Debt Instruments

Governments often make choices among financing instruments, just as they choose among instruments in policy areas, including trade, exchange rates and balance of payments adjustment (Krugman 1979; Rodrik 1986). When instruments vary in their domestic political implications, leaders will choose an instrument that is politically preferable, even if it is economically inefficient (Robinson 1998). When governments wish to obscure the redistributive effects of their policies, they choose policies that are less “legible” (Lee and Zhang 2017) to their domestic audiences. For example, Esberg and Perlman (2022) suggest that democracies use “more subtle methods” to violate domestic and international property rights.

In the realm of trade policy, Rosendorff (1996) shows how trade instruments with the same effects on prices and imports can differ in salience across interest groups and, therefore, in their attractiveness to governments (also see Naoi (2009)). Kono (2006) finds that, in polities with greater accountability, governments use more obscure trade policy instruments (such as non-tariff barriers). Moreover, Davis (2012) notes that the use of legalistic instruments is more likely when the political returns from a more public approach to protectionism exceed those from a more subtle bargaining-based approach.

With respect to fiscal policies, we expect leaders to choose instruments with an eye to remaining in power (e.g., Bueno de Mesquita et al. 2003; Morrison 2009). Governments, even those with somewhat weak economic fundamentals, often have choices among financing options (Bunte 2019). Governments’ induced preferences over transparency condition these choices.¹² Sovereign debt instruments vary in the extent to which their existence and terms are disclosed; all else equal, governments will prefer instruments whose features align with their chosen level of fiscal transparency.

First, in the realm of private sector finance, the principal choice facing governments is between bond issuance and commercial bank loans. Bond-based financing is more public than bank-based financing (Edwards 1986). Bond markets—corporate as well as sovereign—tend to evaluate borrowers on the basis of publicly available information, including extensive disclosures in bond prospectuses (typically a requirement for listing bonds on international exchanges) (De Fiore and Uhlig 2011). Bonds typically are held by a large number of (often somewhat anonymous) creditors, undertaking monitoring on the basis of publicly available information (Eaton and Gersowitz 1981; Tanaka 2006; Russ and Valderrama 2012).

Sovereign bonds are usually issued with the advice of underwriting firms (investment banks), and often (especially for low- and middle-income countries) they are issued under London or New York (rather than under domestic) law. Prior to offering a debt issue, borrowers—especially those who are new or have been absent for a period of time—participate in “road shows”, presenting information about their country and its economy to potential professional investors. These events, typically run by governments’ debt management offices (DMOs), seek not only to provide in-

formation about the borrower, but also to position that sovereign relative to “peer” or “aspirational peer” borrowers (Gray 2013; Brooks, Cunha and Mosley 2015). As part of this process, DMOs provide a detailed accounting of the issuing state’s balance of payments, monetary and fiscal conditions, and forecasts of political, economic, and perhaps environmental events and risks.

Additionally, if they do not have one already, then sovereign bond issuers seek a credit rating from at least one ratings agency (e.g., Fitch, Moody’s, or Standard & Poor’s). When a bond is offered, its prospectus usually runs to hundreds of pages, detailing specifics such as monetary and fiscal policy, upcoming political events, and resource endowments. This prospectus is broadly available to potential investors; it typically also is filed with regulatory authorities, as a condition of listing the bond on secondary market exchanges. Bond prospectuses, the dates of the bond auctions, and sovereign ratings outcomes are not only publicly available, but often highlighted by domestic media outlets. Zeitz’s (2021) study of sovereign credit in various African nations notes that bond issues tend to receive extensive coverage in the local press, given the public’s concerns regarding government borrowing and spending behavior. Bunte (2019) notes that, in Colombia, domestic audiences viewed placements of international bonds as a sign of the government’s competence in building a business climate favorable to foreign investors.

Commercial bank lending, by contrast, involves a narrower set of creditors—a lead bank and, in some cases, additional banks as participants in the loan syndicate. Banks apply fewer legal requirements; their loan decisions often rely more on relationship-specific dynamics. Banks typically acquire private information to monitor the behaviors of debtors (Edwards 1986; Tanaka 2006; De Fiore and Uhlig 2011; Russ and Valderrama 2012). Banks often form a broader relationship with sovereigns, not only to engage in monitoring (World Bank 2006; Kaplan and Thomsson 2017), but also to profit from additional activities, such as offering trade credits, managing foreign reserves, and opening local bank branches (Tomz 2007).

While commercial banks may need to disclose country exposures to regulators, specific sovereign loan instruments are not usually subject to public scrutiny, legal examination, or regulatory filings. Banks also tend to keep their credit assessments, and the rationales for them, private, disclosing them only to other members of the bank syndicate (if one exists). Furthermore, sovereign bank loan contracts are rarely, if ever, made public (Edwards 1986). Indeed, commercial bank loan contracts often are subject to non-disclosure provisions, leading to their absence from—among other places—archival holdings related to debt rescheduling. Concerned with the opacity of bank lending, in June 2019, the G-20 governments endorsed the Institute of International Finance’s Voluntary Principles for Debt Transparency. These principles, to be applied prospectively, focus on the disclosure of information about private sector lending to sovereigns; they noted that, while information about bond-based financing is often publicly available, commercial bank financing is not.

Banks’ reliance on private information allows governments to avoid more public disclosure, while also raising the costs of bank (versus bond) credit (Edwards 1986; Russ and Valderrama 2012). While sovereigns that are newly able to issue bonds may tout their access as evidence of their policy acumen, we expect that many sovereigns will prefer to avoid this spotlight.

¹²Transparency is not the only important demand-side consideration. For instance, Panizza, Sturzenegger, and Zettelmeyer (2009) note that the availability of multiple sources of consumption smoothing reduces the impact of threats of exclusion from global capital markets. Kaplan (2013) describes how technocrats’ ideas regarding fiscal policy, often influenced by historical experiences, affect debt management choices.

Second, official creditors differ substantially on the degree and depth of information that they make publicly available. Multilateral lending naturally involves more principals—likely all members of an international financial institution, perhaps with some delegation to staff in the negotiation of specific loan packages (Copelovitch 2010; Clark and Dolan 2021). IFIs often have specific and explicit disclosure requirements. For instance, since the mid-1990s, the IMF has made letters of agreement, as well as annual Article IV consultations, public (except in cases where the borrower disallows this). And, as part of their loan conditions, the IFIs may require enhanced data collection and dissemination (Vadlamannati, Cooray, and Brazys 2018; Hollyer et al. 2021); this not only facilitates their own monitoring, but also imposes political costs on fiscally opaque governments. Interviews with government debt management officials in sub-Saharan Africa and Latin America suggest that IFI's loan requirements can provide benefits for some governments, but impose political costs on others (Bunte 2019; Zeitz 2021).

By contrast, the terms of bilateral lending are rarely made public. Although much has been made of the opacity of debt contracts offered by Chinese official and quasi-official lenders, other (Paris Club) bilateral lenders also have included non-disclosure provisions in their sovereign contracts (Gelpern et al. 2022). Indeed, the *International Monetary Fund* (2018) notes that significant gaps exist regarding the terms, conditions, and disbursement schedules of bilateral official loans to developing country governments. The IMF attributes these gaps not only to the capacity of some debtor governments, but also to creditor practices, including confidentiality requirements. We therefore expect that governments with a propensity for greater opacity will, all else equal, prefer to seek credit from bilateral, rather than multilateral, official creditors. As in the case of private credit, more opaque bilateral credit instruments often have higher interest rate costs than multilateral instruments (Morris, Parks, and Gardner 2020).

To summarize, governments will prefer financing instruments that match their disclosure preferences. Those with an induced preference for more fiscal opacity will be inclined to bank credit in the context of private lending, and bilateral credit in the realm of official sector finance. Other leaders with a preference for greater fiscal transparency may prefer private bonds and official multilaterals.

This leads to our hypotheses:

Hypothesis 1 (Private). More transparent governments are more likely to borrow in bonds as a share of private borrowing.

Hypothesis 2 (Official). More transparent governments are more likely to borrow multilaterally as a share of official borrowing.

Of course, governments' preferences over fiscal transparency are not the sole domestic determinant of borrowing outcomes. Each government borrowing decision reflects a range of considerations, including the composition and maturity structure of existing debt, the electoral calendar, and government partisanship, among others. Evidence from the corporate sector suggests an opacity premium (Russ and Valderrama 2012), in which bank loans are more expensive. The opacity premium for governments—expressed in interest rates, maturity lengths, and currency denomination—likely varies over time and across countries. We anticipate

that governments with a preference for opacity will sometimes find opaque instruments too expensive.¹³

Supply-side considerations—global market liquidity as well as creditors' risk assessments—also affect the capacity of governments to realize their preferences over debt instruments. Creditors may view high existing debt levels, a lack of domestic political accountability, or certain loan purposes as necessitating higher risk premiums. We therefore account for many other potential influences on borrowing outcomes in the empirical specifications below. Nevertheless, we find consistent support for the hypothesis that, *ceteris paribus*, transparency matters for governments' borrowing profiles.

Cross-Country Empirical Analysis

Data & Measurement

We analyze the borrowing behavior of developing countries from 1980 to 2015, with the end year varying based on the measure of transparency employed.¹⁴ We expect that governments with a greater propensity to obfuscate fiscal outcomes prefer to borrow from creditors with more narrow disclosure practices.

A direct measure of governments' disclosure in practice is the International Budget Partnership's Open Budget Index (OBI), a measure focused on the extent to which governments make comprehensive and timely budget information available to their publics. The International Budget Partnership surveys in-country (typically) researchers (with a focus on budgetary and fiscal issues) working in civil society organizations and academic institutions. The survey includes 228 items, capturing public participation in, institutional oversight and transparency of the budget process.

The survey, however, is available for only seven years: 2006, 2008, 2010, 2012, 2015, 2017, and 2019. Given the limited overlap with our dependent variable and covariates of interest, we elect instead to use a more general measure of the government's willingness to disclose (fiscal as well as other) information. The HRV Transparency Index measures the government's willingness to disclose credible aggregate economic data to the public (Hollyer, Rosendorff, and Vreeland 2014).¹⁵

The HRV index treats transparency as a latent predictor of the willingness of governments to report data to The World Bank for inclusion in the *World Development Indicators* (WDI). We take it as a proxy for government's willingness to tolerate the public availability of economic policy and outcome measures. The measure is extracted using an item response model fit to a binary measure of whether a given variable j is reported by a given country c in a particular year t .¹⁶ In our sample, the HRV index has a mean of approximately

¹³ Future research could use loan-level data on government borrowing to draw comparisons across terms, within as well as across governments, to estimate an implicit price for opacity.

¹⁴ We define developing countries as time-invariant non-members of the OECD, with the exception of Chile and Mexico. Our findings are unchanged when removing them.

¹⁵ We also consider alternative measures of government transparency in the Supplementary Materials.

¹⁶ The HRV algorithm summarizes the reporting of 240 variables by 125 countries over 31 years (1980–2010) with a country-year transparency score. This is estimated using a system of two hundred forty equations (one for each variable j), where reporting in a given country-year is treated as a function of a latent transparency value, a coefficient on this transparency term, and an intercept coefficient. The measurement model thus adjusts for the fact that some data are easier to collect than others, and for the fact that the reporting of some items is more reflective of a country-year's general tendency to disclose.

0.63 and a standard deviation (SD) of 1.9. Greater values indicate more higher transparency.

For country-year observations for which the HRV transparency measure overlaps with the OBI, the correlation is strong and positive (.62 between the broad OBI measure and the HRV index). We also calculate the correlation between the HRV index and two OBI-based measures related most closely to government borrowing and fiscal accountability.¹⁷ The debt-related sub-index has a bivariate correlation with HRV of .65; the accountability-and-debt-focused sub-index has a bivariate correlation of .66. These associations suggest that the more widely available HRV measure captures the domestic political features in which we are most interested.

Of course, countries may fail to report data—and thus have a low HRV score—not only because of a deliberate desire to withhold information, but also because of insufficient data collection and aggregation capacity. Importantly however, HRV has been shown to correlate with GDP per capita only in democracies; rich democracies disclose much more than autocracies at similar levels of wealth, suggesting that something other than capacity is at work (Hollyer, Rosendorff, and Vreeland 2018, 84–88).¹⁸ Capacity also could affect the resources available to DMOs. We therefore include income per capita as a covariate in our model estimations.

To investigate the composition of sovereign borrowing portfolios, we rely on the World Bank's IDS. It reports disbursements of public and publicly guaranteed debt owed by, or guaranteed by, the government. Three points are worth noting. First, the IDS covers international borrowing; as such, our analysis focuses on borrowing decisions over *external* debt.¹⁹ Secondly, by including publicly guaranteed (versus purely public) debt, these measures also capture the behavior of the government as it relates to state-owned enterprises.²⁰

Thirdly, borrowing outcomes reflect the intersection of supply (creditors) and demand (debtor governments). While borrowers are motivated by domestic political survival, lenders' assessments are affected by macroeconomic considerations, the risk of default and their overall willingness to balance risk against return (Tomz 2007; Beaulieu, Cox, and Saiegh 2012). As such, we control for various domestic economic and political factors. Moreover, we expect that, when credit markets are tight—as indicated by high global interest rates—governments' set of choices is more constrained: Investors of various sorts are less likely to accept higher degrees of risk in exchange for the promise of higher returns. We therefore expect that transparency will affect choice of instruments to a greater extent when risk aversion is low and international liquidity is high.

¹⁷The six item subset relates directly to sovereign debt, including providing information on outstanding debt, new borrowing, interest payments, and the terms of new borrowing. The twenty-five item subset includes not only these debt-related items, but also measures of independent oversight, the capacity of governments to use extra-budgetary funds, and the release of broader fiscal information to the public.

¹⁸A potential concern from the investor side is that governments elect to disclose information, but they manipulate it (e.g., Martínez 2019). Indeed, standard economic fundamentals that are key to creditors, such as trade (as percent of GDP), inflation and GDP have reporting rates of around 95 percent. At the same time, manipulation in these cases has been relatively easy to detect (e.g., Argentina's inflation under Cristina Fernández or China's growth numbers in recent years).

¹⁹We leave domestic borrowing as a topic for future research.

²⁰Extant literature supports pooling state-owned enterprise debt with public debt (Wagner, Jara, and Musacchio 2018).

Baseline Analysis

Consider a simple OLS estimation of the form:

$$\text{TYPE OF BORROWING}_{it+1} = \alpha_i + \delta_t + \beta_1 \text{TRANSPARENCY}_{it} + \mathbf{X}'_{it}\phi + \epsilon_{it}, \quad (1)$$

where we define TYPE OF BORROWING for country i in year t in two ways, for private and official borrowing, respectively: First, we analyze BONDS CREDIT (AS A SHARE OF TOTAL PRIVATE CREDIT). Secondly, we examine NON-CONCESSIONAL BILATERAL CREDIT (AS A SHARE OF TOTAL OFFICIAL CREDIT). Note that these measures are specific to disbursements, not net flows.²¹

The vector of controls $\mathbf{X}_{it}$ includes standard economic and political variables. We first offer a simple model without covariate adjustment. We then include GDP per capita and GDP (both logged), GDP growth (in percent), and Trade (as percent of GDP), accounting for key economic fundamentals relevant for creditors. Our measures of country size also address the possibility that bank-based lending might be more appealing—given that it does not require seeking a sovereign credit rating or engaging in investor relations campaigns—to borrowers with smaller absolute credit needs. We also present a more saturated model with additional covariates, capturing other government sources of finance as well as political variables. We include net FDI inflows, natural resource rents, and foreign aid. We also include two debt-related covariates, Debt Crisis, an indicator of whether the country is undergoing a debt crisis (from Laeven and Valencia (2018)) and External Debt stocks (as percent of GNI).²²

We capture regime type using Polity IV's measure. We also include a measure of political ideology from the Database of Political Institutions (DPI). On the official side, left-leaning governments may be particularly averse to IFIs, pushing them toward bilateral credit instead. On the private side, right-leaning governments may be more willing to seek bond financing—a hands-tying mechanism not only for themselves, but also for their successors. We also include controls for the ability to issue debt locally—the domestic lending interest rate and financial system deposits as a ratio of GDP.

Finally, in all models, we include both country (α_i) and year (δ_t) fixed effects. Country fixed-effects absorb any idiosyncratic characteristics (such as culture, region, and institutions) that are time invariant. Similarly, year fixed effects absorb any global-shock—for example, one might be concerned about the overall trend in bond lending, driven by technological and legal innovations. Year fixed effects capture these considerations in a more flexible way than, say, time trends (which is, by definition, a specific case of year fixed effects).

Table 1 shows these results.²³ The positive and statistically significant coefficient of the HRV Transparency Index in Panel A provides robust support for Hypothesis 1. More transparency is associated with a larger share of bond borrowing within the category of private credit.²⁴ Substantively, a unit increase in the HRV Transparency Index (about half of a SD) corresponds to an increase in bond borrowing of

²¹We provide detailed information on the sources for each variable in the Supplementary Materials.

²²Alternative controls related to indebtedness are total credit disbursements (in logged terms) and the share of private credit as a share of total credit, including these does not change our results.

²³The full table of coefficients for table 1 can be found in the Online Appendix as Tables A2 and A3.

²⁴Our results are similar if we instead measure the ratio of bond to bank borrowing (see Supplementary Table S1).

Table 1. Transparency and types of borrowing, by creditor category

	<i>Types of borrowing</i>			
	(1)	(2)	(3)	(4)
Panel A: bonds credit (share of private credit)				
Transparency Index [HRV]	0.051** (0.022)	0.049* (0.025)	0.094*** (0.014)	0.066*** (0.021)
Observations	1,763	1,599	1,472	1,019
R ²	0.25	0.27	0.34	0.28
Countries	86	83	79	70
Outcome mean	0.16	0.16	0.16	0.20
Panel B: bilateral credit (share of official credit)				
Transparency (HRV)	-0.034*** (0.009)	-0.024** (0.010)	-0.024* (0.013)	-0.028** (0.013)
Observations	2,554	2,298	2,132	1,447
R ²	0.21	0.22	0.21	0.19
Countries	88	86	82	78
Outcome mean	0.10	0.10	0.09	0.08
Country FE	✓	✓	✓	✓
Year FE	✓	✓	✓	✓
Econ. fundamentals		✓	✓	✓
Additional covariates			✓	✓
Domestic financial conditions				✓

Notes: All specifications are estimated using OLS. Economic fundamentals controls are GDP per capita (log), GDP (log), growth, and trade (percent of GDP). Additional covariates are FDI inflows, natural resource rents, foreign aid, debt crisis, external debt, democracy, and right and left ideology. Domestic financial conditions are domestic lending interest rates and financial system deposits as a ratio of GDP. Standard errors clustered by country are in parentheses. * $p < 0.1$, ** $p < 0.05$, and *** $p < 0.01$.

5–9 percentage points, a non-trivial magnitude given that the average bonds share is 16 percent. In contrast, and in line with Hypothesis 2, Panel B demonstrates that greater transparency is associated with lower share of bilateral borrowing within official credit. A one-unit increase in transparency corresponds to a decrease in bilateral borrowing of about 2 percentage points, representing an increase of over 20 percent from the mean.

Robustness

Our findings could be confounded by other mechanisms. We consider two, one domestic and one international in origin.

Transparency and corruption. If corruption and the related misappropriation of public funds are closely associated with governments' fiscal opacity, then one might worry that our results are capturing the effect of corruption, rather than of fiscal disclosure practices. Corrupt sovereign borrowers, intent on pocketing proceeds from external loans, might be more likely to appeal to private banks rather than public bond markets, exactly because they require fewer disclosures.

At the same time, to the extent that creditors are aware of corruption, creditors will demand lending terms that compensate for the additional risk. And lenders should have little concern about the degree of disclosure over and above its effects on risk. Moreover, when sovereign credit markets are somewhat competitive and efficient, loan terms will reflect the political risk generated by corruption. Assuming that sovereign credit markets are in equilibrium, a borrowing government with a given degree of corruption will be indifferent across instruments. Hence, we expect little sys-

tematic association between corruption and the choice of borrowing instruments; any residual relationship between opacity and loan type should be evidence of the effect we postulate—the borrower's (but not the lender's) concerns over disclosure.

Further analyses support this logic. The in-sample correlation between transparency (HRV) and a measure of corruption (the index created by the International Country Risk Guide) is essentially 0—more specifically, 0.0077. Additionally, our substantive results are unchanged when we include corruption as an additional covariate (see Online Appendix Tables A11–A12).

Geostrategic considerations. Creditor countries may be more willing to extend bilateral loans to strategically important governments. This would tilt official credit in the direction of bilateral, versus multilateral, lenders. We therefore test the robustness of our findings to the inclusion of three measures of geopolitical significance. First, using ideal point estimates from United Nations General Assembly (UNGA) voting [Bailey, Strezhnev, and Voeten \(2017\)](#), we control for the ideal point difference between the given country and the United States. Secondly, we include an indicator that takes the value of 1 if the country is a member of the UN Security Council in a given year, and 0 otherwise. This addresses the possibility that permanent United Nations Security Council (UNSC) members direct financial resources to rotating members as a means of vote buying ([Vreeland and Dreher 2014](#)). Lastly, we control for the presence of US troops in the debtor country. This follows [Aklin and Kern \(2019\)](#) in using military presence as a measure of US commitment; this commitment could translate into an implicit bailout guarantee, helping again to explain borrowing profiles. Online Appendix Table A4 demonstrates that our core results remain unchanged when we account for these geopolitical variables.²⁵

Estimation strategy. The dynamic we identify occurs within broad categories of borrowing (for example, within private sector credit), rather than across these categories (private versus official). Indeed, when we model aggregate shares of private versus official borrowing, we find no systematic relationship with transparency (see Supplementary Information Table S3). The official versus private distinction, however, does highlight the fact that the choice of within-category instrument (bilateral versus multilateral official credit) may depend as well on the choice of broad credit type (official versus private credit). To address this concern, we implement a series of SUR models. Online Appendix Table A5, analogous to table 1, presents the results. The SUR estimation is more precise, increasing confidence in the strength and robustness of our results.

We also confirm that our results are robust to a binary dependent variable, measuring whether a given country-year receives any bond credit ([Ballard-Rosa, Mosley, and Wellhausen 2021](#)). For official credit, we similarly use “any bilateral credit” as a dichotomous dependent variable (Panels A and B, respectively in Online Appendix Table A6). Our findings remain robust and precisely estimated. A one-point increase in HRV transparency (again, about a half SD) is associated with a nearly 9 percentage point increase (about 30 percent with respect to the mean) in the likelihood that the sovereign will issue bonds (versus borrowing from banks), and an approximately 3 percentage point decrease (also about 30 percent with respect to the mean) in the likelihood of contracting any bilateral credit (versus multilateral official credit).

²⁵ We also control for region-specific time-trends in Supplementary Information Table S2.

Measurement. We next establish that our findings are not driven by our particular measure of transparency. The HRV index is constructed using both economic and non-economic variables, all of which are included in the WDI. What is even closer to our proposed causal process, though, is the government's willingness to disclose economic information. We construct an Economic HRV Index, using only economic indicators. This index is highly correlated with the main HRV index (0.93). Unsurprisingly, our findings are unchanged when we use the new Economic HRV Index instead (Online Appendix Table A7).

We also consider two additional proxies for governments' preferences over fiscal disclosure. First, we make use of the SDDS, part of the IMF's broader Data Dissemination Initiative. The SDDS addresses data quality, methodology and dissemination; it was designed to improve developing country access to international capital markets via data provision (Cady and Pellechio 2008; Mosley 2003a). While subscription is voluntary, it implies a commitment to comply with the standards.

More than 75 countries have subscribed to the SDDS, of which 39 are part of the 121 developing countries in our full sample. We create a variable SDDS SUBSCRIPTION which takes a value of 1 the year after the date of subscription, and 0 otherwise.²⁶ When we use SDDS rather than HRV, we can include a broader set of years (1970–2015) in our analyses. Importantly, our results—which confirm the relationship between transparency and reliance on bonds versus bank loans, as well as use of multilateral versus bilateral credit—are substantially the same when we restrict them to the 1980–2010 period. Online Appendix Table A8 displays the results using the SDDS measure; they are analogous to table 1.

Secondly, we use Williams's (2015) Information Transparency Index, which captures not only the amount of information governments provide, but also its quality and the public's ease of acquisition.²⁷ Online Appendix Table A9 shows our main findings hold when using this alternative transparency measure.

While these results are reassuring, another potential concern is that HRV, Economic HRV, SDDS, and—to some degree—Williams' measure are all affected by interactions between governments and official creditors. For instance, the IMF both encourages participation in SDDS and serves as a source of multilateral credit. And the World Bank oversees the creation of the WDI database (on which HRV measures are based). We therefore establish the robustness of our results to yet another measure of transparency, FOI laws. Berliner (2014) and Chaitanya Vadlamannati and de Soysa (2016) treat the adoption of FOI laws as a government action intended to promote transparency, and Islam (2006) links FOI laws with improved governance. When we use a dichotomous indicator for FOI law, our findings hold (although the estimates on bilateral credit are less precise than the ones on bond credit, see Online Appendix Table A10.)

²⁶We code the country's first year of subscription as the proportion of the year in which the country is under subscription. Alternative coding schemes for the first year produce the same substantive results. The correlation between the HRV INDEX and SDDS SUBSCRIPTION is 0.4, perhaps reflecting a limited uptake of the standard.

²⁷This measure uses thirteen separate indicators, six for the quantity of information, four for the processes that generate that information, and three for the infrastructure required to disseminate that information, from 1980 to 2010. See Williams (2015).

Transparency, Borrowing, and International Liquidity

While we demonstrate that transparency is important to the political economy of sovereign credit, we also expect that the impact of domestic politics varies with global capital market conditions (Wibbels 2006; Ballard-Rosa, Mosley, and Wellhausen 2021). When international markets are highly liquid and investors are more risk acceptant, they are willing to extend credit to a wider range of borrowers. By contrast, when global liquidity is low, investors are more risk averse, and governments—especially those with an inclination toward opacity—have fewer financing options.

We expect therefore that governments are better able to structure their portfolios to match their preferences over instruments when global liquidity is high. When global liquidity is low, by contrast, supply-side factors play a greater role in determining financing outcomes. We analyze the extent to which international liquidity, here proxied by the US FEDERAL FUNDS RATE moderates the effects of TRANSPARENCY. The Federal Funds Rate is a primary indicator of United States monetary policy. Monetary conditions in the United States influence aggregate risk aversion and capital flows in the international financial system and, therefore, the global search for yield (Longstaff et al. 2011; Rey 2013).

Although one might worry that, in the post-2008 period, low rates also correspond to quantitative easing (and therefore to risk aversion rather than risk acceptance), this would bias against finding support for our expectations regarding the mediating role of global market conditions. We also address this concern with year fixed effects.

We implement two empirical strategies. First, we estimate a simple interaction model:

$$\begin{aligned} \text{TYPE OF BORROWING}_{it+1} = & \beta_2 \text{TRANSPARENCY}_{it} \\ & + \gamma_1 (\text{TRANSPARENCY}_{it} \times \text{US FED FUNDS}_t) \\ & + \mathbf{X}'_{it} \phi + \alpha_i + \delta_t + \epsilon_{it}. \end{aligned} \quad (2)$$

Secondly, we construct a time-invariant indicator of whether a country is TRANSPARENT, if its mean Transparency Index over the sample is greater than the sample average:

$$\begin{aligned} \text{TYPE OF BORROWING}_{it+1} = & \gamma_2 (\text{TRANSPARENT}_i \times \text{US FED FUNDS}_t) \\ & + \phi \mathbf{X}_{it} + \alpha_i + \delta_t + \epsilon_{it}. \end{aligned} \quad (3)$$

The expectation is that the coefficients γ_2 in Equation (3) and γ_1 in Equation (2) have the opposite sign of β_2 in Equation (2). Conceptually, analyzing this effect is akin to a *difference-in-differences* design, in which we compare the effects of international liquidity in transparent countries to countries that are relatively less transparent, in years with greater international liquidity relative to years with lower liquidity.

Table 2 shows these results. Panel A supports our expectation that more transparent countries utilize bonds relatively more than banks, and that they do so at a higher rate when global interest rates are low. Similarly, Panel B reinforces the finding that transparent governments rely less on bilateral credit, and they do so even less when global liquidity is high. These results are robust to all the checks mentioned above (changes in the denominator [Supplementary Information Table S4], using a binary dependent variable [Supplementary Information Table S5], the Economic HRV index [Supplementary Information Table S6], the SDDS [Supplementary Information Table S7], Information Transparency

Table 2. Transparency, liquidity and types of borrowing, by creditor category

	Types of Borrowing			
	(1)	(2)	(3)	(4)
Panel A: bonds credit (as a share of total private credit)				
Transparency (HRV)	0.080*** (0.023)	0.087*** (0.020)		
Transparency (HRV) × US Federal Funds Rate	−0.009*** (0.002)	−0.008*** (0.003)		
Transparent × US Federal Funds Rate			−0.025*** (0.005)	−0.014** (0.005)
Observations	1,763	1,019	2,598	1,229
R ²	0.27	0.29	0.30	0.26
Countries	86	70	86	71
Outcome mean	0.16	0.20	0.15	0.22
Panel B: bilateral credit (as a share of total official credit)				
Transparency (HRV)	−0.045*** (0.009)	−0.038*** (0.014)		
Transparency (HRV) × US Federal Funds Rate	0.003*** (0.001)	0.004*** (0.002)		
Transparent × US Federal Funds Rate			0.008*** (0.003)	0.009** (0.004)
Observations	2,554	1,447	3,628	1,759
R ²	0.22	0.20	0.20	0.19
Countries	88	77	88	79
Outcome mean	0.10	0.08	0.10	0.08
Year FE	✓	✓	✓	✓
Country FE	✓	✓	✓	✓
Covariates		✓		✓

Notes: All specifications are estimated using OLS. Covariates are GDP per capita, GDP, growth, trade, FDI inflows, natural resource rents, foreign aid, debt crisis, external debt, democracy, right and left ideology, domestic lending interest rates, and financial system deposits to GDP. Standard errors clustered by country are in parentheses. * $p < 0.1$, ** $p < 0.05$, and *** $p < 0.01$.

[Supplementary Information Table S8], and FOI [Supplementary Information Table S9].

Within-Country Analysis: Mexican Municipalities

We complement our cross-country analyses with municipality-level evidence from Mexico. Macroeconomic and political factors that affect market access are relatively constant within a country, providing stronger internal validity. Additionally, by testing our theoretical expectations at the subnational level, we are able to test the generalizability and scope of our argument.

Mexico is a useful test for our claims, given that municipal authorities have the capacity to borrow, independently of the national government. Mexico presents variation in budget composition as well as transparency across its municipalities. Additionally, the disclosure of political information surrounding municipal finances in Mexico has substantial effects on electoral accountability, even as it has generated resistance from local politicians (Larreguy, Marshall, and Snyder 2020).

On average, 7 percent of Mexican municipalities' expenditure is financed through credit, which comes from the three sources: bonds, commercial banks, and development banks.²⁸ Here, following our cross-country analysis, we compare within private borrowing—issuing bonds versus bor-

rowing from commercial banks. Given Hypothesis 1, we expect more transparent municipalities to be more likely to borrow using bonds rather than commercial banks. We restrict our sample to those municipalities which borrowed funds from the private sector between 2004 and 2013, a total of 408 municipalities (borrowing, on average, about 44 percent of their private credit from bond sources).

Mexico's federal government has, over the last two decades, improved government transparency at all levels. A law similar to the FOI Act in the United States passed in 2002 (*Ley Federal de Transparencia y Acceso a la Información Pública Gubernamental*); together with the *Instituto Federal de Acceso a la Información y Protección de Datos* (IFAI) (currently, *Instituto Nacional de Transparencia, Acceso a la Información y Protección de Datos Personales* [INAI]), an autonomous constitutional body charged with guaranteeing the right to access public information.

Simultaneously, civil society organizations emerged, advocating for enhanced transparency in government policymaking. In 2002, a group of non-governmental organizations (NGOs) created *Colectivo Ciudadanos por Municipios Transparentes* (CIMTRA) to assess and encourage local-level political and financial transparency. Similarly, the *Instituto Mexicano para la Competitividad* (IMCO), an NGO founded in 2003, promotes transparency in public finance. Both NGOs created their own transparency indices, although the time and geographic coverage are limited.²⁹ Here, we replicate

²⁸ Development banks—the *Banca de Desarrollo*—are a group of banks run by the Federal government whose aim is to develop specific sectors, such as fishing enterprises under the *Financiera Nacional de Desarrollo Agropecuario, Rural, Forestal y*

Pesquero (FND), and to aid municipal and local development under *Banco Nacional de Obras y Servicios Públicos* (Banobras).

Table 3. Transparency and commercial borrowing in Mexican municipalities

<i>Bond credit (as a share of total commercial credit)</i>			
	(1)	(2)	(3)
Transparency	0.108** (0.050)	0.136** (0.065)	0.197** (0.083)
Observations	1,733	762	762
Outcome mean	0.44	0.43	0.43
Outcome standard deviation	0.49	0.49	0.49
Year FE	✓	✓	✓
Municipality FE	✓	✓	✓
Economic fundamentals		✓	✓
Party/Electoral controls			✓

Notes: All specifications are estimated using OLS. Economic fundamentals are municipal debt, fiscal transfers, tax revenue, and population and agricultural production. Standard errors clustered by municipality are in parentheses. * $p < 0.1$, ** $p < 0.05$, and *** $p < 0.01$.

the HRV method (Hollyer, Rosendorff, and Vreeland 2014), creating an original transparency index at the municipal level.³⁰ On average, the municipalities in our sample had a TRANSPARENCY score of 0.4 (SD of 0.25), where higher values, again, represent more transparent governments.

We test our expectations using an OLS estimation as in Equation (4), analogous to the cross-country estimation in Equation (1):

$$\text{BOND CREDIT (SHARE)}_{it+1} = \alpha_i + \delta_t + \beta_4 \text{TRANSPARENCY}_{it} + \mathbf{X}'_{it}\phi + \epsilon_{it}, \quad (4)$$

where we define BOND CREDIT (SHARE) for a given municipality-year as the share of bond credit in total commercial credit. The vector $\mathbf{X}$ represents economic and political controls: total municipal debt, fiscal transfers, tax revenue, population, and agricultural production. To ensure our findings are not driven by partisan differences or electoral cycles, we control for the identity of the incumbent party as well as gubernatorial and congressional election years.³¹ We include both municipality and year fixed effects in all models (Online Appendix Table A13 presents descriptive statistics).

Table 3 displays the results. In all model specifications, the results align with our expectations. More transparent municipalities are more likely to borrow via bonds, measured as a share of total commercial credit. Based on the estimates from column 3, a one SD increase in the Municipal Transparency Index implies an approximately 5 percentage point increase in bond credit as a share of total commercial credit (more than a 10 percent increase with respect to the mean). Our analysis of subnational borrowing in Mexico provides additional evidence to support our claims regarding transparency and the structure of public sector finance.

²⁹ IMCO's index covers over four hundred municipalities, beginning in 2010. CIMTRA's measurement starts in 2008, but it tracks fewer than twenty municipalities over time.

³⁰ We rely on patterns of missingness of data reported by Mexican municipalities to the *Banco de Información INEGI* (Information Bank). Our measure analyzes 221 indicators since 1994, which represent less than one-third of the total indicators provided. To conserve computing power, we use those indicators with the greatest variance.

³¹ Data drawn from the Municipal Elections Database compiled by the Centro de Investigación Para el Desarrollo, A.C. (CIDAC). For further discussion of municipal debt policy with respect to parties and elections, see Benton and Smith (2017).

Conclusion

Sovereign finance is central to governments' activities. Yet, we know relatively little about the demand-side processes by which governments choose across forms of sovereign credit. Our analyses afford an opportunity to draw together scholarship on sovereign bond markets, IFIs and concessional lending (a subset of foreign aid). This synthesis also reminds us that, while international political economy scholars often are inclined to treat these forms of finance separately, governments, their line ministries and their DMOs typically approach them as a set of financing alternatives (Kaplan 2013; Bunte 2019; Zeitz 2021).

We ground our explanation in variation in governments' induced preferences over transparency of their fiscal behavior generally and their borrowing behavior specifically. We show that opaque governments tend to borrow via debt instruments that require less disclosure, especially in more liquid or less credit-constrained environments. We find robust support, for private as well as official credit, across a variety of tests and measures of transparency. Furthermore, we find support at the subnational level, using data on Mexican municipal-level borrowing.

Further research might pursue some related questions. First, what is the price of opacity? Presumably more opaque governments, associated with greater political instability, and perhaps with higher default risk, find the terms of their loans more severe than their transparent counterparts. What does a preference for fiscal opacity cost when it comes to sovereign borrowing? Answering this question requires the collection of commercial bank loan contracts—which both banks and sovereign borrowers have been very reluctant to make public.

Secondly, government preferences over transparency also may affect sovereigns' use of domestic (versus international) credit, especially in the context of financial repression.³² While much recent research on sovereign borrowing in Global South countries tends to assume that private sector creditors are foreign, some creditors (banks as well as bondholders) are domestic. Lending dynamics, as well as the effects of credit on state-building (Levi 1989; Queralt 2022), are likely different when creditors are part of the electorate. Further research therefore could explore the domestic political dynamics by which governments choose between domestic and foreign sources of credit.

Thirdly, future research could delve further into creditor composition by considering variation within the categories of financing we examine. This may be most obvious in the realm of bilateral official credit, where opacity-inclined governments are even more drawn to credit from non-OECD Development Assistance Committee (DAC) lenders (especially China) than from DAC creditors (Bunte 2019; Cormier 2022). While the scope of our empirical analyses largely predates the rise of China as a source of official credit, future analyses could test this expectation. We also might imagine that governments vary in their preferences between accessing credit via regional development banks versus Bretton Woods financial institutions.

Finally, the ability of governments to make choices among sources of credit, especially in times of high global capital market liquidity, suggests a pessimistic view regarding the capacity of official multilateral lenders, or bondholders, to exert pressure on governments to improve their domestic institutions and practices. To the extent that opaque governments have attractive options in the form of similarly opaque

³² On government policies toward domestic debt, see Betz and Pond (2019).

lenders (Gelpern et al. 2022), credit is unlikely to be a motive for reform.

Appendix and Supplementary Information

The Online Appendix and Supplementary Information are available at the *International Studies Quarterly* data archive.

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