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Income and Asset Disclosure Systems: Establishing Good Governance through Accountability

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Financial declarations or income and asset disclosures (IADs) are quickly becoming an important tool for anticorruption agencies and governments to fight corruption. IAD systems can play two important roles within a broader framework of good governance: prevention and enforcement. In an effort to discover how best to design and implement an IAD system, the analysis conducted suggests that countries ultimately must design a system that best complements the environment in which it will function. However, there are several key principles that policy makers and practitioners need to consider: limit the number of filers to improve the odds of success, set modest and achievable expectations, provide resources commensurate with the mandate, prioritize verification procedures to align with available resources, and balance privacy concerns with public access to declarations.

Income and Asset Declaration systems can be a powerful tool to prevent corruption and detect the theft of public assets. . . . We should never forget the reason we create these systems. As part of an overall anti-corruption strategy, they help ensure that scarce resources are spent honestly and wisely. In this way, we help citizens get the health care, the education, the roads and the quality of life they have paid for and deserve. And. . . this attention to good governance acts as a reinforcing foundation for prosperity and stability. – Otaviano Canuto, Poverty Reduction and Economic Management Network Vice President

Financial disclosures are quickly becoming one of a number of important tools for anticorruption agencies and governments to use in fighting corruption. The genesis of such re-

quirements was an effort to address concerns by citizens about the honesty of civil servants and politicians. By the middle of the 20th century, many of the more developed democratic countries had some form of disclosure requirements for public officials; however, the laws and rules were widely varied.

Moreover, a broader body of empirical research has begun to suggest that well-functioning governance institutions contribute in an important way to economic growth. Governance, as understood in this context, refers to the “essential parts of a broad cluster of institutions” (Acemoglu 2008, p. 1) and encompasses the methods that officials employ in policy making and delivery of goods and services (World Bank 2007). The focus on accountability as a means of improving those processes stems from a belief that establishing the underlying institutional arrangements of accountability (that is, *rules of the game*) and strengthening organizational capacity

to achieve mandates will lead to better governance performance and, by implication, to greater economic growth.

Despite the prominence of governance and anticorruption in the development agenda¹ and the tremendous progress that has been made in measuring governance outcomes in combating corruption,² far less effort has been made to understand the specific policies and institutions that contribute to the control of corruption. Recent experience suggests that intervention in inefficient or ineffective public sectors may alleviate the misallocation of public funds. A new focus on preventive and/or corrective action against illicit enrichment practices is addressing the need to further support this agenda. The misuse of funds at all levels of government leads to failures in economic development, no matter the cause.

Better evidence on the link between institutions and governance will encourage efforts to instill a culture of integrity in public service that shapes behaviors and perceptions of good governance. Transparency and accountability practices contribute to good governance both by explicitly defining acceptable actions and by establishing an environment in which public officials understand what is expected of them, both from the system and from the citizens they serve. Economic development policies will benefit from systems that function in an environment of credible accountability practices and that shape the incentives of public officials through prevention and enforcement.

IAD systems can play two important roles within broader good-governance efforts: prevention and enforcement. On the prevention side (exemplified by systems in the United States and countries of the European Union), IAD requirements can help bring to light conflict-of-interest risks faced by public officials who file IAD forms, thereby facilitating avoidance of situations that may lead to inadvertent (or intentional) misuse of public resources. On the enforcement side (exemplified by systems in places such as Hong Kong, China; Macao, China; or Georgia), IAD requirements can provide one more source of information for use when investigating and prosecuting suspected illicit enrichment cases, thereby aiding asset recovery efforts.

Recent empirical work on IAD policies and practices highlights five key trade-offs that must be addressed, and it suggests principles that should guide policy makers (as further explained below).

Key Trade-offs in Design and Implementation of IAD Systems

There are several key considerations for policy makers and practitioners building an effective IAD system and establishing the credibility of the system with stakeholders. Discussed below are some of the trade-offs that countries face in developing and implementing an IAD system in a given context.³

Limit the Number of Filers to Improve the Odds of Success

The number of individuals who are required to declare their incomes and assets may compromise the effectiveness of an IAD system, particularly if resources devoted to that system are limited. Limiting coverage to positions most at risk of significant conflicts of interest or illicit enrichment (such as procurement officials who directly oversee spending decisions) can provide an important option for ensuring both the efficacy and the cost effectiveness of an IAD system. It is imperative that governments craft an approach that takes into account such trade-offs. This imperative applies both to policy makers who are creating an IAD system and to the public servants who are responsible for implementing the system. In the latter case, if available resources are particularly restricted, it may be appropriate to focus on collecting declarations from high-level officials or from positions with the most conflict-of-interest risk or with the greatest access to funds that could be stolen.

It is important, however, to understand both the goals of the system and the ability of the implementing agency (or agencies) to meet those goals. Although limiting the number of filers may be an effective way to ensure their declarations are appropriately overseen, there may be other avenues available to ensure proper implementation and monitoring—such as electronic filing and electronic verification of the content of the declarations, as the experience of Argentina suggests.

Set Modest and Achievable Expectations

Realistic expectations concerning the outcomes of an IAD system can significantly improve the system's credibility with stakeholders, thereby enhancing the odds of success. The failure of IAD systems to live up to expectations, particularly if swift and comprehensive outcomes were promised, can ruin the sustainability of reform efforts. For this reason, it is of fundamental importance that expected outcomes be *achievable*. Examples of ways to address this challenge include limiting the number of filers, setting realistic time frames for achieving clear milestones, and not promising to significantly reduce corruption and successfully prosecute corruption cases with the IAD system alone. An IAD system is only one of many tools that can be used in the effort to detect and discourage corrupt activity. These systems are best considered in conjunction with other mechanisms for encouraging the accountability of public officials.

Provide Resources Commensurate with the Mandate

Without adequate resources, even the best-designed IAD system functions poorly. Not only should an IAD unit's budget remain independent from those of other entities, provide for adequate resources to support the system, and ensure continuity of funding; but the unit itself must have properly

trained personnel, secure and functioning facilities, and the ability to monitor the system.

What is typical in practice is modest or little financial support for IAD implementation. In many cases, this is symptomatic of broader budgetary constraints for the government. In the Kyrgyz Republic, for example, several staff have expressed concern that financing from the budget is not adequate for the number of declarations received.

Beyond mere monetary resources, it is also important to consider the staffing needs relative to the number of declarations to be collected or analyzed. For instance, Mongolia's anticorruption agency has a dedicated staff of 10 people who are directly responsible for the declarations of the 256 highest-ranking public officials (a 1:25 ratio); however, they are ultimately responsible for a total of 52,000 declarations (a 1:5,200 ratio) submitted each year. These numbers can be analyzed in comparison with those of Kyrgyzstan, which has a staff of 4 people responsible for 17,000 declarations (a 1:4,250 ratio); Argentina, where a staff of 12 is responsible for 34,000 declarations (1:2,833); and Croatia, where a staff of as many as 27 people manage 1,800 declarations (1:66). As these numbers suggest, the ratio of personnel to declarations can vary wildly among countries, and it doesn't necessarily correlate directly with "success" for the system. The key issue is what these staff are expected to do with the declarations, and whether those responsibilities are commensurate with the number of declarations being received.

Argentina has tried to institute an electronic verification system for the declarations, easing the demands on individual staff. Mongolia has decided to focus resources on the declarations of the top 256 officials there, while devolving some responsibilities for the remaining declarations to ethics officials within individual government agencies. Other countries, recognizing the staffing shortages they may face, have chosen to concentrate on submission compliance rather than on verifying the accuracy of the declarations. These are significant trade-offs that must be considered when designing and implementing a system.

Prioritize Verification Procedures to Align with Available Resources

A well-designed IAD system requires timely review of the content of declarations by a qualified and impartial official. Without monitoring and verifying the data in declarations, the process of filling out declarations can easily become a mere formality. However, verifying the accuracy of declarations is one of the hardest parameters to implement. As a consequence, it is wise to take a multitiered approach to verification, beginning with the first tier and encompassing the succeeding tiers as resources and authority permit. These are the suggested tiers:

- *Tier 1: Simple checks for both completeness and consistency of the information contained in submissions.* Irreg-

ularities or inconsistencies within a single IAD form or in IAD forms over time can alert an experienced reviewer to potential breaches of ethical or legal behavior, particularly if the law allows reviewers to follow up and seek clarification or corroboration. If resources prevent undertaking these simple checks for all declarations, simple checks on a high-risk subset or a random subset of the declarations can provide significant benefits at a fraction of the cost.

- *Tier 2: Cross-checking data with other sources of related information.* A careful cross-checking review can reveal discrepancies between asset declarations and other sources—such as property registries, tax declarations, and other databases. To be effective, the IAD agency needs to have the authority and the capacity to conduct such checks, and the information from external sources needs to be available and reliable.
- *Tier 3: Computerized pattern recognition checks.* Electronic IAD review systems equipped with data-mining software enable implementing agencies to conduct random and risk-targeted verifications of asset declarations and to "red-flag" patterns or irregularities that might escape the notice of even the most diligent reviewers. Electronic submission and verification procedures thus can significantly enhance the effectiveness of IAD systems by enabling reviewers to select and prioritize specific risk categories.

All three of these verification tiers can be facilitated by establishing user-friendly submission systems that ensure information is provided in a *consistent format* (making it easier to review). In countries with technological capabilities, capturing returns in *electronic* form can automate completeness and consistency checks. Such uniform formatting and electronic filing can reduce both delays caused by incomplete or incorrect declarations and content verification costs. However, in determining whether such a system is appropriate, it is important to consider both the initial costs of implementing the system and the long-run costs of maintaining, running, and updating such equipment.

Balance Privacy Concerns with Public Access to Declarations

Even in countries where an IAD system is acknowledged as a powerful tool to prevent conflicts of interest and to detect possible corruption, the tension between granting public access to asset disclosure information and an official's right to (or concerns about privacy) often emerges as a controversial issue. Although citizen privacy is accepted in some countries as a fundamental individual right, privacy rights may hinder the effectiveness of some disclosure systems—particularly those that lack rigorous verification procedures and thus depend all the more on public scrutiny for effective enforce-

ment or those in countries where the enforcement of laws against illicit enrichment are weak or unreliable. In an attempt to resolve the debate between public availability and privacy, some experts suggest that a distinction be made between different categories of information contained in a financial disclosure, thus allowing public access only to a subset of that information—namely, that information deemed not to compromise privacy rights or personal security. (See box 2 for country-specific examples.)

Snapshots of IAD Implementation

As mentioned at the beginning of this note, countries should ultimately design an IAD system that best complements the environment in which it will function. Below are some snapshots from a selected number of country examples, reflecting different approaches from the perspective of both their legal framework and their choice of implementation approach.

Box 1. The Limits of Good Practice

Whereas most countries with an asset declaration system apply many of the “good-practice” elements of an IAD legal framework, here are some notable findings from a sample of 74 countries:

- Only 11 percent of countries with an IAD framework require free provision of declaration content.
- Fully 40 percent of countries fail to specify a location at which declaration content may be accessed.
- Fully 82 percent of countries fail to specify how long IAD records must be maintained.
- Whereas nearly 60 percent of countries identify an agency tasked with verifying or reviewing declarations,

no more than 30 percent of countries specify explicit criteria in the legislation for this responsibility.

The descriptive statistics here are using data and indicators that can be found on the recently launched World Bank data portal. (For more information, see the PAM-AGI Web site provided in the source note to this box.) The portal is a powerful tool to explore consolidated data and indicators on governance in several countries across the world, including the IAD legal frameworks in 87 countries.

Figure B.1. How Is Declaration Content Verified?

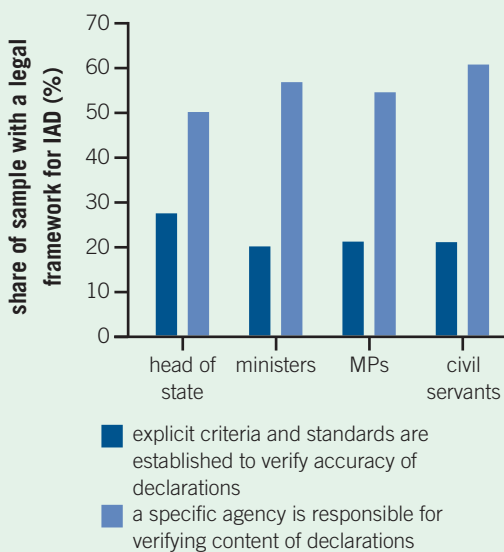


Figure B.2. Where Are Declarations Accessed?

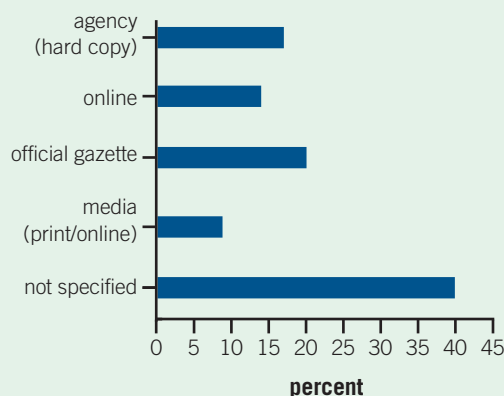
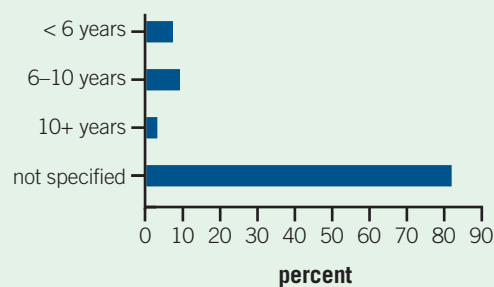


Figure B.3. How Long Are Records Maintained?



Source: Public Accountability Mechanisms (PAM) Initiative, Income and Asset Disclosure legislative indicator dataset, 2009: <https://www.agidata.info/pam>.

Argentina: Continuously Strengthening a Sound IAD System

Since its passage in 1999, the IAD system for Argentina's executive branch has achieved significant success in filing compliance and implementation. The system was designed to enable content accuracy verification of declarations from the most senior 5 percent of public officials, and to provide a systematic and targeted audit of the remaining 95 percent of officials on the basis of risk. These categories of risk include declarations that demonstrate significant changes in asset values over time (revealed through electronic data mining) and employees of certain ministries where the risk of engaging in corruption is higher (for example, taxation or custom agency employees).

Although challenges of enforcing sanctions remain—largely because of bottlenecks in the court system—some of Argentina's procedures may represent good practice. The country's experience is also a good example of (1) an IAD system whose procedures have been adjusted and honed over time through learning by doing, (2) a strong framework for coordination between the verification of declarations and the investigation functions of the broader anticorruption agenda, and (3) the power to conduct investigations into underlying

acts of corruption in which asset declarations may play an important part.

Macao, China: Protecting Files and Filers

Notwithstanding the advent in some jurisdictions of online submission of declaration forms, income and asset declaration systems typically produce very large amounts of paper documents. The forms are legally required to be kept confidential at all times. There are strict provisions protecting the integrity of the data contained in these files. In many countries, forms should be (but rarely are) kept for several years. Moreover, storage capacity of asset declarations remains a problem for many countries. The risk of destruction or theft requires the same sorts of risk mitigation measures, regardless of whether the data are stored in hard-copy or electronic form. The specifics of each measure, however, will differ between paper and electronic systems. For example, the system in Macao, China, mitigates against this risk by producing forms that contain carbon copies that are stored in a secure facility. There is currently an initiative to have copies stored in a separate building to guard against loss through fire or natural disaster.

Mongolia: Good Practices in a Nascent IAD System

Mongolia's experience is a good example of gradual implementation of an IAD system in its early stages. A 2006 law created the Independent Agency Against Corruption (IAAC), which is responsible for managing the IAD program. Entering its fourth year of existence, the IAAC has achieved significant progress in relatively little time, reporting a 99.9 percent submission compliance rate. Despite its success on this front, the agency has faced some challenges regarding resources and obtaining cooperation from outside agencies and banks.

The IAAC, although granted authority to verify any declaration at its discretion, is specifically required to analyze the declarations of officials who are the subject of an official complaint. Despite having the authority to audit other declarations, the agency reports that it has chosen only to audit declarations if an official complaint is made—a choice made in an effort to ensure that its audits do not appear to be politically motivated. This is an example of an anticorruption agency taking the country's political circumstances into account when determining policy, attempting to establish its credibility as a nonpartisan and fully independent agency. However, such a strategy may not always be advisable because official complaints could prove politically motivated. A preferable approach is where the agency is able to implement random or risk-based audits that are believed by the public to be honest and impartial. Because Mongolia's current approach is not a particularly systematic approach to risk-based targeting, it is a good idea to complement such re-

Box 2. The Issue of IAD Forms Confidentiality in Selected Economies

Guatemala's Probity Law ensures complete confidentiality of asset disclosures, except by court order. This ban extends to government entities, including the Prosecutor's Office. Given the limits this places on the use of the declarations, it might be preferable to improve interagency cooperation for the purpose of criminal investigations, rather than to ban access to declarations.

Similarly, the IAD system in Macao, China, remains completely confidential. However, declaration information has been used successfully to prosecute corrupt officials charged with illegal enrichment, and so it may contribute to public faith in the system. It is important to note, however, that this system has achieved its level of success in an environment characterized by a strong rule of law.

On the other side of the spectrum, Hong Kong, China; Kyrgyzstan; and Mongolia use a tiered public access model, granting access according to the seniority of the declaring official. Mongolia, in particular, requires investigations of any official's asset declaration if an allegation of inaccuracies on the declaration is lodged against the official by any member of the public.

quirements with a systematic targeting of verifications—even if the systematic algorithm is simply a random sample of all filings.

Notes

1. See, for example, World Bank (1997, 2000, 2004, 2006a,b).
2. See, for example, Kaufmann, Kraay, and Mastruzzi (2006); and TI (2003, 2005, 2006).
3. For more details on the individual trade-offs and their overall role and impact on IAD systems, see Burdescu et al. (2009).

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site, a tool to explore data and indicators on transparency and accountability in World Bank client countries (including the IAD legal frameworks in 87 countries) is available at <https://www.agidata.org/pam>.

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