Keeping Good Company

How Financial Regulation is Helping Reduce Corruption in Market Economies

OGP Resource Guide

Open Government Partnership

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Cover photo: *Man delivering goods along a forest in Paraguay. A 2023 Global Witness report found that major banks and financial institutions either fund or hold shares in beef companies linked to major deforestation in the Gran Chaco region. Policy to support good forest stewardship can aid in combatting deforestation and climate change.*

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Better reporting requirements around company activities can help ensure that companies are not illegally seizing communal lands, like that of the Jogbahn clan in Liberia.

Introduction

Corruption thrives where public participation is limited, data is hidden, and critical voices are silenced. According to the United Nations Principles for Responsible Investment (UN PRI) network, "corruption adds 10 percent to the cost of doing business globally and up to 25 percent to the cost of procurement contracts in developing countries," with corruption losses estimated at US$2.6 trillion, or five percent of the global gross domestic product (GDP). In another instance, the manipulation of tax loopholes and opaque reporting also has concrete consequences. The OECD estimated in 2015 that corporate efforts to avoid paying taxes cost governments around the world between US$100–240 billion in lost tax revenues each year, or about "four to 10 percent of the global corporate income tax base." This translates to less money for schools, roads, and nurses.

Member governments in the Open Government Partnership (OGP) can harness the power of markets to improve the quality of governance within their own borders and beyond. To truly do so requires a two-pronged approach. The first is creating an enabling environment to ensure that investors reward corporations that are being "good citizens" by resisting corruption, supporting the rule of law, and engaging fairly in democracy. The second element is undertaking reforms to reassure investors that the corporations they invest in are safe bets that have safeguards in place to limit undue influence, embezzlement, and fraud.

The growing field of environmental, social, and governance (ESG) investing, or responsible investing, has taken off in recent years, with major investment firms, wealth funds, and public pension funds taking public stances on these issues. In the past decade, investors are also seeing increasing dividends when they pay special attention to these issues—signatories to the UN PRI had at least $100 trillion in assets related to ESG investments by the end of 2020.

Yet much work remains to be done. The regulatory environment must support good actors (those who follow the law, act ethically, and support shared values of sustainable development and democracy). It must also ensure that bad actors (those that break the law or support illegal behavior) do not stand to benefit from their wrongdoing.

Fortunately, many OGP governments are already undertaking the reforms necessary to ensure that the world of finance combats corruption and strengthens democracy. These reforms include tax transparency, whistleblower protection, and anti-money laundering regulations.

This guide is the first of its kind to capture how governments can take steps to empower investors to fight corruption and improve the quality of governance in a single resource.

OGP can play a special role in encouraging better reforms to reward investments in good public sector governance. While strong enabling environments will require a mix of public and civic pressure, corporate innovation, international coordination, and beyond, OGP's core strength is in enabling government reform. Please see *Returns Made Real: How Investors Can Advance Open Government Reforms* for a discussion of how investors can use OGP to promote good governance and help meet their sustainability targets.

HOW OGP WORKS

OGP was formed in 2011 by governments and civil society organizations seeking new ways of working together to address difficult challenges, share innovations globally, and implement specific and measurable open government actions that help all people, not just the most powerful.

OGP provides a unique, proven platform to advance governance reform with several key elements:

- **Concrete commitment and action:** On a regular cycle (most often every two years), OGP members submit action plans that are co-created with civil society. The hearts of these plans are their commitments to open government reforms. Ideal commitments should be verifiable, impactful, and aligned with the Partnership's values of promoting transparent, participatory, inclusive and accountable governance.
- **Co-creation:** Collaboration between government, civil society, and other stakeholders (e.g., citizens, academics, private sector) is at the center of the OGP process. Participating governments must ensure that a diversity of voices can meaningfully participate and shape commitments. This collaborative process of developing OGP action plans is referred to as co-creation.
- **Visibility and accountability:** Being in OGP raises members' visibility by highlighting the stories of reformers within and beyond government to a broad audience and raising the profile of member countries working on open government reform. OGP also provides an accountability platform for members through the Independent Reporting Mechanism (IRM), which provides independent, evidence-based, and objective reporting. Additionally, a country's participation in OGP may be reviewed if it acts contrary to the OGP process or OGP principles. Critically, the Partnership supports accountability in terms of both the quality and the depth of co-creation, as well as the ambition and delivery of commitments.
- **Learning and community:** OGP members also have access to a network of peer reformers worldwide through which they can share knowledge about best practices and lessons learned from past reform efforts. OGP actively encourages exchanges through events, training sessions, research publications, and blog posts.
- **Evidence for the OGP model:** Ten years' worth of data strongly suggest that the OGP model works. When governments substantively engage with civil society in the OGP process, commitments are more ambitious, implementation rates are higher, and reforms have stronger early results. Countries implementing recommendations from the IRM also tend to have about 25 percent more ambitious commitments. And most importantly, membership in OGP leads to real-world change, with OGP members outperforming non-OGP members on the topics of beneficial ownership transparency, fiscal transparency, and open contracting.

Financial Regulation to Combat Corruption

Responsible investment requires an enabling environment.

The private sector generally, and the financial sector and corporations in particular, can help improve governance. This is especially true when the regulatory environment favors investors that follow the rule of law and have the legal backing to carry out responsible practices.

This section of the report lays out reforms that regulators increasingly use to ensure that responsible actors are rewarded for their risks and that less responsible actors are not given unfair advantages. In particular, financial regulators are increasingly introducing new measures to ensure that shareholders and other stakeholders have a clear picture of how publicly traded companies and borrowers are supporting good governance and not contributing to corruption or violation of human rights.

Good governance increasingly means responsible corporate citizenship.

When people talk about the "G" in ESG investing, many refer to the governance of corporations. That is, who is in charge, what policies are in place internally, and what role board members play in overseeing decision-making and policy implementation.

This is changing rapidly, however. Increasingly, regulators, industry actors, and investors are working to ensure that "governance" also refers to how companies interact with governments by encouraging good government, rather than facilitating or taking part in corruption. While there remains some debate about the relationship between market performance and support for corporate good governance, there is strong evidence that more transparency and accountability increase foreign direct investment (FDI) and support from international organizations such as the IMF, which increasingly prioritize good governance practices as part of its projects.

Line ministries and agencies have been primarily mandated to ensure that markets serve environmental, social, and governance goals. Ministries of labor protected worker safety, environmental agencies regulated pollution and required disclosure, and ministries of justice investigated cases of bribery, fraud, or racketeering. These agencies still play a central role in ensuring that markets are part of the mix.

But, over the last several decades, it has become clear that markets can also be shaped in ways that support these ESG goals. Without guidance, companies may openly engage in bribery or "facilitation payments," and shareholders may not know which companies are keeping their word on climate pledges or who is respecting human rights and democracy.

Better corporate transparency can ensure that company actions match aspirations, especially on issues like anti-climate lobbying. This directly affects places like Mongolia, where agriculture is particularly sensitive to climate change.

The growing formalization of ESG captures this change in legal and voluntary standards at the national level. Three examples of this stand out:

- **Extractives industries transparency:** Four major markets (the European Union, the United Kingdom, Canada, and the United States) now legally require oil, gas, and mining companies to declare payments to governments. This includes taxes, royalties, and bonuses to officials. Financial regulators in these countries have enacted laws requiring companies operating on their exchanges to disclose payments. Countries relying heavily on extractive industries have also taken important steps to increase transparency and oversight of the sector. For example, both Nigeria and Indonesia created beneficial ownership registers for the extractive industries, which Nigeria had made public. Nigeria expanded the register to all sectors in May 2023.
- **Climate disclosure:** Similarly, market regulators are requiring disclosure of climate and environmental risks (also known as "green reporting"). This began with the European Union's Sustainable Finance Taxonomy, which requires standards and disclosures around "sustainable" corporate activities. Similar risk requirements have been adopted in the United States and are increasingly being adopted across other jurisdictions.
- **Political contributions:** Numerous major markets also require transparency about donations to political campaigns. Often, these disclosures have been required by electoral management authorities. But shareholders and major investors have increasingly been calling for corporations to directly disclose this information as well. Nowhere has this been more true than in the area of climate change.

Extractive industries revenue transparency and political contributions are directly tied to countering corruption. Activist investors have also been interested in climate-related disclosures, as they often shine a light on the difference between a company's public pledges and its actual activities.

Nine Market Regulations for Good Governance

Increasingly, market regulators are requiring disclosure by companies engaging in politics or at risk of enabling or participating in corruption. Disclosing how companies may be influencing political decisions, facilitating corruption, and undermining trust in markets can help investors better determine risk and predict returns on their investments. As key stakeholders—including employees and shareholders—place increasing weight on the alignment of companies' activities with their public positions, greater transparency can help investors identify potentially problematic corporate practices when making investment decisions. Critically, investors can also leverage their insight into issues to hold corporations to account, particularly by aligning such pushes for reform with government-led initiatives.

Below are nine transparency and accountability requirements to help corporations support good governance.

These reforms have been increasingly adopted by OGP member countries and beyond. Critically, each of these reforms not only support good governance on its own but also reinforce each other if implemented together. For a few examples, know-your-customer (KYC) reporting regulations can also be used to prevent tax fraud, while beneficial ownership transparency can improve counter-corruption measures in public procurement, KYC, and tax collection. In the following examples, reforms refer to either the passage of laws and regulations or the implementation of such legal requirements.

South Africa is a world leader in budget transparency and audits. This reduces opportunities for misallocation of funds and improves competition. Pictured: A CSO that has worked with the government on this topic.

LOBBYING

Lobbying regulations seek to **capture data on who is influencing political decisions and policies**, including details of interactions with public officials such as dates and times of meetings, topics discussed, and money spent. To track this information, regulations can take the form of public registries (either voluntary or mandatory), where lobbyists register themselves and their activities, and ethics rules that lobbyists agree to follow.

SUGGESTED GOVERNMENT REGULATIONS

- **At minimum, publish the agendas of certain categories of high-ranking public officials online**, including meetings with external organizations and interest groups, if such disclosures do not already exist.
- **Create a public record of private parties' influence** on a decision, piece of legislation, or regulation, such as the identities of stakeholders met, public officials involved, the object and outcome of their meetings, and an assessment of how the inputs received factored into final decisions.
- **Include de facto lobbyists in disclosure requirements**, such as charities, NGOs, think tanks, and religious organizations. Such reforms require safeguards to prevent such requirements from being used to curtail civil rights and liberties.
- **Include a specific definition of "indirect lobbying"** (such as through social media campaigns) and how it must be disclosed.
- **Require industry associations to disclose their lobbying activities.**

EXAMPLES OF REFORMS

Madrid, Spain

Madrid has led the country's progress in advancing lobbying reforms. In its 2017 OGP action plan, the capital **created a mandatory lobbying registry to disclose any public meetings with the city council**. The registry, available publicly online, allows the public to subscribe for alerts, view official calendars, and request meetings with their representatives. In making the registry mandatory, Madrid is leading the way for other local and national governments to require participation in such registries, a key ingredient to ensuring their effectiveness. As of January 2023, over 850 lobbyists have registered. Following the success of this local commitment, Spain committed to establishing a federal law regarding lobbying transparency in its 2020–2024 OGP action plan.

Canada

Considered one of the strictest regulations among OECD countries, Canada's Lobbying Act **requires lobbyists to disclose any communications meant to influence public officials, including "grassroots communication"** such as social media. The act also specifically defines grassroots communication. Finally, the act requires that lobbyists publish monthly communication reports that include their objectives, meetings with public officials, and specific policies targeted by their activities. A centralized, searchable database is available on the website of the Office of the Commissioner of Lobbying.

Chile

In 2014, Chile **enacted legislation to modernize its lobbying system**. Through commitments in its 2014–2016 OGP action plan, Chile implemented and monitored its newly passed lobbying legislation. This action plan also included commitments to finalizing lobbying transparency rules with citizen consultation and training public officials responsible for implementation. As a result, Chile created a lobbying website where citizens can now access thousands of records on registered lobbyists, hearings, travel, and donor information, all published in an open data format.

Italy

As part of its 2016–2018 OGP action plan, Italy **created a registry to track lobbyists seeking to meet with high-ranking public officials in the Ministry of Economic Development**. To secure meetings, lobbyists need to first register with the portal. By September 2018, the ministry made meeting agendas for the minister, vice minister, and under secretary available online, and over 1,300 lobbyists had registered..

Germany

In 2019, some of Germany's most powerful business lobbies, including the Chemical Industry Association and the Federal Association of German Industries, decided to take **proactive action to push for lobbying regulation**. They teamed up with civil society organizations to form the Alliance for Lobbying Transparency. The Alliance has since been a very vocal and influential supporter of legislative efforts to establish a mandatory lobbying register. As a result of this advocacy effort, in March 2021, the coalition government finally agreed to establish the register, and the law took effect in January 2022.

POLITICAL FINANCE

Political finance regulations aim to **track corporate political spending**, including by industry associations and through non-contestant third-party organizations, which are often used to circumvent existing campaign finance laws. Governments should set limits (or bans, where necessary) to regulate financial flows to and from political parties, candidates, and third parties, including on data related to income, expenses, and donations.

SUGGESTED GOVERNMENT REGULATIONS

- Create **effective enforcement mechanisms** for any limits or bans on private donations, especially from foreign interests.
- Regulate **anonymous donations**.
- Create **a ceiling for donations**, including an enforcement mechanism.
- Regulate **online political ads**.
- Require **industry associations and non-contestant organizations** to disclose political activities, the identity of donors for political parties and candidates, and sources of funding.

EXAMPLES OF REFORMS

Canada

Under the Canada Elections Act, "**only Canadian citizens or permanent residents can contribute to registered parties and candidates**, and a strict ban applies to donations from foreign interests, corporations and trade unions." The act also limits the amount of money a third party can spend on election advertising to either support or oppose a registered party or a candidate, in addition to specifically outlining what the content of such ads can contain. Canada also provides a database where the public can search for financial reports (submitted by political parties, candidates, and third parties) on the Elections Canada website. Any donations above C$200 require the publication of the donor's name in these reports.

Croatia

Croatia has been working on increasing transparency of political party and election financing through commitments in its 2018-2020 OGP action plan. Using the information provided in the database of election campaign reports, developed by the State Election Commission as its OGP commitment, two civil society organizations that are members of the Croatian multi-stakeholder forum **developed a searchable database of contributions and expenses reported by parties** and complemented this information with their own analysis of key observed trends and issues. The database allows for the search and comparison of donors, campaign expenses, media discounts, and social media campaign expenses.

Panama

Before 2015, Panama's citizens could not monitor state contributions to independent political parties and candidates. As part of its 2015 OGP action plan, Panama began **publishing detailed information on public financing of political parties** no later than six months after the end of each electoral period. The Panamanian Electoral Tribunal, which provides vital records, identifications, and electoral organization, created a public database that is searchable by year and shows all funding granted to political parties from the electoral authority, along with the use for the funding. The database is user-friendly, allowing information to be downloaded in an open format and regularly updated.

Kyrgyz Republic

An OGP commitment from the country's 2018–2020 action plan established the regulatory basis for publishing information on election and referendum expenditures. The regulation also included a requirement to publish the income and spending of candidates. As a result, the public can now **track candidate and political party spending on an online platform**, in line with new regulations for electoral fund disclosure.

Madrid's mandatory lobbying regulations can serve as a model for other countries.

CONFLICTS OF INTEREST

In politics, the **separation between the private and public sectors is not clear-cut, but porous**. Former lobbyists join the public sector and former public servants join the private sector, often referred to as a “revolving door.” Often, there are insufficient rules and processes to prevent conflicts of interest and corruption. Governments can better track and vet employees both pre- and post-employment through regulations on the recruitment process from one sector to the other.

SUGGESTED GOVERNMENT REGULATIONS

- **Ensure that all standards related to conflicts of interest include the legislative branch**, especially members of parliament, as well as the executive branch.
- **Regulate the transition from public to private employment for the executive and legislative branches**, such as by mandating “cooling off” periods in which public servants are not allowed to join the private sector until after a given amount of time.
- **Regulate the process through which former lobbyists can join the public sector.** Possible regulations include bans and restrictions for a limited period, the required disclosure of conflicts of interest, and a rigorous screening process to check references.

EXAMPLES OF REFORMS

France

France is one of the only countries to regulate the pre- and post-employment for both public servants moving to the private sector and for private sector staff moving to the public sector. The implementation of Law No. 2019-828 in 2020 **updated the restrictions on the movement of staff between the sectors**. For example, former ministers, local executive chairpersons, and any members of independent administrative authorities must consult with the High Authority for Transparency in Public Life (the agency also in charge of the lobbying register) to ensure that any private sector activities do not pose a conflict of interest with their former positions. Similarly, any appointed former private sector employees cannot supervise, make contracts for, or receive advice from any private undertakings for a three-year period. Violations of this policy can be punished by two years' imprisonment and a fine of €30,000.

Australia

Regulations in Australia **vary by position and the length of the "cooling off" period**. For example, for 18 months after their tenure, ministers and parliamentary secretaries cannot serve as lobbyists for any topic relating to any of their official responsibilities during their last 18 months in office. For those working in ministers' offices, as advisers (or above) within parliamentary secretaries, and specific categories of other senior officials, the ban on lobbying post-employment is for a period of 12 months, relating to topics covered in their last 12 months in office.

The Netherlands

For two years following their departure, **ministers and any ministry employee are banned from undertaking any lobbying activities** (including serving as intermediaries or mediators between the private sector and ministries) for any policy areas in which they held former responsibilities. Affected public servants can request an exemption, which must be approved by the secretary general of the relevant ministry.

Ireland

In its 2021–2023 OGP action plan, Ireland **committed to reviewing and amending its lobbying law**, specifically to better regulate the "cooling off" period for elected and public officials before they can undertake lobbying activities. As of April 2023, an amended lobbying bill is before the Senate.

SHAREHOLDER RIGHTS

Many countries have established basic shareholder rights for publicly listed companies, such as the payment of shares following dissent or the ability to object to resolutions. However, it is **much rarer for governments to grant shareholders the right to approve company political contributions or lobbying activities**, especially across jurisdictions. Governments must ensure that shareholders have the power to serve as an additional safeguard against corruption.

SUGGESTED GOVERNMENT REGULATIONS

- **Give shareholders a role in regularly monitoring** company political engagement practices.
    - An example of this role could be the mandatory approval by shareholders before a company provides political contributions.
- Ensure that corporate shareholders may exercise fiduciary duty to include electing directors and make their views known to company management and directors on significant issues that may affect the value of shares, including issues beyond the purely financial.

EXAMPLES OF REFORMS

India

In the 2013 Companies Act (Article 182), India **requires corporate boards of directors to approve** political direct and indirect contributions.

United Kingdom

Under Part 14 of the 2006 Companies Act, the UK **requires the authorization of any donations to a political party, candidate, or other type of political organization** through resolution by board members (and, if applicable, of the board of a relevant holding company). This required authorization also applies to any political expenditures.

CORPORATE WHISTLEBLOWER LAWS

Corporate whistleblowing is an important mechanism of accountability. Beyond providing a critical mechanism for employees to report on unethical or illegal conduct within companies, whistleblowing **also frequently serves as the catalyst to uncover corruption well beyond the actions of a single company**. Governments can require key policies to ensure companies meet basic standards to protect their whistleblowing employees and also provide data on the results of their whistleblowing mechanisms.

SUGGESTED GOVERNMENT REGULATIONS

- Require **the creation of a formal corporate whistleblower mechanism** that includes:
    - **non-retaliation, confidentiality, and anonymity** in its protections (including against the threat of civil and criminal suits);
    - a process for **reporting on the actions of senior management and board members**, including who should receive and investigate such high-level reports;
    - the **role of third parties** in the whistleblowing process;
    - the **frequency of a regular board review** of the mechanism's effectiveness; and
    - the **disclosure of the findings** of such a review.
- Require **the disclosure of whistleblowing data** (such as the type of issue raised, how issues are resolved, and any warnings or dismissals associated with each complaint) received by senior management and the board. Any complaints directly communicated to the board should also be included.
- Require **the disclosure of a company's internal performance indicators** on whistleblowing and the results of a regular review of such indicators.
- Require **the creation of remediation policies for whistleblowers facing reprisals or other harmful consequences** of reporting, including the process for disciplining staff who retaliate against whistleblowers.
    - Gender-sensitive protections **should be built into these policies** given that women often are at a higher risk of experiencing retaliation.
- **Create an** independent body with the authority to investigate retaliation and improper investigations, administer sanctions, and provide guidance for reporting mechanisms

EXAMPLES OF REFORMS

European Union

In 2019, the EU adopted the Whistleblowing Directive, which required all member states to adopt the new requirements into national law by December 2021. For example, the directive **requires both private and public companies to create secure complaint channels** within the companies and to public authorities. The directive also broadens the scope of who can make a whistleblowing complaint, namely anyone who can acquire information on misconduct in a work-related setting—including volunteers and shareholders, as well as direct employees. The areas of misconduct covered by the directive include public procurement, financial services, public health, and consumer protections. Through 2022, 12 EU member states out of 27 (about 44 percent) have adopted the directive into national law.

Italy

As part of its 2016–2018 OGP action plan, Italy **created new policies and procedures to strengthen whistleblower protections** already established through existing legal frameworks. Through the National Anti-Corruption Authority, the institution authorized to receive disclosures, Italy launched an open-source website to provide resources for whistleblowers and provide an easy-to-use platform to make reports. The OGP IRM found that this commitment achieved major early results.

Australia

In 2019, amendments to the Corporations Act and Taxation Administration Act **broadened protections for corporate whistleblowers in several areas**, specifically in terms of who can disclose misconduct, what constitutes misconduct or the "improper state of affairs" (both now broadly defined), and the ability of whistleblowers to make emergency disclosures directly to parliamentarians or journalists. The amendment also includes civil and criminal penalties for those who breach the confidentiality guidelines for whistleblowers, including considerable fines and imprisonment.

Brazil

For the first time, Brazil passed a law to establish protections for whistleblowers in 2019 through Article 15 of Federal Law 13.964. The new protections **include confidentiality requirements, protection from retaliation, and immunity** from both civil and criminal prosecution. Whistleblowers can also receive monetary compensation for coming forward—up to five percent of what the State recovers in prosecuting a case. Whistleblowing activities are protected when reporting corruption in public procurement, publicly owned companies, and government-funded programs and any criminal activity or misconduct affecting the public interest.

Ireland

Legislation introduced in 2014 empowered all working citizens to report wrongdoing, with protections not limited to the public sector. It also set in place redress mechanisms for employees who have been dismissed or penalized for reporting wrongdoing in the workplace. More recently, Ireland **passed a stronger whistleblowing law** in 2022 to transpose the EU Directive on Whistleblowing.

TAX PAYMENT DISCLOSURE

Gaps in corporation tax payment disclosures, particularly for large multinational companies, **create** [regulatory risks] **within financial systems and shrink the pool of resources** available to fund public goods and services. Governments can address this by regulating the standardization of tax reporting, ideally in line with existing frameworks, such as the OECD Base Erosion and Profit Shifting Action Plan below, in addition to enforcing penalties against corporations attempting to avoid paying their full share of taxes.

SUGGESTED GOVERNMENT REGULATIONS

- Require **full, transparent reporting on the total global tax borne by a company**, including corporate income taxes, property taxes, non-creditable value-added tax (VAT) and other sales taxes, employer-paid payroll taxes, and other taxes that constitute costs to the company, disaggregated by category of taxes.
    - This should also include any **additional global tax collected by the company on behalf of other taxpayers**, including VAT and employee-related taxes that are remitted by the company on behalf of customers or employees, disaggregated by category of taxes.
    - **Reporting on total tax paid and any additional tax remitted should also be disaggregated** on a country-by-country basis, domestically and internationally.

EXAMPLES OF REFORMS

Organisation for Economic Co-operation and Development (OECD)

The OECD and G20's 2015 guidelines for its Base Erosion and Profit Shifting Project include model legislation for governments to regulate the implementation of its Country-by-Country Reporting System. The reporting system **regulates the conditions under which multinational corporations must file their tax information** with the national tax administration for the jurisdiction(s) where they are registered. The legislation also provides details on what information to include (e.g., profits before income tax, income tax paid, stated capital, and tangible assets) in the reports, as well as how to include constituent entities of the parent multinational corporation and their attendant differences in tax jurisdictions and requirements.

Global Reporting Initiative (GRI)

In the GRI Standards, the tax section provides a comprehensive list of required disclosures. Examples of report data include an organization's tax strategy, its approach to regulatory compliance, and a description of the mechanism to report unethical or unlawful behavior related to taxes. The GRI also includes a detailed list of **required data that must be disclosed for all entities under an organization for each tax jurisdiction** in which the entities are registered as residents for tax purposes. Examples include the names of each entity, its primary activities, revenues from third-party sales, revenues from intragroup transactions, and corporate tax income accrued on profit/loss. Though non-compliance is not penalized by any government, investors, policy makers, and other stakeholders use the standards as a benchmark for best practices.

Mongolia

In 2016, Mongolia began implementing a new electronic system to collect VAT that meets international standards as part of its 2016–2018 OGP action plan. In the first two months of implementation, the amount of VAT income collected increased 2.2 times. The conversion from paper receipts to online receipts through this system made it easier for private entities to report to the national tax system.

BENEFICIAL OWNERSHIP REGISTERS

Disclosing beneficial owners—those who ultimately control or profit from a business—is an important tool to combat corruption. To do so, governments can create centralized registers for beneficial ownership data. Once created, these registers can then be linked to other datasets (such as public procurement and land ownership) to paint a full picture of how individuals may be using shell companies to siphon illicit funds from the government and launder it in property or other ventures.

SUGGESTED GOVERNMENT REGULATIONS

- **Collaborate with civil society to draft and implement legislation and regulations** that mandate the collection and disclosure of beneficial ownership information.
- **Prevent common loopholes** by including clear definitions for beneficial ownership, covering multiple legal vehicles (such as trusts), lowering thresholds for ownership, and mandating regular updates.
- **Ensure that the legal framework requires that beneficial ownership data is publicly available** free of charge and in accordance with open data standards. Data should also contain high-value data, such as identifying information on the owners (name, address, sex, and gender) and the nature and size of the interest they hold in a given company.
- **Improve data accuracy** by verifying information against other data sources, and ensure that the data is standardized in the register (using a standard such as Open Ownership's Beneficial Ownership Data Standard, or BODS) to allow for cross-country comparison.

EXAMPLES OF REFORMS

United Kingdom

Since its creation in 2016 through an OGP commitment, the UK's beneficial ownership register has **collected over 5.1 million names of people with significant control** over UK-registered companies.

Nigeria

In 2019, Nigeria passed a law as part of its OGP action plan to require the collection of company beneficial ownership data for the extractive industries and published the data in an open register according to international standards. In May 2023, Nigeria **expanded the register to include all sectors** that the public can access for free.

Indonesia

To cut down on illegal palm oil plantations on virgin land to limit climate change, Indonesia **passed a law to create a beneficial ownership registry** in the extractive, forestry, and plantation sectors, the first of its kind in Southeast Asia. Indonesia also recently committed to making the registry public in its OGP 2020–2022 action plan.

Armenia

Through a commitment in its 2018–2020 OGP action plan, Armenia **published the beneficial owners of metal mining companies** in a public register, following a 2019 amendment to existing legislation requiring that beneficial ownership information be included in a public register. Armenia is now working on publishing these disclosures in a machine-readable format in accordance with the BODS and expanding disclosures to other sectors of the economy.

Portugal

Portugal implemented its public beneficial ownership register in 2019, and by January 2021, nearly half a million companies had registered their beneficial owners. However, the public did not widely use the register due to technical issues and a lack of public awareness. To address these issues, in its 2021–2023 OGP action plan, Portugal **committed to implementing the BODS in the register, launching an awareness campaign, and linking the register** to other publicly available data, including the public procurement portal.

Kenya

As part of its 2016 OGP action plan, Kenya **passed legislation in 2017 requiring the collection and publication of beneficial ownership information** as part of a broader effort to increase transparency around the procurement process. The new law requires companies to keep a register of their members, including basic beneficial owner data (names and addresses), and to submit this information to the national Registrar of Companies. Although the data is currently only available for internal use by certain public authorities, the implementation of the law marks the first time the government has ever collected any beneficial ownership information in Kenya. In its 2020–2022 OGP action plan, Kenya committed to creating a publicly accessible beneficial ownership register.

KNOW-YOUR CUSTOMER REPORTING

Know-your-customer (KYC) regulations require banks, wealth management firms, finance tech apps, and others to perform due diligence in verifying the identities of their customers. Verifying identity **helps prevent money laundering, terrorism financing, and other financial crimes**. To use KYC reporting regulations to their fullest potential as an anti-corruption tool, governments can require reporting to both confirm customers' identities and assess whether the nature of their financial activities and the sources of their wealth are legitimate. Governments should also consider regulations that target the wider circle of non-financial actors who enable money laundering because they are not currently subject to KYC regulations, such as law firms, accountants, and private equity firms. Additional safeguards against reputation laundering are also necessary to prevent kleptocrats and other corrupt actors from creating distance between themselves and their ill-gotten wealth by positively shaping public opinion. Examples of this include donations to universities, philanthropic causes, and cultural institutions.

SUGGESTED GOVERNMENT REGULATIONS

- **Onboard high-value clients in person** to the extent possible.
- **Require the verification** of multiple forms of identification.
- **Require a process of ongoing due diligence**, such as through random checks to verify identity (including the true beneficial owner of companies involved in transactions) throughout the duration of client accounts.
- **Establish clearer standards about how entities (including non-financial ones) should categorize client risk**. For example, if a potential client is a politically exposed person, they should receive a higher risk score.
- **Draft or strengthen legislation to establish compliance requirements for non-financial enabling actors** outside the current scope of KYC regulations, including those who assist corrupt actors with reputation laundering, such as universities, public relations and communications firms, philanthropies and media outlets.
- **Establish and levy penalties for non-compliance with KYC regulations explicitly**, including for both non-financial enabling actors and reputation laundering actors.
    - Though regulations around the world generally outline fines for non-compliance with anti-money laundering (AML) laws, which often include KYC requirements, **KYC gaps are not explicitly penalized outside of the United States**.
- **Revise libel laws** to ensure that they do not facilitate reputation laundering. For example, the UK allows those who do not live in the country full-time to bring libel cases to court, which has led to an increase in cases by corrupt actors seeking to reinforce their reputation by manipulating democratic systems.

EXAMPLES OF REFORMS

Financial Action Task Force (FATF)

The FATF has a **comprehensive list of recommendations related to KYC regulations, non-financial enablers, and beneficial ownership transparency measures**. Recommendation 10 outlines suggested KYC regulations, including thresholds for a certain level of financial transactions (15,000 in euros or USD) and the need to carry out ongoing verification for new clients, continued clients, and occasional transactions. Recommendations 22, 23, and 28 refer to requirements for non-financial enabling actors, such as requiring that they report suspicious transactions and including them in monitoring processes to ensure compliance, in addition to general guidance on including these actors in KYC regulations and other AML requirements more broadly. Finally, Recommendations 24 and 25 suggest that countries should implement measures to collect data on beneficial owners.

United States

Title III of the 2001 USA PATRIOT Act requires that a range of financial institutions (banks, brokers, mutual funds, etc.) **carry out special due diligence procedures** to identify their customers and report suspicious activity related to correspondent accounts with foreign financial institutions and the private bank accounts of "non-US persons." However, the act does not require KYC regulations for all customers of financial institutions, a gap that is filled by the Financial Crimes Enforcement Network (FinCEN) final rules under the Bank Secrecy Act. The new rules **strengthen KYC regulations for the same financial institutions** subject to the USA PATRIOT Act. FinCEN creates unified KYC standards for US institutions to verify the identity of customers (including beneficial owners), understand the "nature and purpose" of customer relationships, and monitor activities continuously. Finally, the House of Representatives approved the ENABLERS Act in 2022 as part of its annual defense bill, **requiring service providers with the ability to facilitate money laundering and fraud** in the US financial system (investment advisers, lawyers, accountants, etc.) to adopt AML procedures like KYC and suspicious activity reporting.

Norway

The 2018 Money Laundering Act establishes the regulations for KYC reporting and other AML requirements. Notably, the act **requires a face-to-face process to open business accounts and special approval procedures** for politically exposed clients. It also provides specific instances in which due diligence processes can be simplified for ease of doing business (particularly for companies verified through other means or jurisdictions, like the European Economic Area) and requires ongoing monitoring for client accounts. Norway is also one of the few countries with a legal framework that complies with FATF regulations on non-financial enabling actors.

Germany

According to the 2018 German Anti-Money Laundering Act, **all client files must be reviewed and updated regularly** to detect any suspicious activity according to their determined risk level. Specifically, high-risk clients should be reviewed yearly, medium-risk clients every seven years, and low-risk clients every ten years. In this law, the German Banking Act, and European Commission Regulation 1781/2006, Germany also sets a threshold for one-off transactions (€15,000) requiring KYC due diligence and for foreign currency cash transactions (€2,500) and fund transfers (€1,000). As with Norway, the physical presence of an individual or company representative is generally required to meet KYC requirements. The law also requires enhanced due diligence to make high-risk determinations for money laundering or terrorism financing.

RISK DISCLOSURE

Shareholders have an interest in seeing good performance of their investments. This includes ensuring that the governments and companies that they invest in are not exposed to unnecessary risks. These risks may be financial, political, or environmental.

One of the tools numerous regulators are turning to is mandatory risk disclosures. Risk disclosures can be part of annual or quarterly filings and can help investors understand just how a borrower is interacting with the world.

Risk disclosure requirements may cover numerous topics, ranging from climate and environment, to how clear of ethical and legal controls a borrower has on potential waste, fraud, and abuse. Risk disclosure can also be an opportunity for borrowers to identify what efforts they are taking to minimize risk, whether in ethical controls, environmental management systems, or supply chain tracking. This section focuses on corruption and environmental reporting, although there are numerous other risk disclosure areas of focus, such as human rights.

SUGGESTED GOVERNMENT REGULATIONS

CORRUPTION RISK

- Mandate **the disclosure of high-value information in the public interest in an open data format**, particularly in terms of company beneficial ownership, public procurement, political finance, asset disclosure, land ownership and tenure, lobbying, rulemaking, and right to information performance. Beneficial ownership registers are covered in more detail below.
  - **For more information on each policy area**, including maturity models and innovative reforms by OGP members, see OGP's *Broken Links: Open Data to Advance Accountability and Combat Corruption*.
- Require **disclosures of corruption risk factors**, in terms of:
  - the **specific, material risks** a company faces (rather than general sectoral risks);
  - **how these risks have changed over time** and the company's response; and
  - **how the company uses this risk analysis** (if at all) to shape its strategic and major capital allocation decision-making.
- Mandate **a comprehensive anti-corruption policy**, including provisions such as:
  - an **explicit ban** on bribery payments;
  - **the application of such a policy** to contractors, subcontractors, suppliers, and intermediaries; and
  - **clear definitions** of what constitutes inappropriate gifts, travel expenses, and other in-kind materials that could be used as a bribe.
- Require **risk assessments** that include considerations of both internal and external risks and use the findings to shape strategic decision-making.
- Require **regular monitoring and review** of anti-corruption risk identification and mitigation procedures, to diagnose and improve weaknesses in the process.

SUGGESTED GOVERNMENT REGULATIONS

ENVIRONMENTAL AND SOCIAL RISK

- **Require due diligence checks on all parties** (including contractors, subcontractors, and suppliers) working for or on behalf of a company, taking into account any environmental and social risks related to particular providers or activities.
    - For details on due diligence, the Supply Chains Transparency Project explains what considerations companies should make in evaluating their suppliers, contractors, and subcontractors according to risks of corruption and abuse.
- **Adopt regulations to require such reporting in line with international standards**, such as the Task Force on Climate-Related Financial Disclosures and the forthcoming Task Force on Inequality-Related Financial Disclosures.
- **Extend any existing reporting requirements** to non-financial corporations operating in the public interest, in addition to banks, insurance companies, and other listed companies.
- **Make reporting requirements mandatory.** Though many countries have reporting standards in place, they are often quasi-mandatory or voluntary.

EXAMPLES OF REFORMS

CORRUPTION RISK

Georgia

Though Georgia has been a regional leader in mandating asset disclosures for all public officials and making the data public, it previously did not have a method to check the accuracy of the disclosures. As part of its 2016–2018 OGP action plan, Georgia **implemented the first independent monitoring system for public officials' asset declarations**. New amendments to the law introduced sanctions for violating asset declaration rules. The Civil Service Bureau started monitoring public officials' asset declarations, which were either selected randomly through the unified electronic system or reported as suspicious by external stakeholders.

Liberia

For many years, Liberia had no constitutional or other legally mandated land rights. In practice, this meant that citizens had no means to assert their rights to use or occupy land they had called home for generations. To address this, in 2017, the country **committed to making land information and data publicly available**, including land deeds and data on land ownership. This increase in land transparency has led to further progress. In 2021, the Liberia Land Authority (LLA) worked with CADASTA and other partners to launch the Community Land Intervention Monitoring and Management Tool, which tracks the recognition of communal lands through a publicly available portal. The LLA also created new regulations to reduce the inaccuracy of land records and worked with the Ministry of Justice to create an alternative land dispute resolution mechanism.

Ukraine

As part of its 2016–2018 OGP action plan, Ukraine **published public procurement data online in the ProZorro database**, created by Transparency International Ukraine, in line with the Open Contracting Data Standard. Critically, the government also linked this database to its beneficial ownership and the State Treasury databases to ensure that shell companies owned by the same small group of people were not receiving the bulk of contracts. A complementary database, DOZORRO, allows the public to submit feedback and investigation requests for procurement violations. The OECD Observatory of Public Sector Innovation estimated that ProZorro saved Ukraine over US$1.9 billion in its first two years of operation.

Uruguay

Uruguay used its 2016–2018 OGP action plan to strengthen the implementation of that existing legislation. Uruguay's commitment set up the System of Access to Information, **an online tool for submitting and tracking requests for information**. The tool expands the publication of details regarding compliance with law requirements, such as the uses of exemptions and reasonings behind declaring information confidential. As part of this commitment, civil society advocates were also actively involved in defining the criteria for opening information on human rights violations during Uruguay's military dictatorship. Efforts to strengthen the accountability of government entities continue in its 2021–2024 action plan.

EXAMPLES OF REFORMS

ENVIRONMENTAL AND SOCIAL RISK

Task Force on Climate-Related Financial Disclosures (TCFD)

The TCFD, created by the Financial Stability Board in 2015, offers voluntary recommendations that countries have adopted as the basis of their private sector climate-related financial disclosure requirements. Overall, the TCFD **focuses on how asset owners and investment managers identify and manage risks related to climate change and other environmental issues**, especially through corporate governance structures to manage risk and corporate indicators to track and evaluate the company's responses to risk over time. Organizations like the Net Zero Asset Managers Initiative, a group of over 290 asset managers worldwide, require its signatories to publish disclosures in line with the TCFD recommendations and an annual climate action plan that adheres to the UN Race to Zero Campaign criteria.

European Union

The EU currently has the **most comprehensive investor ESG reporting requirements** of all market jurisdictions. However, the EU does not have a regulation requiring member states to make disclosures in line with the TCFD—to date, only the UK and France require such disclosures. In terms of EU-wide regulations, there are two that provide useful frameworks for disclosures: the 2020 EU Taxonomy and the 2022 Corporate Sustainability Reporting Directive (CSRD). The **EU Taxonomy** applies to asset owners, investment managers, and other financial and non-financial entities. Companies must make "substantive contributions" to one of six specific environmental objectives and "do no significant harm" to the other five objectives on the list. Additionally, those required to make Taxonomy disclosures must also adhere to minimum safeguards from previous agreements (e.g., the OECD Guidelines on Multinational Enterprises and the UN Guiding Principles on Business and Human Rights). The **CSRD** builds on the Non-Financial Reporting Directive requirements to expand which companies must report (estimated to be around 50,000 companies, a significant increase from the 6,000 currently targeted by the NFRD) and the topics they must include in reporting. By 2024, companies will need to provide more detail on a greater range of topics related to environmental and social factors, such as details on natural resource inflows/outflows and waste policies and the impacts of end products on consumers' health and privacy.

United States

In May 2022, the Securities and Exchange Commission (SEC) proposed a new rule to require ESG disclosures by investment advisors, particularly climate risks. If adopted, according to a McKinsey analysis of the proposal, it would "require public companies to provide detailed reporting of their climate-related risks, emissions, and net-zero transition plans." However, even though the SEC proposal expands disclosure topics for climate-related risks, the proposal remains narrower in scope than the EU regulations and TCFD disclosure requirements described above.

Using Italy's *OpenCoesione* platform, over 25,000 young people have joined efforts to monitor public spending, an important accountability mechanism that can help increase competition for public contracts.

Strengthening Financial Regulation in OGP

The case for leveraging investors in advancing open government has never been stronger. Indeed, stimulating investment has been a major motivator for undertaking open government reforms since the start of OGP:

- The **Philippines** undertook significant fiscal reforms in budgeting and spending reform across their action plans to attract foreign direct investment and to improve the quality of expenditure on infrastructure and other public goods.
- The **United Kingdom** undertook many of its early reforms around data disclosure with the explicit aim of nurturing business involvement in open government.
- The **United States** has made multiple commitments involving the SEC (the chief regulator of capital markets) in implementing transparency measures around extractive industries, and is currently working on a commitment around the Corporate Transparency Act with regulators at the Department of the Treasury. Though regulations around extractives continue to be a work in progress in the US, these undertakings have involved diverse stakeholders in the formation of regulation and implementation, including regulators, investors, civil society organizations, and private sector actors.
- **Australia** and **Norway** have consistently involved private sector actors working to promote open government across many of their action plans.

Despite these promising examples, governments can do more to regulate and collaborate with the private sector. Governments at the state and local levels create financial sector regulators to monitor how financial markets function, particularly to ensure their fairness and transparency. Regulators also monitor the actions of financial firms and institutions, like banks.

Though the degree and forms of regulation can vary significantly by jurisdiction (both within a country and between different countries), some regulatory structures can be found across contexts. For example, financial sector regulation often takes the form of a securities and exchange body that supervises the financial market, especially with an eye to preventing and addressing market manipulation. Another example is banking supervision by government bodies, often with several bodies working together to monitor different facets of the banking system, particularly large commercial banks. Regulatory bodies from other sectors may also play a role in the financial sector, especially for anti-corruption measures.

Key Stakeholders to Engage

TREASURY DEPARTMENTS AND MARKET REGULATORS

Some governments may have coordinators who help to ensure consistency across departments, including overseeing and setting rules for financial institutions, financial markets, and national treasuries. These offices, where they have a mandate and capacity, may serve as strong entry points for involvement in OGP processes.

OTHER GOVERNMENT INTERESTS AND REGULATORS

This group includes other critical regulators, such as for public goods like utility services and environmental protection agencies, and for companies who manage the public's wealth and well-being, such as insurance and pension funds. For example, pension funds are often among the largest institutional investors and may be directed to ensure that investments operate legally and ethically. All levels of government must coordinate to ensure there are no regulatory gaps.

POLITICAL FINANCE OVERSIGHT BODIES AND ELECTORAL MANAGEMENT BODIES (EMBs)

Governments are paying Increasing attention to the role of corporate money in politics. While almost half of OGP countries (33) have had commitments on political spending and transparency around elections (58 commitments) to date, more sustained efforts can be undertaken. To some extent, this may require the participation of electoral management bodies and other relevant regulators in the design and implementation of OGP commitments. Under their purview to monitor the electoral process, EMBs may also have the power to monitor and audit political party expenditures and enforce campaign finance laws. Given the potential involvement of private sector companies in financing political parties, EMBs can provide a key measure of oversight to ensure fairness in the financing of elections.

FINANCIAL INTELLIGENCE UNITS (FIUs)

Established by countries, FIUs serve as a central unit to consolidate the investigation of financial crimes, such as money laundering or the funding of terrorism. Critically, FIUs serve as an intermediary between private companies and law enforcement bodies. In this oversight model, FIUs receive information about suspicious activity from private companies and then analyze and report on such incidents to law enforcement for further action.

SUPREME AUDIT INSTITUTIONS (SAIs)

SAIs traditionally conduct external audits on public expenditures as their primary tool to ensure government accountability. This could include auditing the use of public funds in financial markets or the function of government-run banks. However, to be effective, SAIs must have the resources, mandate, and access to the public to fulfill their potential as anti-corruption institutions.

LAW ENFORCEMENT BODIES

As referenced above, law enforcement bodies play a role in the regulatory ecosystem by further investigating financial crimes and levying charges against perpetrators.

Open
Government
Partnership