

INTERNATIONAL MONETARY FUND

# FISCAL MONITOR

Curbing Corruption

2019  
APR



## Curbing Corruption

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Tenth IMF-Japan High-Level Tax Conference For Asian  
Countries in Tokyo

**TAX  
REVENUE**



# How Is Your Tax Money Lost To Corruption?

**GOVERNMENT SERVICES**

**CORRUPTION**

**INTERNATIONAL MONETARY FUND**

**IMF.org**

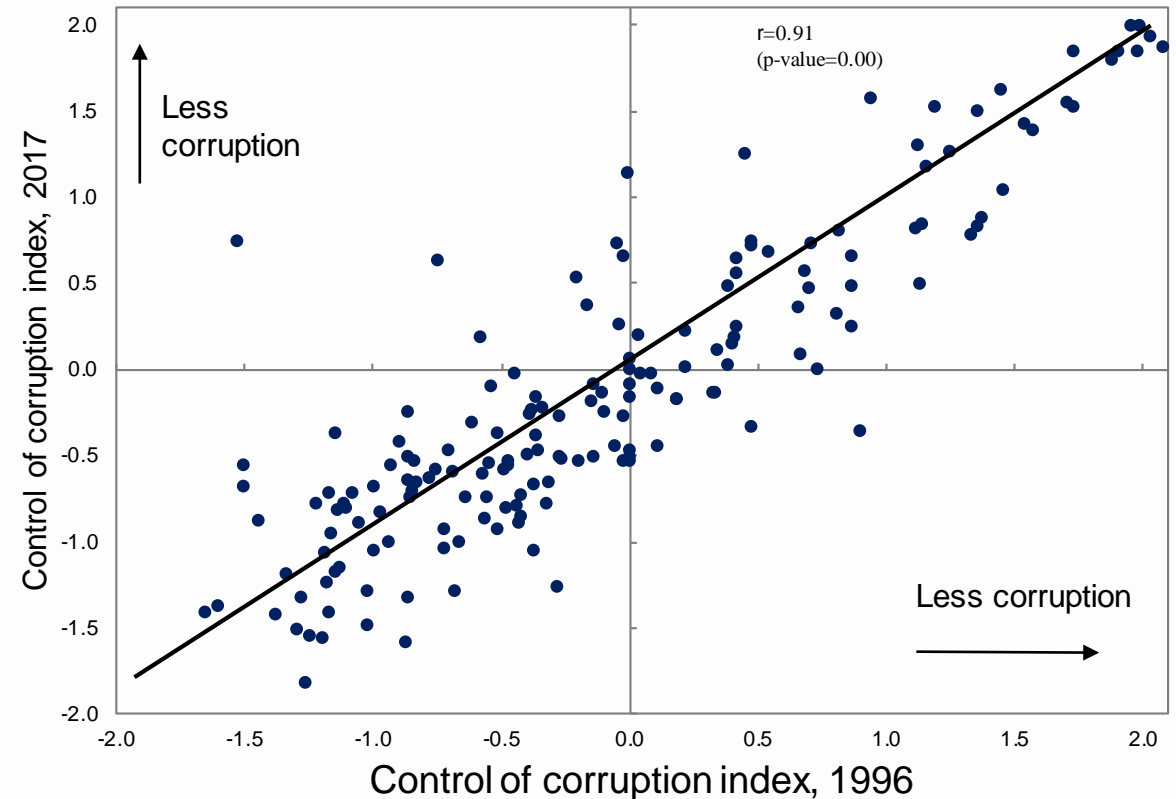
# Overview

- Corruption and Government: Channels and Fiscal Costs
- The Role of Fiscal Institutions
- International Cooperation
- Concluding remarks

# Corruption

- **Definition: The abuse of public office for private gain**
  - ▶ State capture vs. administrative corruption
- **Difficult to measure: Largely based on perceptions**
- **Persistent and correlated with level of development**

Corruption in 2017 versus 1996



Sources: Worldwide Governance Indicators; IMF, WEO Database.

# Corruption and Government

## *Revenues*

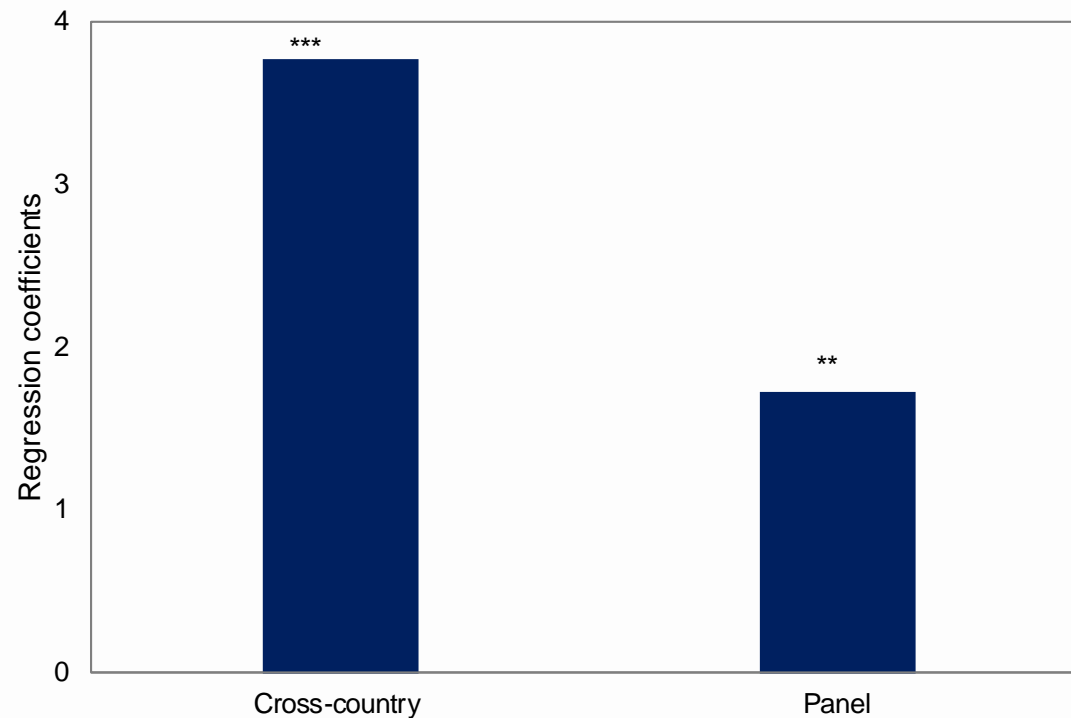
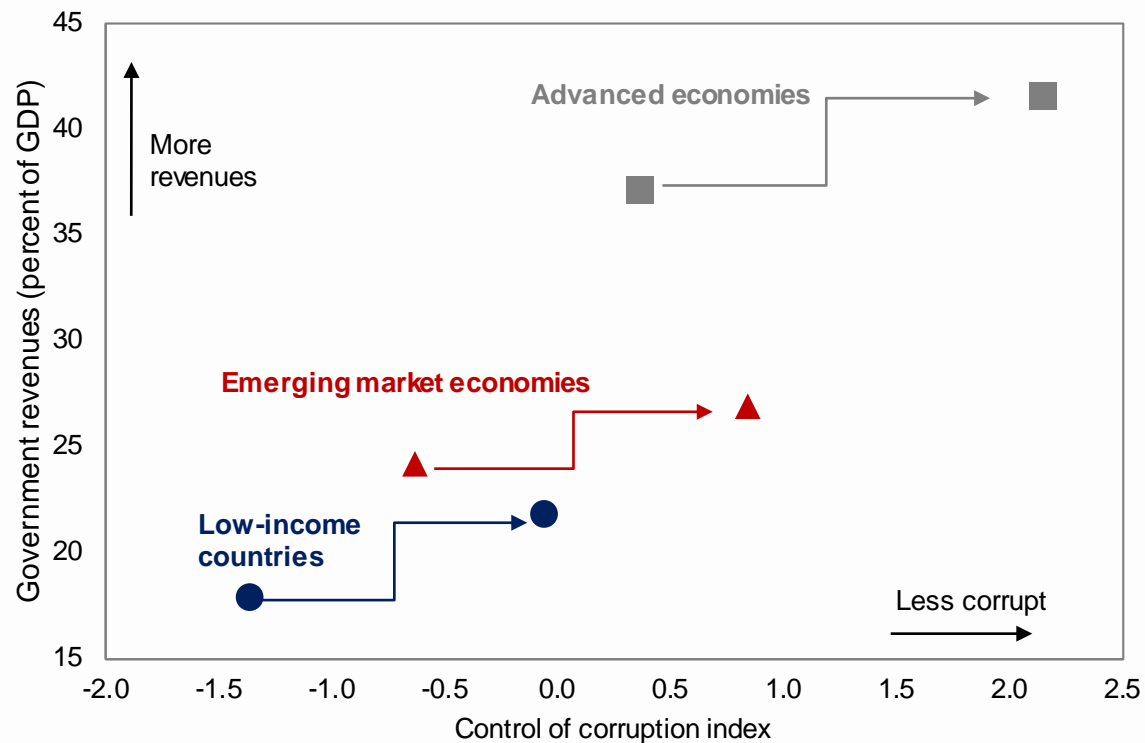
- Corruption enhances tax evasion
  - ▶ Tax laws
  - ▶ Tax administration
  - ▶ Undermines culture of tax compliance
- Management of Natural Resources

## *Expenditures*

- Distorts budget decisions
- Implementation of policies
  - ▶ Procurement/public investment
  - ▶ Wages and pensions
- Extrabudgetary funds
- State-owned enterprises

# Fiscal Costs: Leakages in revenues across all income groups

## More corruption, Less Government Revenues

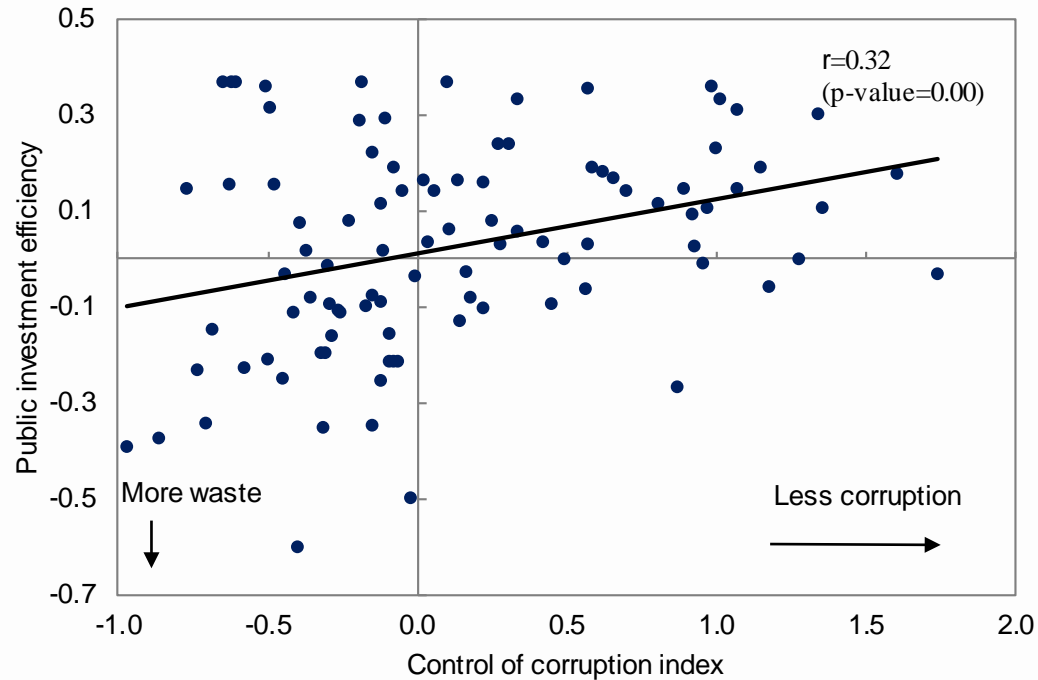


Source: Worldwide Governance Indicators, World Economic Outlook, and staff estimates.  
Note: average government revenues as share of GDP for countries with the lowest levels of corruption (top 25% of the control of corruption) and highest levels of corruption (bottom 25%) for each group. It excludes oil exporters

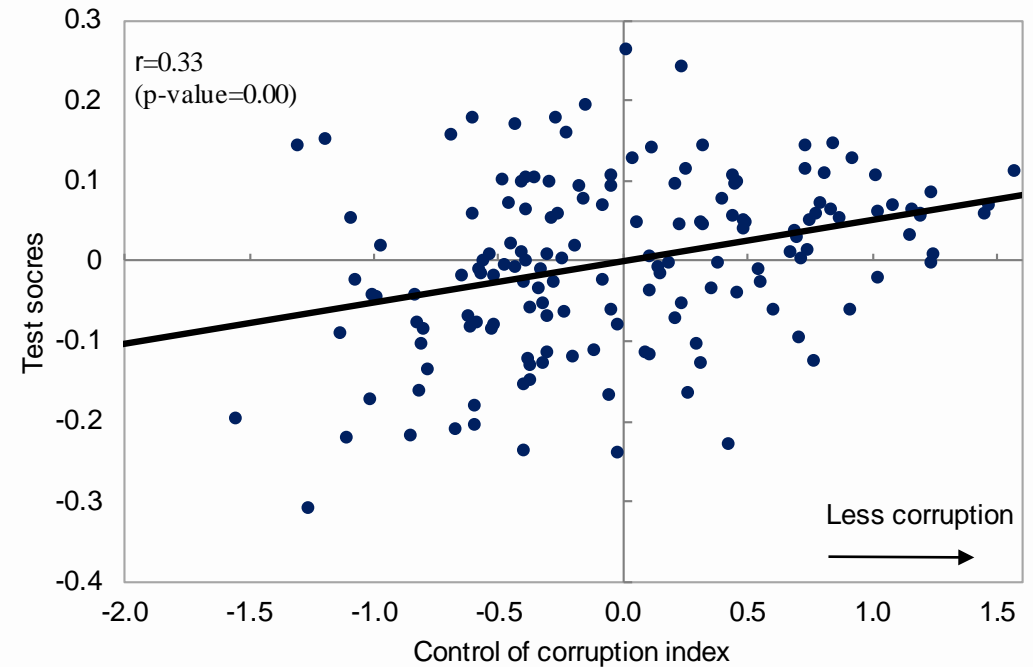
Note: IMF staff estimates based on cross-country and panel regressions. Shows the impact on government revenues when there is one standard deviation improvement in the control of corruption (WGI). \*\*\* statistically significant at 1%; \*\* significant at 5%.

# Fiscal Costs: Corruption affects core policies

## More waste in public investment



## Lower test scores



Source: Worldwide Governance Indicators, Patrinos and Angrist (2018), World Economic Outlook, and staff estimates.

Note: Public investment efficiency is estimated using efficiency frontier analysis and measures inefficiency as the distance to the frontier—maximum level of output for given levels of inputs. The output is measured by a physical indicator on the volume of economic infrastructure and social infrastructure. Inputs include capital stock and income. Harmonized test scores across samples. GDP per capita adjusted data.

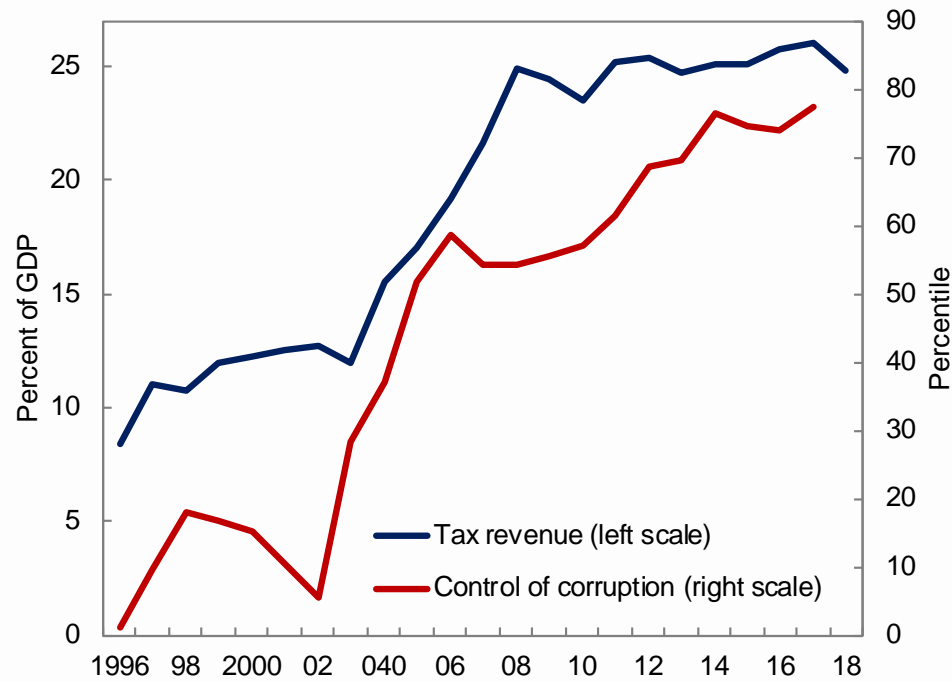
# The Role of Fiscal Institutions



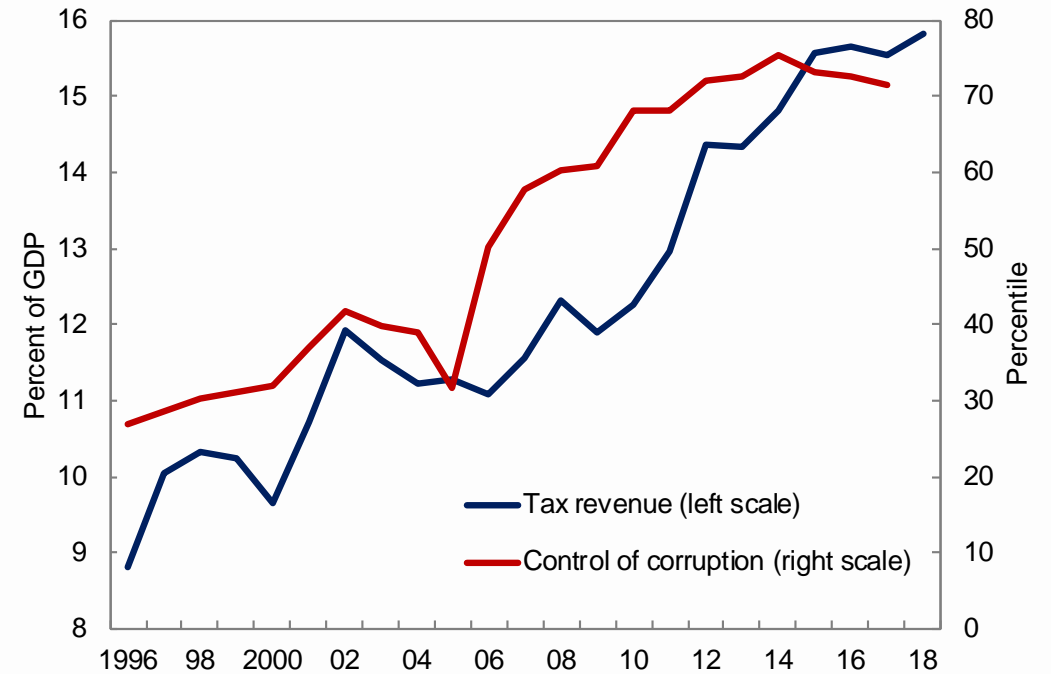
# The Role of Fiscal Institutions

## Country cases

**Georgia. Total Tax Revenues**  
(Percent of GDP)



**Rwanda. Total Tax Revenues**  
(Percent of GDP)



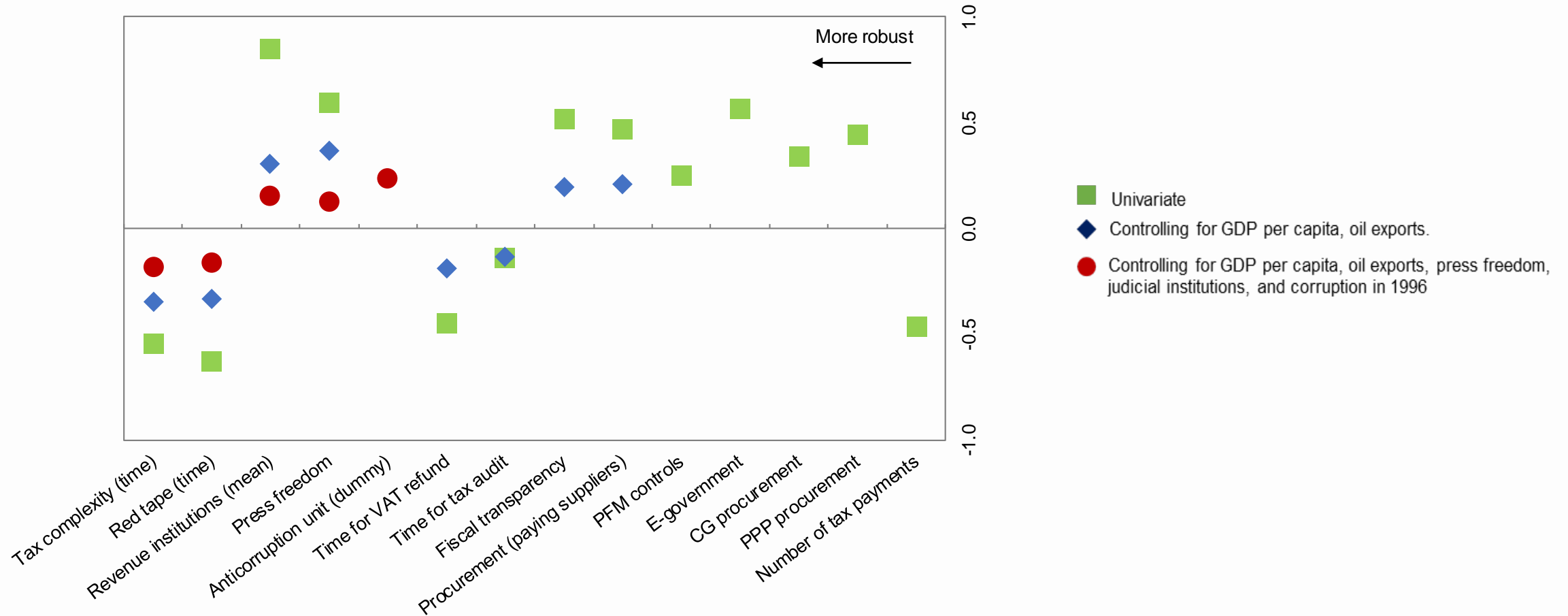
Source: Country authorities, World Economic Outlook, and IMF staff estimates.

***Other cases: Estonia, Chile, and Liberia***

# The Role of Fiscal Institutions

## Cross-country evidence

### Corruption and Institutions



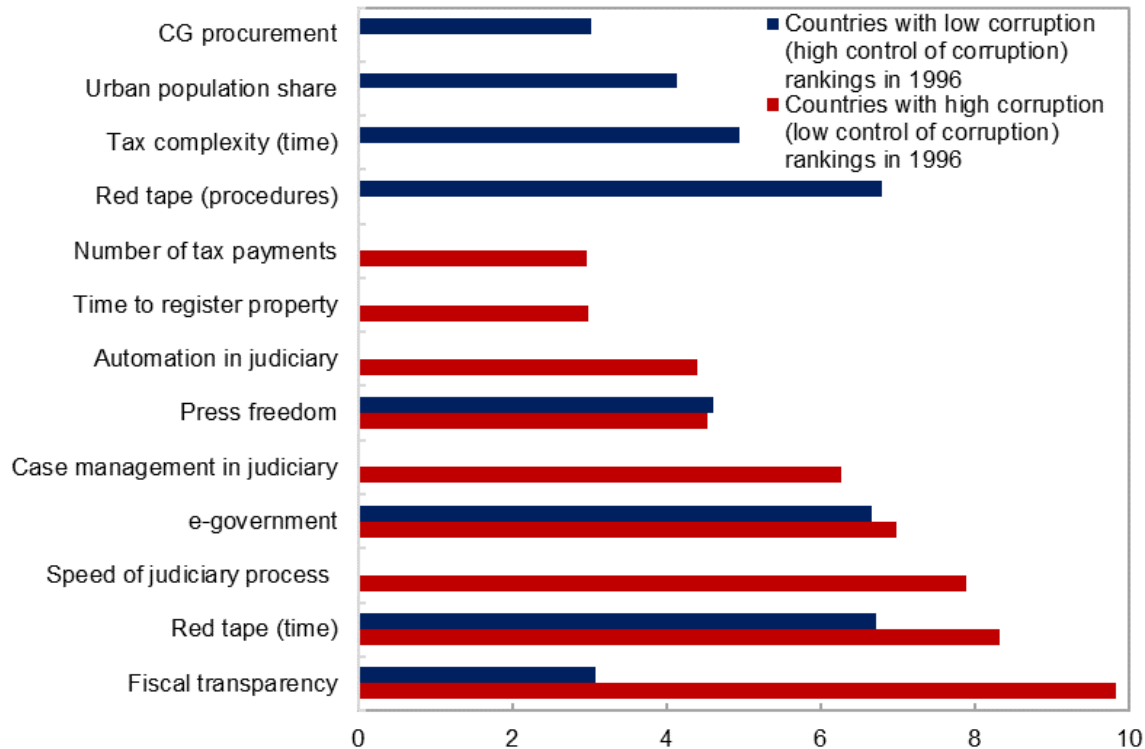
Note: Coefficients are only shown if significant at the 5% level. Series are standardized.

CG - Central Government. PFM - Public financial management. Revenue institutions is an average of limits to discretionary power (RA-FIT), use of third party information (RA-FIT), and the inverted time for tax audit completion (Doing Business).

# The Role of Fiscal Institutions

## Interactions

### Relative importance of fiscal institutions



Source: IMF staff estimates.

Note: Based on regression trees. The results show the top most relevant institutions out of more than 50 variables.

### Interactions:

- Transparency and press freedom
- Revenue institutions can compensate for tax complexity
- Judicial institutions enhance fiscal institutions (PFM, red tape)
- Importance of fiscal institutions depends on past levels of corruption

# Good Governance in Revenue Administration

Sound policy and legislation

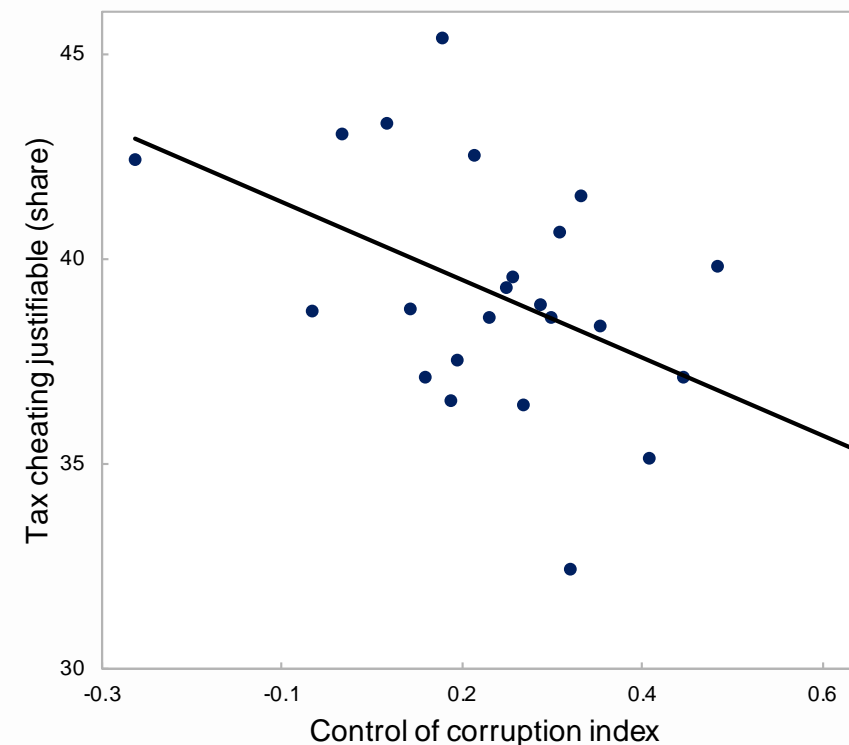
Modern systems and processes; Digitalization

Operational independence and effective internal controls

Professional workforce; Institutional efforts to promote integrity

Tax authorities play a role in fighting corruption

**Corruption and Attitude Toward Tax Cheating**



Sources: Latinobarómetro; Worldwide Governance Indicators (1998 and 2004).

# A Global Challenge

## Corruption as a global challenge (“Supply side”)

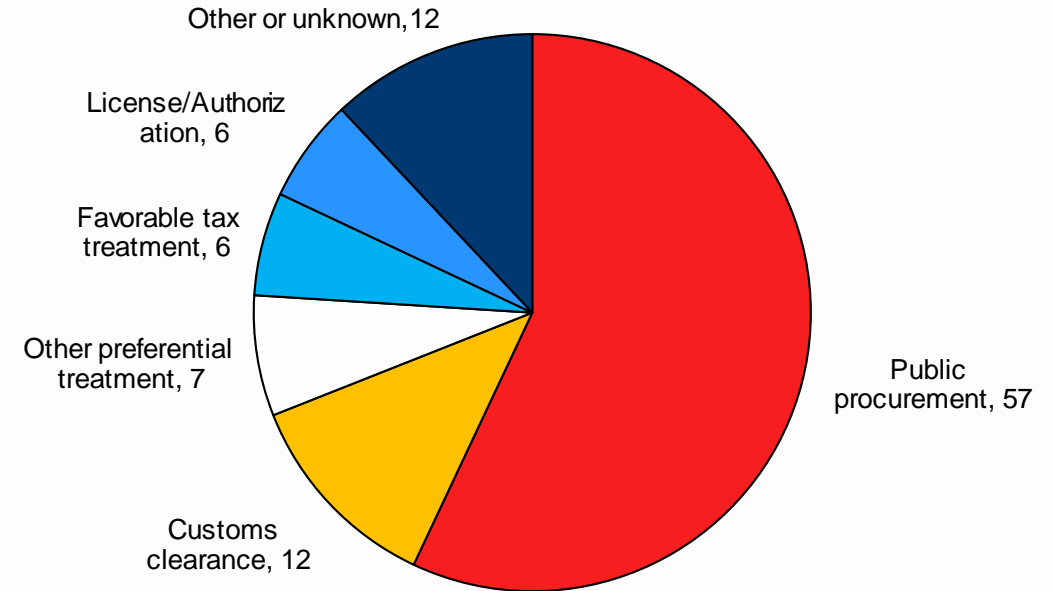
- Multinational companies
- Opaque offshore financial centers

## Coordinated action can help

- Prosecuting firms that bribe foreign officials
- Anti-Money Laundering
- Exchange of information

## Dissemination of best practices, codes by IFIs (e.g. TADAT, FTEs)

Purpose of Foreign Bribes



Source: OECD (2014).

# Concluding remarks

- **Curbing corruption can bring large benefits**
- **Invest in Good Fiscal Institutions**
  - ▶ **essential for Integrity and Accountability**
- **Strengthen International Cooperation to fight corruption**