Salient Issues in Income and Asset Disclosure Systems: Lessons Learned from the Field in Preventing Conflict of Interest and Combating Illicit Enrichment

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“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, PREM vice president

Asset disclosure (AD) systems—also referred to as financial disclosure or asset declarations—can play two important roles within broader anticorruption efforts: prevention and enforcement. On the prevention side, AD requirements can help bring to light conflict of interest risks faced by public officials who file ADs, thereby facilitating the avoidance of conflict of interest situations. On the enforcement side, AD requirements can provide one more source of information that may be used in the investigation and prosecution of suspected illicit enrichment cases, thereby aiding asset recovery efforts. Effective collaboration, both domestically and internationally, between policy makers and practitioners is essential for such benefits to materialize.

Recent empirical work on AD policies and practices highlights five key trade-offs that must be addressed, and it suggests principles that should guide policy makers as they address those trade-offs:
1. limit coverage to improve odds of success;
2. set modest and achievable expectations, rather than ambitious objectives that are unlikely to be met;
3. provide resources commensurate with the mandate;
4. prioritize verification procedures to align with available resources; and
5. balance privacy concerns with public access to declarations.

**Background and AD Reference Tools**

In an effort to broaden the approach to asset recovery and to link it properly with governance and anticorruption strategies, the Stolen Asset Recovery (StAR) Initiative—a partnership between the World Bank and the United Nations Office on Drugs and Crime—commissioned the preparation of a guide for policy makers and practitioners in the field of asset and income declarations. The project was developed in partnership by StAR and the Public Accountability Mechanism under the Actionable Governance Indicators (PAM-AGI) initiative in the Public Sector Governance Group of the World Bank. The report *Income and Asset Declarations: Tools and Trade-Offs* was presented in November 2009 for consultations in Doha during the VI Global Forum on Fighting Corruption and the Third Conference of the States Parties to the United Nations Convention against Corruption.

In an effort to identify how best to design and implement an AD system, that report recognizes that each country ultimately must design a system that is tailored to the environment in which it will function. As such, the study analyzes some of the trade-offs faced by policy makers and practitioners alike in designing and implementing an optimal AD system in a particular context.

That report complements the Public Sector Governance Group’s development of AGI, which include a set of indicators for both the legal framework and implementation of AD systems. These indicators are available to World Bank staff for monitoring and evaluating AD policies and procedures and for engaging in dialogue with client countries; they also are available to other interested parties outside the Bank.

These indicators can be found on the recently launched AGI data portal and the PAM-AGI Web site, both of which provide powerful tools to explore consolidated data and indicators on governance in client countries, including the AD legal frameworks in 87 countries. (For a select number of descriptive AGI-PAM statistics, see box 1.)

**Actions to Address Key Trade-offs in Design and Implementation of AD Systems**

As mentioned at the beginning of this note, in the context of work on AD policies and practices, there are at least five key trade-offs and several principles that should guide policy makers and practitioners when addressing those trade-offs. They are detailed below.

*Limit coverage to improve odds of success*

The extent and breadth of an AD system’s coverage can compromise its effectiveness, particularly if resources devoted to that system are limited. Limiting coverage to positions most at risk for significant conflicts of interest or illicit enrichment can provide an important option for ensuring a system’s efficacy and cost effectiveness. It is imperative that governments craft an approach that takes into account the need to limit coverage so the capacity of the implementing agency is not overstretched and to target that coverage where the risk of corruption or conflict of interest is greatest.

*Set modest and achievable expectations, rather than ambitious objectives that are unlikely to be met*

Realistic expectations about the outcomes of an AD system can significantly improve the system’s credibility with stakeholders, thereby enhancing its odds of success. The failure of AD systems to live up to expectations—particularly if swift and comprehensive outcomes were promised—can ruin the sustainability of re-

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form efforts. For this reason, it is of fundamental importance that expected outcomes be achievable. To address this challenge, policy makers may limit coverage, set realistic time frames for reaching clear milestones, and avoid promising to significantly reduce corruption and/or successfully prosecute corruption cases with the AD system alone.

Provide resources commensurate with the mandate
Without adequate resources, even the best-designed AD system functions poorly. Not only should an AD unit’s budget remain independent from other entities, provide for adequate resources to support the system, and ensure continuity of funding; but the unit also needs to 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 AD implementation. In many cases, this is symptomatic of broader budgetary constraints for the government. In the Kyrgyz Republic, for example, several staff expressed a concern that financing from the budget is not adequate to address the number of declarations received. The salaries

Box 1: The Limits of Good Practice

Whereas most countries with an AD system apply the “good practice” elements of an AD legal framework, there are some notable exceptions: Less than 30 percent of countries specify in legislation the explicit criteria for verifying the content of declarations (figure B.1). Only 11 percent of countries with an AD framework require free provision of declaration content. Fully 40 percent of countries fail to specify a location at which declaration content may be accessed (figure B.2). Fully 82 percent of countries fail to specify how long AD records must be maintained (figure B.3). Although nearly 60 percent of countries identify an agency tasked with verification or review of declarations, no more than 30 percent of countries specify explicit criteria for his responsibility in the legislation.

**Figure B.1. How Is Declaration Content Verified?**

- explicit criteria and standards are established to verify accuracy of declarations
- a specific agency is responsible for verifying content of declarations

**Figure B.2. Where Are Declarations Accessed?**

- agency (hard copy)
- online
- official gazette
- media (print/online)
- not specified

**Figure B.3. How Long Are Records Maintained?**

- < 6 years
- 6–10 years
- 10+ years
- not specified

of the officers of the Civil Service Agency—like those of all other civil servants—are quite low in comparison with the cost of living.

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 Independent Agency Against Corruption (IAAC) has a dedicated 10 staff members who are directly responsible for the declarations of the 256 highest public officials (a 1:25 ratio); ultimately, they are responsible for a total of 52,000 declarations (a 1:5,200 ratio) submitted each year. For comparison purposes, Kyrgyzstan has a staff of 4 responsible for 17,000 declarations (1:4,250 ratio), Argentina has a staff of 12 responsible for 34,000 declarations (1:2,833 ratio), and Croatia has a staff of up to 27 responsible for 1,800 declarations (1:66 ratio). As these numbers suggest, the ratio of personnel to declarations can vary wildly among countries. The key issue is what these staff are expected to do with those declarations.

Argentina has tried to institute an electronic system for verifying the declarations, easing the demands on individual staff. Mongolia has decided to focus resources on the declarations of the top 256 officials there, and to devolve 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 verifying the accuracy of 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 AD system requires timely review of the content of declarations by a qualified and impartial official. Without monitoring and verifying data, the process of filling out declarations can easily become nothing more than a meaningless formality. However, AD verification is one of the hardest parameters to implement. For that reason, 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.** Irregularities or inconsistencies within a single AD form or in AD forms over time can alert an experienced reviewer to potential breaches of ethics or criminal behavior, particularly if the law allows the reviewer to follow up and seek clarification or corroboration. If resources prevent undertaking these simple checks for all declarations, tier-1 checks on a high-risk 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 AD 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 AD 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 AD 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 an information technology–enabled environment, capturing returns in electronic form can automate checks of completeness and consistency. Such uniform formatting and electronic filing can reduce delays caused by incomplete or incorrect declarations and reduce content verification costs.

**Balance privacy concerns with public access to declarations**

Even in countries where the AD mechanism is acknowledged as a powerful tool to prevent conflicts of interest and to combat 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 therefore depend all the more on public scrutiny for effective enforcement or systems in countries where the enforcement of laws against illicit enrichment is 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. Such a distinction would allow public access only to a subset of that information—namely, information deemed not to compromise privacy rights or personal security. (See box 2 for country-specific examples.)

**Snapshots of AD Implementation Contexts: Argentina and Mongolia**

Since its passage in 1999, the AD system for Argentina’s executive branch of government has achieved significant success in compliance and implementation. The AD system was designed to enable verification of declarations from the most senior 5 percent of public officials, and the systematic and targeted audit of the other 95 percent of officials on the basis of risk. The 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 (such as taxation departments, customs agencies, and the like).

Although sanction enforcement challenges 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 AD system whose procedures have been adjusted and honed over time through learning by doing; (2) a strong framework for coordination between the

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**Box 2: Highlights of Some AD Systems**

Guatemala’s Probity Law ensures complete confidentiality of asset declarations, 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 AD 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.
verification and investigation functions of the AD system; and (3) the power to conduct investigations into underlying acts of corruption, in which asset declarations may play an important part.

Mongolia’s experience is a good example of gradual implementation of an AD system in its early stages. The law created IAAC, which is responsible for managing the AD program. Entering its third year of existence, IAAC has achieved significant progress in relatively little time, reporting a 99.9 percent submission compliance rate. Despite its success on this front, IAAC has faced some challenges with regard to resources and obtaining cooperation from outside agencies and banks.

Although granted authority to verify any declaration at its discretion, IAAC is specifically required to analyze the declarations of officials who are the subject of an official complaint. Because this approach is not a particularly systematic approach to “risk-based targeting,” it is a good idea to complement such requirements with a systematic targeting of verifications, even if the systematic algorithm is simply a random sample of all filings.

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