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Asset Declaration and Corruption Risks

Monitoring Anticorruption Policy Implementation tool

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Implemented by:



Government
Transparency
Institute



Types of indicators

Focused on tracing the individuals

- changes in income
- exceeding average income of the same professional group
- compliance with regulations

Focused on companies/public bodies

- usually through linking to other datasets, e.g. public procurement data, Land Register, BO/Company register, etc
- conflict of interest
- data inconsistency across datasets

Indicators tracing the individuals

1) Establishing thresholds (i.e. by using information from similar officials / previous years):

- For number of apartments/land plots/buildings/ etc
- For total value of real estate/vehicles/art/securities/ etc
- For gifts values

2) Presence/absence of certain information

- Indication of property without indication of its value
- Inconsistencies over the years
- Discrepancy between assets and declared income

Indicators tracing companies/public bodies

1) Consistency with other datasets

- Some data is present in one register (e.g. Company/Land register) and not present in asset declaration or vice versa
- Values of the same assets registered differently across datasets

2) Presence of the conflict of interest

- Public procurement data
- Company register / BO register

Example: Armenia

- Matching AD data to Public Procurement data through buyer names and year => using cash, loans, securities and income to calculate the total wealth (assets types that have an estimated value)
- Drastic increase in individual wealth of public officials:
 - Data needs to be complete, longitude (at least two years)
- **Change in total wealth:** Changes in the value of assets (both cash on hand and securities) is used as a proxy for changes in the total wealth of public officials
- **Change in income:** Total wealth accumulation can be inferred from “capitalized” income flows that, to a large extent, drive changes in wealth.
- **Change in the total value of debts:** loans, especially large loans are a convenient way to hide illicit enrichment. This may take the form of a large loan from a bank or company linked to the corrupt network which the official is expected to default on once he is no longer required to fill in a declaration and is less exposed to public scrutiny.

Example: Armenia

Linking Asset Declaration to Public Procurement=>

- Finding a correlation between Corruption Risk Index and changes in total wealth (cash and securities)
- It captures one modality of corruption, that is kickbacks for steering contracts

Example: Bulgaria

- Getting list of PEPs from Asset Declaration data
- Linking it to the Public Procurement data
- Discovering how different types of political connections influence the CRI:
 - Legislative/local government/SOE => increase in the corruption risk index in PP

Example: Russia (Szakonyi 2020)

- Businessperson occupying political position => allows a firm to achieve political representation in-house => reduces monitoring and agency costs, and becomes an effective avenue for firms to secure their desired policies
- Using approximations of “asset specificity,” or how tied certain industries are to fixed, immobile assets, as an indicator of both interest in and vulnerability to government regulation.
 - a strong relationship between the level of asset specificity of a sector and whether member firms are likely to opt for businessperson candidacy

Political connections / conflict of interest

- Gong and Ren (2013, p. 5) a conflict of interest is a “necessary rather than sufficient condition of corruption”.
 - Conflict of interest is a “incompatibility between the public interest associated with official duties and interests derived from the private domain”
- Developing direct political connections does not necessarily produce better outcomes for firms. Political connections can undermine a firm’s competitiveness, investment behaviour, and ability to innovate (Desai and Olofsgard (2008)).

Example: Russia

- Russian case - firms connected to winning candidates increase their revenue by 60 percent and profit margin by 15 percent by the final year these candidates spend in office
- Winning a seat in a regional legislature increases a firm's probability of accessing state procurement by approximately 40 percent, resulting in \$700,000 of revenue.
- Connected firms are able to increase both their revenue and profits by tapping into the largesse of public procurement.
- Rents are accruing to both ruling party and opposition members
 - Legislatures reduce social protest by providing rent-seeking opportunities to key opposition elites who, in return for access to these spoils, demobilize their supporters (Reuter&Robertson 2015)

Example: Russia (the one you cannot catch simply with quantitative methods)

- Investigation by Alexey Navalny's team (2017) about former prime minister and former president of Russia Dmitry Medvedev (“Он вам не Димон”)
- A friend of Medvedev is a head of charitable foundation “Dar”, which gets money from ‘Gasprom’ and donations of Russian oligarchs – one of the richest yet not very active foundations
- Svetlana Medvedeva is a head of Foundation for Social and Cultural Initiatives => which has same founders and same legal address as “Dar”
- Oligarch Alisher Usmanov makes a gift to “Fund for Support of Socially Significant State Projects” (mansion for 5 billion rubles) => people managing this Fund are the same as people managing “Dar”
- In 2015 someone breaks into the email account allegedly related to Dmitry Medvedev => there are many orders from Amazon (in three months allegedly Medvedev ordered 73 T-shirts, 20 sneakers, 30 swimming trunks) going to the address of Vladimir Diyachenko, a head of a company with the license address = legal address of “Fund for Support of Socially Significant State Projects”

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**Thanks for
watching!**

