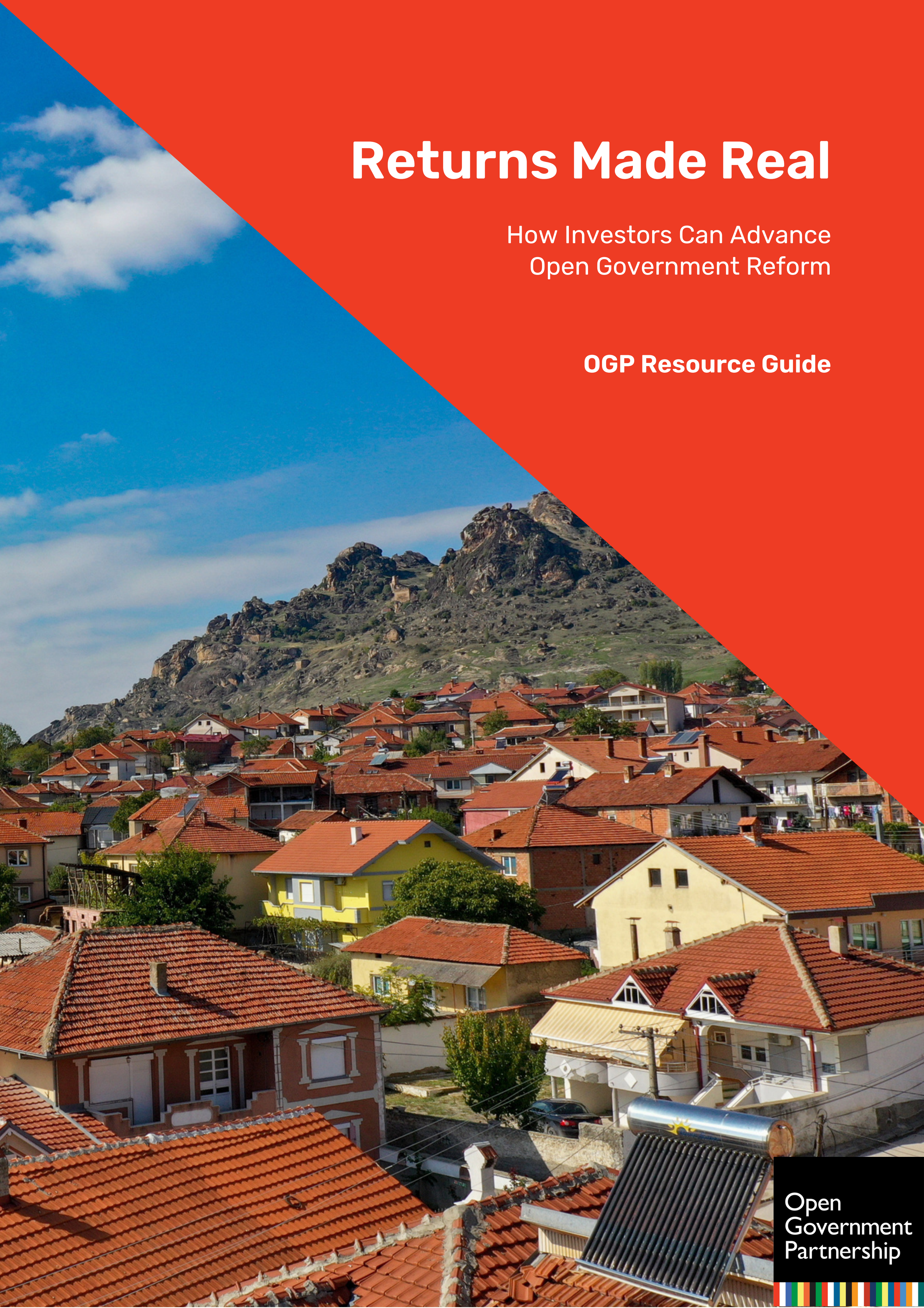
Returns Made Real

How Investors Can Advance Open Government Reform

OGP Resource Guide



Open Government Partnership

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Cover photo: *The Ministry of Finance in North Macedonia launched a database on its budget expenditures, an important transparency measure that can help uncover inefficiencies and inequalities in government spending. Pictured: Prilep, a municipality in North Macedonia with a significant Roma community that often faces discrimination.*

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Participants in OGP's 2014 Summit in San José, Costa Rica, discuss open data and open contracting, two issues especially critical to investor interests.

Introduction

The growing field of environmental, social, and governance (ESG) investing or responsible investing has taken off over the last several years, with major investment firms, wealth funds, and public pension funds taking public stances on ESG issues. Investors are also seeing increasing dividends when they pay special attention to these topics.

Yet much work remains to be done.

This resource guide focuses on how investors can leverage their considerable expertise and influence to fight corruption, particularly by collaborating with government regulations on finance, political influence, and a host of other issues.

The Open Government Partnership (OGP) can play a special role in encouraging investors to support better reforms in good public sector governance, which can in turn lead to more sound and fruitful investments.

The Positive Initiative, a patient advocacy CSO, helped monitor COVID-19 public procurement in the Republic of Moldova.

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.

How Capital Markets Can Encourage Open Government

Investors can fight corruption by investing in places where good government leads to more predictable debt payments. In this situation, governments undertaking such reforms can access cheaper capital for much-needed infrastructure and investment.

Investors and the investment services industry have a specific role in encouraging good governance, as they depend on the disclosure of good data to judge the performance of sovereign and municipal borrowers. They also need to know that there are protections in place to ensure that investments are not stolen and that governments will not default on loans. In the absence of government production of disclosure of data, investors must rely on third-party data and may not know whether borrowers are acting with appropriate fiduciary responsibility.

In addition, as ESG goals increasingly complement financial performance goals, investors will want to understand just how credible their investments are. Investing in an environment with few fiscal controls or other means of oversight exposes investment to credibility risks. Green building projects risk skipping out on green elements when they are actually built, energy projects may be built in ways that unduly harm communities, and money may be embezzled or directed to unnecessary projects.

This risk becomes even more acute as investors and other actors use new tools to encourage more sustainable behavior. As tools such as blended finance (traditional forms of finance with a subsidy, often from philanthropy, aimed at supporting ESG goals) or sustainability bonds and green bonds emerge, investors will need to ensure that their investments are credible and that borrowers have performed according to standards.

What then should investors look for in a country? A growing body of evidence suggests that the presence of certain policies may help investors know when they are investing in credible markets.

THE NEED FOR GOOD POLICY: WHY LENDING MARKETS ALONE CAN'T CHANGE COUNTRY BEHAVIOR

Investors must think about the need to democratize public financial management. Numerous experts, including the International Monetary Fund (IMF), have explained how sovereign borrowers differ from other borrowers in the following ways:

- **Moral hazard:** Lenders may lend to sovereigns knowing that default is likely, but that bailout—whether from other lenders or through restructuring or forgiveness—is also likely. Though the likelihood of a debt restructuring or forgiveness deal could make lenders less likely to lend, they may do so anyway, compensating for risk by charging higher interest rates.
- **Enforcement:** The normal disciplining bodies of parliaments or central bankers do not enforce debt repayment with equal vigor in many countries. For example, a country with weak institutional arrangements, such as where the rule of law is weak or where the central bank is not fully independent, is more likely to default on loans.
- **Corruption:** Numerous lenders, including Glencore and Credit Suisse, stand accused of having knowingly lent to African countries even though they were well aware that kickbacks and embezzlement would be part of the lending process. Under such circumstances, elected representatives do not behave in the fiduciary interests of their country.

Remedying this requires improving public oversight of public financial management, including taxing, spending, and borrowing. The rest of this document makes the case for how that could be done in OGP member countries.

Good Governance Matters: A Growing Evidence Base

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.

However, there is good news. From the work of OGP members to external research, the evidence that good governance lays the foundation for better social and economic outcomes has only grown over time.

For one, good governance (as shown through the principles of transparency, accountability, and public participation) saves governments and investors money by creating an environment where corruption cannot thrive. This is particularly true for the public procurement process. For example, a study of more than four million procurement contracts between 2006 and 2015 in Europe found that overall transparency in the tender process helped decrease corruption risks. Transparency in procurement can also pave the way for small and medium enterprises to successfully bid for contracts, which increases market access and prevents the monopolization of contracts by a small handful of large companies. For an in-country example, the OECD Observatory of Public Sector Innovation estimated that Ukraine's publication of public procurement data in its ProZorro database saved the country over US$1.9 billion in its first two years of implementation. A 2022 IMF study on the effect of good governance in Africa echoes this, showing that countries strengthening their governance systems saw improvements in other areas, particularly during the COVID-19 pandemic.

Good governance can also improve the investment climate, thanks to the proven, positive impact of fiscal and administrative transparency. As described in OGP's 2018 *Skeptic's Guide to Open Government*, "Businesses can make informed decisions, reduce transaction costs, and avoid potential liabilities if they have information on the specific properties of markets, products and actors." Fiscal transparency and the accurate disclosure of macroeconomic data is positively correlated with foreign direct investment (FDI) inflows and credit ratings. Transparency in macroeconomic data also decreases borrowing costs.

With these benefits in mind, the following section will explore good governance reforms that can improve access to capital.

The Public Service Accountability Monitor has led efforts to open South Africa's budget by increasing its accessibility and understandability. Pictured: Bukelwa Makasi.

CASE STUDY

INVESTOR CONFIDENCE: RECENT EVIDENCE FROM AFRICA

What determines investor confidence? The answer is not as straightforward as who scores the highest on a governance index, as the cases of **Nigeria**, **Zambia**, and **Benin** show.

Though Nigeria appears to be a stronger candidate for borrowing on paper due to low debt rates, gaps in its fiscal policies and difficulties in managing the extractive industries have weakened investor confidence. Historically, Nigeria has had a lower ratio of public sector debt to GDP than its peers on the continent and lower debt trends overall. However, its low rate of tax revenues (estimated to be about only six percent of its GDP) and issues with rent-seeking and sabotage in oil production have negatively affected investors' confidence in the country, which has led to a decline in investments and the downgrading of its credit rating by Moody's and Fitch in late 2022 and early 2023. Though Nigeria scores relatively well on governance indices and has lower perceptions of corruption than its peers, these other governance issues related to revenue and the extractive industry are a large part of why its foreign direct investment portfolio is at risk.

Zambia and Benin, by contrast, show that historically low governance scores do not tell the full story—efforts made by both countries in recent years have improved investor confidence. For example, the IMF found in a 2023 diagnostic report that Zambia has persistent governance weaknesses to address. However, investors have a more positive opinion of the country's business environment after the 2021 election. The new administration (formerly the leader of the opposition party) has since published a list of its lenders and the amounts of its debt on a government website, an important step toward increasing transparency that can build investor confidence. Recent developments—the agreement with the IMF to restructure its debt, focus on the rule of law, and implement other transparency measures—may further decrease the risks associated with investing in the country. Benin provides a similar example. In addition to improving its governance indicators, the country was also the first in Africa to issue a Sustainable Development Goals bond in 2021, which has also improved investor perceptions.

Eight Good Governance Reforms for Better Access to Capital

This section will explore eight good governance reforms that can improve access to capital:

- Transparent, Accountable Budgets
- Independent, Public Audits and Oversight
- Revenue Transparency
- Debt Disclosure
- Procurement Transparency
- Beneficial Ownership Transparency
- Whistleblower Protections
- Right to Information (RTI) Laws

Each sub-section includes evidence for how each reform can improve access to capital and a summary of OGP members' progress in implementing policies, as well as examples of specific reforms undertaken to date. Case studies have also been included, where relevant, for some of the policy areas.

In Argentina, open government advocates are increasing public accountability and access to the justice system—here, JusLab and its partners work to simplify legal texts. Pictured: Jessica Malgarie.

TRANSPARENT, ACCOUNTABLE BUDGETS

Transparent, accountable budgets are a cornerstone of open government. They allow investors to see how a government is spending its money, whether that money is spent credibly, and whether the public has a voice in shaping spending and revenue decisions.

The evidence is growing that investors should care about open budgets:

- **Budget quality:** One comprehensive review of the evidence on the impacts of fiscal openness showed that increased budgetary disclosure and participation are consistently associated with improvements in the quality of the budget (such as the size of the deficit, budget priorities, and its operational efficiency), as well as governance and development outcomes.
- **Investor confidence:** Even autocratic governments increasingly see the value in disclosing the real situation with their budgets. The sharing of fiscal and economic data with international institutions and the public raises investor confidence, which, in turn, boosts economic performance.
- **Tax revenue:** Mechanisms such as participatory budgeting create a structure for public input and spending oversight. This, in turn, can help build tax morale and shore up future revenues for a community. A study from Brazil showed that where participatory budgeting institutions were set up in Brazil, municipalities raised 2.5 percent in local tax revenue.

OGP has long been a venue for various advocates to push for budget reform. In fact, fiscal openness is the most popular area of reform for OGP members. Many members have made significant strides forward in making budgets, especially spending, more transparent. At the same time, investors and OGP members would benefit from bigger pushes on transparent auditing (see next section) and greater public oversight of spending and budgeting at the national level.

EXAMPLES OF OGP REFORMS

Côte d'Ivoire

In 2019, the government uploaded its first Citizens' Budget online to explain the budget process to the public. Newer versions of the budget also set desired results for expenditures rather than only focusing on expenses incurred.

North Macedonia

The Ministry of Finance launched a database on budget expenditures in 2019 for institutions administered under the Treasury, which media organizations have already begun to access for investigative reporting.

INDEPENDENT, PUBLIC AUDITS AND OVERSIGHT

Audits are one of the essential control mechanisms to ensure that money was spent the way it was intended. It is crucial for identifying unspent money, misappropriation, waste, fraud, and other illegal activities. In the context of open government, it is not enough to just have audits. Rather, these audits should be made publicly available.

The evidence is growing for the importance of open audits:

- **Anti-corruption:** A study from Brazil and other locations shows that increasing audit risk among local governments by 20 percentage points reduced the discovery of evidence of corruption by 15 points on average, suggesting that officials stole fewer resources when they knew they would be audited.
- **Social outcomes:** Impacts of publicly available audits are not only fiscal. Positive results in budget audits in Brazil at the municipal level have been highly correlated with service delivery outcomes.
- **Political stability:** A growing body of research suggests that transparency has political impacts as well. In South Africa, municipal elected officials overseeing a positive public audit saw an incumbency advantage over those who did not publish audits or who received a negative audit. For investors, dealing with credible, legitimate leadership contributes to stable investments and beyond.

Since 2011, 38 OGP countries have made 80 commitments related to the use of audits, and 51 countries have made over 110 commitments related to promoting public participation in budget or fiscal policy-making.

EXAMPLES OF OGP REFORMS

Argentina

In collaboration with academia and civil society, the government designed and launched a new database of audit recommendations and compliance information for the Federal Prison Service.

Colombia

In its 2020–2022 OGP action plan, the government committed to promoting citizen monitoring of COVID-19 emergency funds through a monitoring app. This effort builds on its existing public procurement platform, which journalists, civil society organizations, and the public have used to uncover discrepancies in emergency spending.

Philippines

As part of its 2015–2017 OGP action plan, civil society organizations (CSOs), and the public conducted audits on national government spending on public school resources in Metro Manila.

THE URGENCY OF PUBLIC AUDITING

Though public audits have great potential to combat corruption, at present, they are often the weakest link in the budget process. Supreme audit institutions (SAIs) and parliamentary oversight committees are often responsible for ensuring budget credibility, but they face challenges in fulfilling this role, as outlined below.

- **COVID response and other extrabudgetary expenditures:** According to the IMF, only 40 percent of African central banks are meeting reporting and transparency standards as laid out in the *Code of Good Practices in Monetary and Financial Policies*. This means that the significant infusion of COVID-related finance is not reported on and potentially not being audited or tracked in a manner that encourages investor confidence.
- **Independence and mandate of audit:** Independent oversight institutions face significant constraints.
    - **Resources:** The *Open Budget Survey 2019* shows that in 93 percent of developed countries, SAI funding is broadly consistent with the resources needed to fulfill its mandate. However, this share drops to 57 percent for low-income countries and to just 31 percent in Africa. (The 2019 version of the survey is cited here because the latest version at the time of writing, the *Open Budget Survey 2021*, did not assess whether resources allocated to SAIs are sufficient.)
    - **SAI mandates and powers:** The INTOSAI *Global SAI Stocktaking Report 2017* found that SAIs' mandate limitations are common. Globally, 77 percent of SAIs are mandated to share information with specialized anti-corruption institutions. Further, according to the report, "only 39 percent of SAIs have the mandate to exercise oversight of national institutions whose mandate is to investigate corruption and fraud issues." In Africa, fewer than 10 percent of SAIs are mandated to sanction corruption and fraud.
    - **Parliamentary oversight:** The INTOSAI report also found that 48 percent of legislatures do not hold public hearings of audit reports, which are critical for transparency and effective accountability. Only 50 percent of the SAIs worldwide publish most of their audit reports, with the trend declining, while the number of SAIs not publishing any reports has increased. The publication of these reports is a key feature of public accountability. In 57 percent of SAIs, no reports are issued on follow-up steps taken to implement audit recommendations—a critical feature in the domain of anti-corruption, where, in most cases, it remains incumbent on the enforcement agencies to follow up on audit reports.
- **Participation in audit:** The Organization of Latin American and Caribbean Supreme Audit Institutions and the work of its Citizen Participation Commission have increasingly encouraged their membership to involve the public in official audits, as their *E-Guide on Citizen Engagement Practices by Supreme Audit Institutions* explains. OGP members like the Philippines and Kaduna State, Nigeria show that public participation in audits can increase the breadth and depth of audits and cultivate public buy-in to identify problems and solutions resulting from the process. Investors would benefit from encouraging greater public oversight of audits, especially where audit institutions are weak or lack credibility.

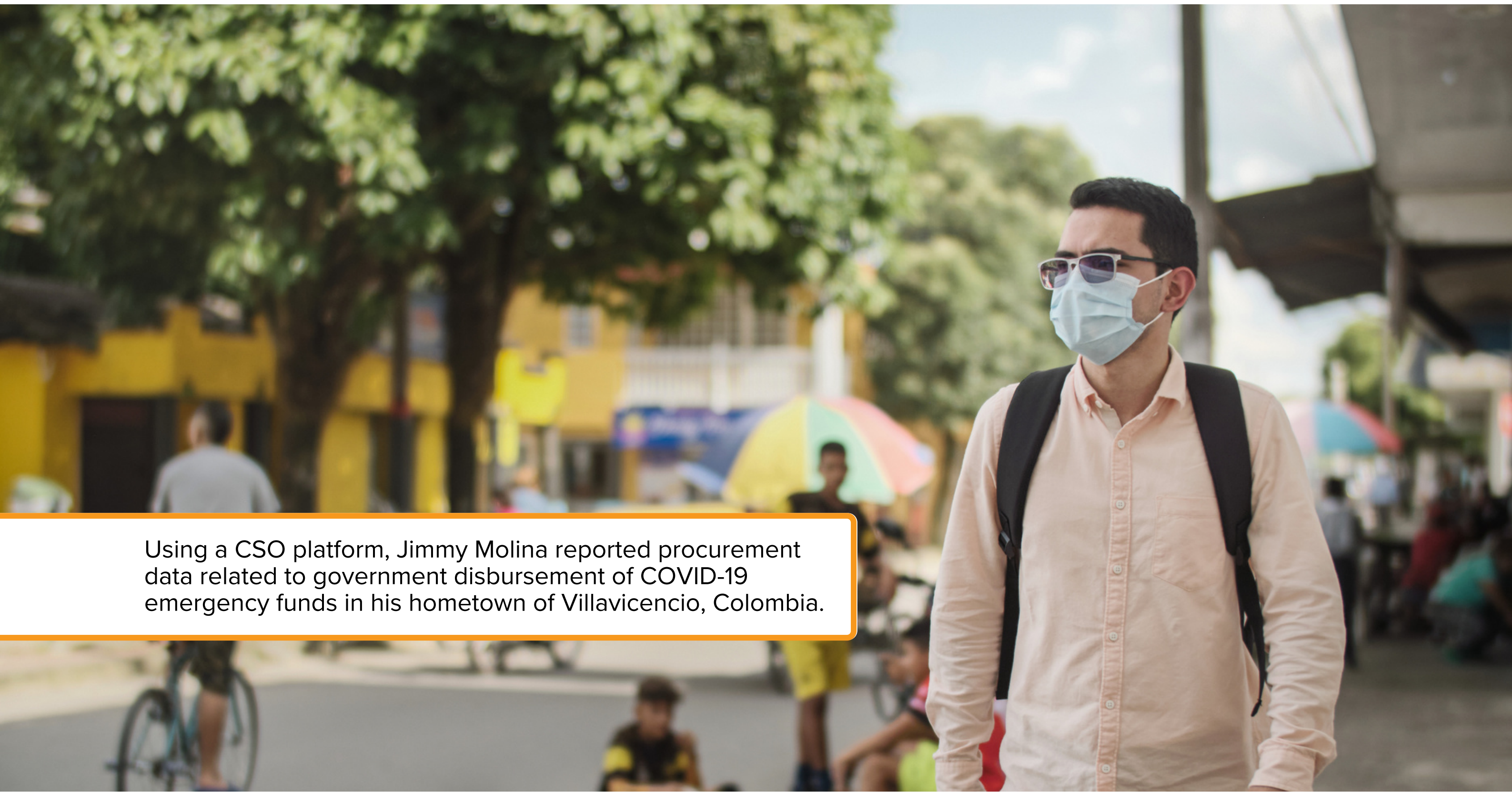
CASE STUDY

OVERSEEING EXTRABUDGETARY EXPENDITURES IN SOUTH AFRICA, SIERRA LEONE, AND THE UNITED STATES

Emergencies are inevitable. Lenders need to know that governments are ready to respond resiliently to crises. This often means spending quickly to get a result—whether that is monetary policy, humanitarian relief, or protecting social safety nets. This exposes governments to numerous, extraordinary risks of fraud and waste, potentially lowering their credibility.

Yet the risks posed by necessary extrabudgetary expenditures are not without solutions. The cases that follow offer models of public oversight. This provides a valuable lesson for lenders as it shows that countries at every level of development, even in the most dire of circumstances, can still ensure credible, legal spending.

- **South Africa:** The auditor-general of South Africa has undertaken three audits (*COVID-19 Audit Report 1*, *Audit Report 2*, and *Audit Report 3*) and published a summary report on the financial management of the country's COVID-19 response. These reports cover real-time audits of payments, procurements, and deliveries as they occur.
- **United States:** The US led the world in per capita COVID expenditures by most measures. At the same time, the oversight of COVID expenditures was fairly strong. As part of the COVID relief package (or CARES Act), Congress established the Pandemic Response Accountability Committee (PRAC), led by independent inspectors general from numerous agencies. Further, the PRAC established an additional 12 inspectors general to identify cases of waste, fraud, and abuse. As a result of this oversight, the US Justice Department has launched an inspection and levied fines for hundreds of millions of dollars of fraud.
- **Sierra Leone:** Even in the context of Ebola outbreaks, Sierra Leone's office of the auditor-general reported many sources of irregularities in the management of the Ebola funds through the use of real-time audits. These irregularities included undocumented payments for supplies, disregarded or misapplied procurement procedures, bribes paid to circumvent security protocols, suspicious payments to parliamentarians and NGOs, and undocumented loans. In addition, they have published audits on funds used during COVID-19.



Using a CSO platform, Jimmy Molina reported procurement data related to government disbursement of COVID-19 emergency funds in his hometown of Villavicencio, Colombia.

REVENUE TRANSPARENCY

Revenue transparency represents a new area of reform focused on expanding access to information about actual revenues, particularly through taxes. Though tax law is publicly available, details on revenues are generally not—revenue generated by extractive industries is an exception, especially due to the work of the Extractive Industries Transparency Initiative (EITI). Revenue transparency can thus serve a catalytic function, with scholars and advocates beginning to identify it as key to leveraging the knowledge of actual state income to spur broader reform.

As EITI describes, "A detailed understanding of company payments and government revenues can inform public debate about the governance of the extractive industries. Making revenue information public can help identify tax administration practices that are vulnerable to abuse, inform fiscal policies, and strengthen tax administration, enhancing government's ability to collect revenues from the extractive industries." Critically, this theory of change applies beyond the revenues generated by extractive industries to revenue collection in general.

Though more study is needed to determine the impact of revenue disclosures, particularly as one link in a longer chain of accountability between the public and governments, emerging evidence suggests that increased transparency could play a role in decreasing corruption:

- **Efficiency in revenue collection:** Every year, developing countries lose an estimated US$138 billion to tax breaks and incentives for multinational corporations. Publicly accessible information about who benefits from countries' financial and natural resources allows citizens and civil society to identify unnecessary revenue losses. In the long run, analysis of this information can help governments save millions of dollars.
- **Inequality reduction:** Without transparency about tax policy, collection, and evasion, it is difficult to evaluate the marginal effects of taxation on different parts of society. With transparency and public oversight, policy makers and interest groups can identify the distributional impacts of policies. Equitable taxation can help redistribute wealth, reduce poverty, and mitigate economic inequality worsened by the pandemic. In many African countries, the poor bear a significant fiscal burden due to consumption and informal taxes and fees to access essential services. To begin to address these concerns, governments can open up tax policy-making processes and oversight.
- **Increased government accountability:** In examining the cases of Ghana and Sierra Leone, van den Boogaard et al. (2022) argue that "taxation can contribute to greater government responsiveness and accountability" when certain enabling conditions are met, particularly through tax transparency and taxpayer engagement. The authors urge governments to make tax data publicly available in easily accessible formats and locations and conduct taxpayer education campaigns in collaboration with civil society actors to ensure the public can understand and use such data. In their analysis, civil society plays a crucial role in ensuring the effectiveness of such programs.

- **Public trust:** The International Centre for Tax & Development reviewed cases illustrating the links between transparency, state capacity, and trust as potential impacts of tax-related reforms. For one example, he cites the new tax system created after the end of Chile's dictatorship, the success of which can be largely attributed to the broad political consensus that drove its formulation . Based on this and other cases, Prichard argues that a national dialogue about taxation cannot take place without transparency from the government, in conjunction with awareness raising among the public about the tax and budget systems. A 2014 Afrobarometer survey largely echoes these findings, with surveyed participants reporting lower perceptions of corruption in areas with better access to tax information.
- **Economic development:** A 2017 independent study assessed the impact of EITI membership on increasing economic development and improving control of corruption. Using panel data over 16 years (1997 to 2014), the author evaluated a set of economic and corruption indicators over time by comparing the performance of EITI members and non-members, accounting for the degree of resource dependence in each country. The author found that while EITI membership has not led to a significant increase in corruption control, EITI members have experienced increases in GDP levels per capita compared to non-members, especially for countries with higher levels of resource dependence. Though more research is needed to better understand the relationship, this initial finding encourages continued focus on transparency, especially in this sector.

Tax reforms are not currently a popular area for commitments in OGP. Forty-seven members have made 86 tax commitments related to changes in policy, administration, oversight, monitoring, and auditing, representing about 12 percent of commitments made to advance fiscal openness overall. However, greater emphasis from OGP members in this area could provide momentum needed for broader fiscal reform. The IRM found that about half of the tax-related commitments had high ambition, though work remains to be done to ensure that such commitments translate into strong early results.

EXAMPLES OF OGP REFORMS

Lithuania

The Ministry of Finance created a financial data portal for all municipalities in the country related to state and local revenue and expenses, debts, and unemployment. The portal also includes public and private recipients of public funding.

Germany

In fulfilling membership requirements for EITI, Germany created a new legal basis, technical infrastructure, and institutional mechanisms to publicly disclose comprehensive reports on revenues and operational information from the extractive sector for the first time.

DEBT DISCLOSURE

Opacity can enable corruption and is a key tool for authoritarians. Thus, lenders and investors play an essential role in ensuring that important decisions are made in daylight. Their lending terms should be transparent. Government, multilateral, and private creditors should consistently disclose loans and their terms within 30 days of contract signature. They can also play a role in pushing borrower governments to publish debt contracts and make them subject to public scrutiny and parliamentary approval.

The evidence is growing that debt transparency matters:

- **Creditworthiness:** Numerous studies show that debt transparency increases creditworthiness. Evidence suggests that it does this by making clear what the government's fiscal policy will be. It also lowers the risk of corruption and misappropriation. Another study finds that debt transparency may be a better predictor of creditworthiness than other prominent determinants, namely regime type.
- **Quality of spending:** Multiple analyses of developing and developed countries found that fiscal transparency, including information about expected and actual debt, improves the effectiveness of government policies and makes public spending more efficient. Government actors are incentivized to spend more efficiently and implement policy more effectively when they know that information about their borrowing practices is publicly accessible. This is especially critical for those investors who care about environmental, social, and other outcomes.
- **Debt burden:** The bulk of the literature on debt transparency focuses on its effect on the cost of borrowing and debt. Across the board, studies of this relationship find that debt transparency negatively affects the amount of debt accrued and the cost of borrowing.

Debt transparency has so far been relatively unexplored in OGP commitments, including those by OGP members in Africa, where debt transparency is increasingly considered a critical issue. However, a few countries have submitted commitments related to disclosing debts, particularly in 2022–2024 and 2023–2025 OGP action plans, which could signal that this topic will receive greater focus in years to come.

EXAMPLES OF OGP REFORMS

Ghana

In its 2017–2019 OGP action plan, Ghana committed to publishing information on fiscal deficits, the government's borrowing, and debt management. Though this data is not yet accessible to the public, the commitment is an important first step. Future action plans may address Ghana's growing debt concerns through transparency and beyond.

Montenegro

In its current action plan (2022–2024), Montenegro committed to making data on local governments' revenues, expenditures, and tax debts more transparent, particularly through an open data format. Implementing this requirement would make this particular type of debt less opaque.

Malawi

In its current action plan (2023–2025), Malawi committed to mandating the referral of loan bills to the Budget and Finance Committee. The committee would then present its findings to the National Assembly to ensure parliamentarians can be aware of and track new loans. Doing so would provide critical oversight of future loans.

WHY DEBT TRANSPARENCY MATTERS

The world is seeing a spiraling debt crisis unseen since the 1980s. Lebanon, Sri Lanka, Russia, Suriname, and Zambia have already entered default on their borrowing, and at least another dozen countries risk entering that debt as rising borrowing costs, inflation, and debt all stoke fears of economic collapse. This will result in the loss of significant value to investors and significantly impact development and future growth in many countries.

This crisis is not purely financial. It is caused by inadequate public oversight as well, and this opaque debt slows development, erodes the rule of law, and emboldens authoritarians. According to a recent report, loans are often contracted without public knowledge. Parliaments are similarly sidelined by governments and lenders eager to fast-track deals that may be in their interests but not necessarily in the public's interest.

As an example, the government of Mozambique borrowed and likely misused, without disclosing, loans from private banks totaling US$1.3 billion. The world's largest single creditor, China, has been able to expand its influence through lending that features confidentiality clauses and the collateralization of strategic reserves and other public resources. The development impacts are no less impactful. According to the UN, in 2021, 25 of the world's poorest countries spent more on debt service payments (including interest) than on health, education, and social protection combined. The key to preventing future cycles of debt distress is building transparency and accountability into the global sovereign debt regime.

CASE STUDY

THE OUTLIER: WHY BURKINA FASO HAS GONE PUBLIC WITH ITS DEBT

Burkina Faso is a small country in the Sahel Region of Africa. Despite being wracked by repeated conflict, terrorist attacks, and regime changes, the country stands out as a regional leader in debt transparency. Why? A case study from the World Bank provides insight.

Following numerous terrorist attacks in 2015, the government's borrowing needs increased. As a result, the country turned from bilateral and multilateral concessional lending to private markets. It could have done this without oversight, as many of its neighbors have done.

Moving to market-rate loans meant that borrowing would be increasingly expensive. To keep costs at a minimum, the country's debt management office started looking for ways to share more information with potential creditors.

Improving Burkina Faso's borrowing conditions required investment in a comprehensive Statistical Debt Bulletin and in the underlying debt management data in the country. This required the assistance of the World Bank's Debt Management Facility. The process was not easy, and the Bulletin was not published until March 2021. This suggests that, even in the most unstable and difficult of contexts, governments can make significant efforts to access more money for development through greater public scrutiny.

The Public and Private Development Centre in Nigeria partnered with the government to establish the beneficial ownership registry. Pictured: Nkem Ilo.

PROCUREMENT TRANSPARENCY

Open contracting throughout the entire procurement process (planning, implementation, and monitoring) increases competition, improves the quality of public services, and ensures governments better value for money. However, though governments spend anywhere from tens of billions to trillions of dollars on public contracts each year, complete information is published openly on less than three percent of these contract dollars.

The evidence shows that procurement transparency can positively impact the work of the private sector and governments:

- **Improved efficiency:** Countries have saved millions of dollars in procurement after establishing online procurement portals. For example, Ukraine has saved about US$6 billion through its ProZorro platform since October 2017 (or about 16 percent of its 2021 government expenditures). Open contracting platforms, such as Ecuador's emergency buying platform for medical supplies during COVID-19, make the procurement process faster and more efficient, ultimately leading to better value for government money.
- **Public service delivery:** Transparency in contracting enables greater opportunity for public monitoring during contract implementation, which can lead to improved quality of services. For example, the average shelf life of school textbooks doubled in the Philippines when the public was able to monitor the Department of Education's contracts.
- **Increased competition:** An open procurement process increases opportunities for more suppliers to bid and be awarded contracts. For example, half of Colombia's suppliers in 2015 were awarded their first government contract following the introduction of open contracting reforms. This is especially beneficial for small businesses and businesses owned by marginalized groups. Greater competition also benefits governments since more bidders lead to lower contract costs.
- **Anti-corruption:** Opening up procurement data allows for greater monitoring and oversight from civil society, journalists, and state auditors. Even the potential threat of external monitoring can deter corruption and fraud, ensuring that taxpayer money is used ethically and efficiently.

OGP members have increasingly focused on procurement transparency in their action plans. Since 2011, 68 members have made 130 commitments related to open contracting, with most commitments made in recent years. A majority of open contracting commitments focus on increasing transparency of contracting data, particularly by ensuring data is available online and in accordance with open data principles. Finally, open contracting commitments tend to be more ambitious and achieve stronger early results than the average OGP commitment. For example, nearly one-third of open contracting commitments have produced strong reforms in government practice, a feat that only one-fifth of all OGP commitments have achieved.

EXAMPLES OF OGP REFORMS

Sierra Leone

The public can now access information on awarded contracts and canceled contracts for the first time in an online database.

Finland

The public can access all non-sensitive government procurement data for the first time on an award-winning platform without having to submit information requests.

Colombia

Analysis by the Open Contracting Partnership found that government entities saw an increase in the median number of bids per contract and an increase in the number of unique suppliers through Colombia's new procurement platform.

BENEFICIAL OWNERSHIP TRANSPARENCY

Disclosing beneficial owners—those who ultimately control or profit from a business—is an important tool to combat corruption. Specifically, publishing digital registers with beneficial ownership information helps shine a light on secretive legal structures that can be exploited to launder the proceeds of corruption, hide conflicts of interest, improperly win lucrative government contracts, and evade tax payments.

Beneficial ownership transparency can also improve investment options. Having greater access to information about the true owners of companies allows investors to operate with greater confidence about legal compliance, ethics, and internal controls of a company. By supporting this reform, investors can avoid unintentionally supporting unethical business practices, tax evasion, organized crime, or terrorism.

The evidence shows that beneficial ownership data often provide the missing puzzle piece to uncover corruption in other areas:

- **Cost of anonymity:** Anonymously owned companies (and other legal vehicles) are often used to hide taxable revenue, terrorist financing, or illegally obtained money because they make it difficult to trace their beneficiaries. Roughly 70 percent of the biggest corruption cases between 1980 and 2010 involved anonymously owned companies.
- **Tax collection:** Beneficial ownership transparency strengthens tax collection by limiting tax evasion. For example, by some estimates, the disclosures in the Panama Papers have led to the collection of more than US$500 million in unpaid taxes and penalties and to numerous prosecutions for tax evasion.
- **Anti-corruption:** Public beneficial ownership information helps to fight corruption and money laundering. This is particularly critical in real estate, where governments and other stakeholders can use the data to identify money laundering activities, as seen in the recent leak of Dubai property data. Watchdog organizations in the Slovak Republic have also used beneficial ownership data to hold companies accountable by identifying conflicts of interest and fining the companies.
- **Due diligence:** Public beneficial ownership registries help companies fulfill their due diligence and risk management obligations, returning value to investors. This includes banks and financial institutions that are often required to identify client beneficiaries without having access to government-held beneficial ownership registers. In the UK, users accessed the beneficial ownership register more than ten billion times between 2020–2021, demonstrating the value of the data to groups beyond civil society and journalists.

Beneficial ownership transparency has been growing steadily as an area of reform among OGP members. To date, 33 national governments have made 59 OGP commitments related to beneficial ownership transparency. In 2020, more than 40 percent of OGP countries were implementing a commitment related to beneficial ownership transparency, an all-time high. The commitments themselves also show promise. According to the IRM, OGP commitments related to beneficial ownership transparency tend to be more ambitious than commitments in other areas. Specifically, the IRM has rated two-thirds of these commitments as “ambitious” (or having the potential to significantly change the status quo) compared to only one-half of all other commitments.

EXAMPLES OF OGP REFORMS

United Kingdom

Since its creation in 2016, 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 as part of its OGP action plan, Nigeria passed a law 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

Indonesia launched its registry for the extractive and forestry sectors in 2019, making it the first of its kind in Southeast Asia, and committed to making it public.

WHISTLEBLOWER PROTECTIONS

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, particularly in relation to the misuse of public funds.

The evidence shows that whistleblower protections are a powerful tool to combat systemic corruption, in addition to large-scale stories of corruption revealed through the work of whistleblowers (the Panama Papers leak, the Danske Bank money laundering scandal, etc.):

- **Mutually reinforcing policies:** In 2020, research from MSCI suggested that "the strength of an issuer's whistleblowing policy appears to correlate with the strength of its overall corporate governance practices." MSCI found that corporations that disclose their whistleblower policy protections in line with best practice scored an average of 35 percent higher on corporate governance assessments than those without such policies.
- **Fraud detection:** Whistleblowers are the primary method to detect fraud. In a 2020 global study, the Association of Certified Fraud Examiners found that "43 percent of the cases of occupational fraud analyzed were uncovered through tips-offs, whereas only 15 percent were identified through internal audit and only 12 percent via a management review." Overall, the study found that whistleblowers uncovered more instances of fraud than internal security measures, supervisory oversight, and law enforcement interventions combined.

Over 30 OGP members have included reforms related to whistleblower protections in their action plans, with over 55 different commitments made since 2011. OGP's IRM has assessed over half of these commitments as having moderate or transformative potential for results.

EXAMPLES OF OGP REFORMS

Latvia

In 2018, Latvia adopted a new law to improve whistleblowing procedures and protections accompanied by a campaign to raise awareness of the social benefits of whistleblowing.

Italy

Italy strengthened whistleblower protections by launching an open-source website to provide resources and allow whistleblowers to report wrongdoing.

Ireland

Legislation passed in 2014 empowered all working citizens to report wrongdoing in the private and public sector and established redress mechanisms. Ireland has since passed a stronger whistleblowing law in 2022 to transpose the EU Directive on Whistleblowing.

RIGHT TO INFORMATION (RTI) LAWS

Right to information (RTI) laws can increase both public participation in decision-making and government accountability by allowing the public to obtain information from public authorities and, in some cases, private bodies. Ensuring that governments implement existing RTI laws (or pass legislation to enshrine this critical right) is necessary to improve transparency in the markets and in the expenditure of public funds.

The evidence shows the important role of information availability, particularly the proactive disclosures of data, in improving access to capital and other economic benefits:

- **Economic gains:** The total direct economic value of open data is expected to increase from a baseline of €52 billion in 2018 for the EU, to €194 billion in 2030. Additionally, projections estimate that 100,000 jobs could be created by 2020 through the re-use of open data. For G20 countries, the average economic value-add of open data is estimated at US$2.6 trillion, or about half of the group's envisioned economic growth targets.
- **Anti-corruption:** Studies have found that countries with RTI laws have lower levels of corruption. The existence of a freedom of information act is also associated with a significant positive trend in controlling corruption. In addition, RTI can help ensure that governments follow procedures as laid out in the law, act impartially, and give reasons for their decisions. Data on RTI performance (particularly proactive data disclosures) can surface patterns of misadministration and outliers that could make the law ineffective.

RTI laws and performance tracking have been popular areas for reform among OGP members, though members can improve their focus on ensuring implementation through action plans. Since 2011, 75 members have made over 315 commitments related to RTI, though as of mid-2022, only 34 members have made commitments specifically related to the collection and publication of RTI performance data.

EXAMPLES OF OGP REFORMS

Sri Lanka

After passing its RTI law, which the Centre for Law and Democracy named as the best in the region and the third best in the world, Sri Lanka committed to creating an online portal and requiring the digitization of public records on RTI requests responses.

Dominican Republic

The public can now view online statistics for over 200 government agencies on levels of compliance with freedom of information requests.

Uruguay

The public can now access dates of requests for information, names of requestors, resolutions, and documentation provided by the government online.

CASE STUDY

HOW DO CREDIT RATING AGENCIES EVALUATE ESG FACTORS?

Though some credit rating agencies (CRAs) have begun to explore taking ESG factors into account in the past few years, a 2022 World Bank report shows that they have not yet fully integrated them into their rating systems. According to the report, CRAs consider ESG factors as too complex to evaluate at a sovereign level, especially in terms of pinning down their associated risks over a long period (generally within ten years), for them to be included in a credit assessment. Though some CRAs have included ESG factors in the qualitative components of their analysis, the report argues that there is room to include these factors in the actual ratings themselves.

While more work needs to be done to implement this change and counter resistance from the CRA industry as a whole, the following are examples of how large companies have begun to experiment with including these factors in their analysis. In each case, however, specific metrics have not been included due to difficulties in accessing details on how ESG indicators factor into ratings.

Scope Ratings GmbH: This CRA is the only one to date that includes ESG as a stand-alone factor in its methodology for sovereign credit ratings. Below are the topics covered in their analysis.

- ***Environmental risks:*** Risks in transitioning to low-carbon fuel; carbon dioxide levels as a proportion of GDP; natural disaster risks; and resource risks
- ***Social risks:*** Old-age dependency ratio; income inequality; and labor force participation
- ***(Country) Governance risks:*** An average of the following six World Bank governance indicators—voice and accountability; political stability; government effectiveness; regulatory quality; rule of law; and control of corruption

S&P Global Ratings: S&P is now issuing ESG credit-related indicators for qualitative assessment —however, as mentioned above, these indicators do not impact the final credit rating. The indicators below are explained in relation to different entities or tools (such as covered bonds, banks, and structured finance) in terms of their “negative,” “neutral,” or “positive” influence on components of the credit assessment.

- ***Environmental factors:*** Climate transition risks; physical risks; natural capital; waste and pollution; and other undefined environmental factors
- ***Social factors:*** Health and safety; social capital; human capital; and other undefined social factors
- ***(Corporate) Governance factors:*** Governance structure; risk management, culture, and oversight; transparency and reporting; and other undefined governance factors

Fitch Ratings: ESG Ratings at Fitch are evaluated on an absolute scale, comparable across sectors and geographies, and on a qualitative level. Given the difficulty in accessing a full list of Fitch's methodology—in many cases, CRAs consider this information proprietary—the following indicators were drawn from sample reports on the Fitch website.

- **ENTITY RATINGS:** Is the entity having a positive or negative impact on the environment/society due to business activities, strategy, policies, etc.?
  - ***Environmental view:*** Policies, targets, and supply chain; disclosures; evolution of progress towards goals; and risk and incident management
  - ***Social view:*** Human rights; labor rights; diversity; community and customers; targets and supply chain; and risks and incident management
  - ***(Corporate) Governance view:*** Financials and reporting; top management and control; remuneration; risk management; and tax management
- **FRAMEWORK RATINGS:** What is the financial instrument's impact on the environment or society, along with the strength and governance of the instrument's framework?
- **INSTRUMENT RATINGS:** The entity and framework ratings are combined to create this rating to allow for comparability across geographies and sectors.

Moody's Ratings: Moody's published the following ESG methodology for its credit ratings in March 2022, with updates added in June of that year. Moody's uses both qualitative and quantitative data to inform its issuer profile scores (IPS) and credit impact scores, with a focus on "all material credit considerations that may influence the relative risk of default and expected financial loss in the event of default for issuers and debt obligations, regardless of whether or not they are classified as ESG risks."

- ***Environmental IPS:*** Carbon transition; physical climate risks; water management; waste and pollution; and natural capital
- ***Social IPS:*** Customer relations; human capital; demographic and societal trends; health and safety; and responsible production
- ***(Corporate) Governance IPS:*** Financial strategy and risk management; management credibility and track record; organizational structure; compliance and reporting; and board structure and policies

The World Bank provides another useful source of information on ESG data. In its public database, it curates sovereign ESG data according to its own framework, based on data available for each time period and region.

Sarah Pacarya joined a citizen participatory audit on the quality of public schools in Metro Manila, and helped identify gaps infrastructure and school materials.

Strengthening Investor Involvement 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, more can be done to build on existing engagements and grow the model of private sector engagement in the OGP process. Critical to this process is ensuring a wide range of key stakeholders are motivated to leverage their respective expertise and influence to combat corruption. For example, actors such as non-profit organizations and standard-setting bodies also play important roles in informing and setting priorities for investment, as well as providing further oversight. Examples of what key stakeholder groups can do, and positive actions others can build on, can be found below.

Key Stakeholders to Engage

TRADITIONAL INVESTORS

Fundamentally, traditional investors have a fiduciary duty to ensure investments are made responsibly and follow relevant laws, making them a key actor in this space. Because traditional investors have considerable power as financing gatekeepers, it is important to encourage them to leverage this power positively, namely by directing investment funds to corporations that comply with disclosures and implement better ESG practices.

SOCIALLY RESPONSIBLE INVESTORS AND THEIR REPRESENTATIVES

Socially responsible investors play an important role in advocating for open governance reforms. Efforts to make extractive industry revenue more transparent, in particular by organizations such as Calvert Research and Management, illustrate this. Their support has been key in accelerating parts of some OGP action plan commitments.

ACTIVIST SHAREHOLDERS AND THEIR REPRESENTATIVES

Increasingly, organizations and individuals are bringing shareholders together to advance governance reforms. Nowhere has this been more apparent than in recent efforts to align public corporate climate commitments with actual lobbying and political expenditure data. For example, the Global Standard on Responsible Climate Lobbying, which seeks to promote responsible climate-related lobbying practices and disclosures, suggests using shareholder resolutions to penalize firms that fail to meet the standard.

ETHICS AND COMPLIANCE OFFICERS

These officers work to ensure that their organizations comply with both government regulations (both globally and within a country) and any internal ethical guidelines a company may have in place. From their vantage point within private entities, ethics officers provide an additional layer of oversight to complement external methods.

NON-PROFIT ORGANIZATIONS

Organized civil society, especially the non-profit sector, is at the heart of OGP. However, in many regions of the world, organizations working on political finance transparency, lobbying, and international financial flows have become increasingly relevant. As OGP members consider aligning investment goals with good governance goals, it will be essential to bring such organizations into OGP processes at the commitment level as well as national-level multi-stakeholder forums and international processes.

INTERNATIONAL FINANCIAL INSTITUTIONS (IFIs)AND PHILANTHROPIES

As new financial tools are emerging to help incentivize sustainable investment—such as sustainability bonds and blended finance—IFIs and philanthropies play a special role in helping set standards and signaling when governments are prepared to use this type of finance. In addition, they may help provide technical assistance when governments prepare for borrowing and monitor and report on the effectiveness of that finance.

STANDARD-SETTING BODIES

Depending on their structure, standard-setting bodies provide normative value that can shape the legal basis for regulations to promote data disclosures and best practices and (in some instances) mandates for their members to follow set requirements. Voluntary standards such as the OECD Guidelines on Multinational Enterprises, the UN Guiding Principles on Business and Human Rights, the UN Principles for Responsible Investment, and the Task Force on Climate-Related Financial Disclosures provide a normative baseline that governments can use to shape the legal framework around ESG indicators. Others, often private sector standards like the Net Zero Asset Managers Initiative and the Global Standard on Responsible Climate Lobbying, do require their signatories to follow the standards as a condition of membership.

CREDIT RATING AGENCIES

Rating agencies are a vital link in the investment process. As evidence of the effectiveness of transparency and oversight grows, rating agencies may wish to incorporate more public data and evaluations of government public oversight systems into their work. In some cases, they may even begin to request that sovereign and municipal borrowers include disclosures of their regulatory systems in their work and that corporate borrowers make clear their controls to limit their contributions to corruption and other relevant risks.

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