

INTERNATIONAL MONETARY FUND

FISCAL MONITOR

Curbing Corruption

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Curbing Corruption

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the Peterson Institute for International Economics

**TAX
REVENUE**



How Is Your Tax Money Lost To Corruption?

GOVERNMENT SERVICES

CORRUPTION

INTERNATIONAL MONETARY FUND

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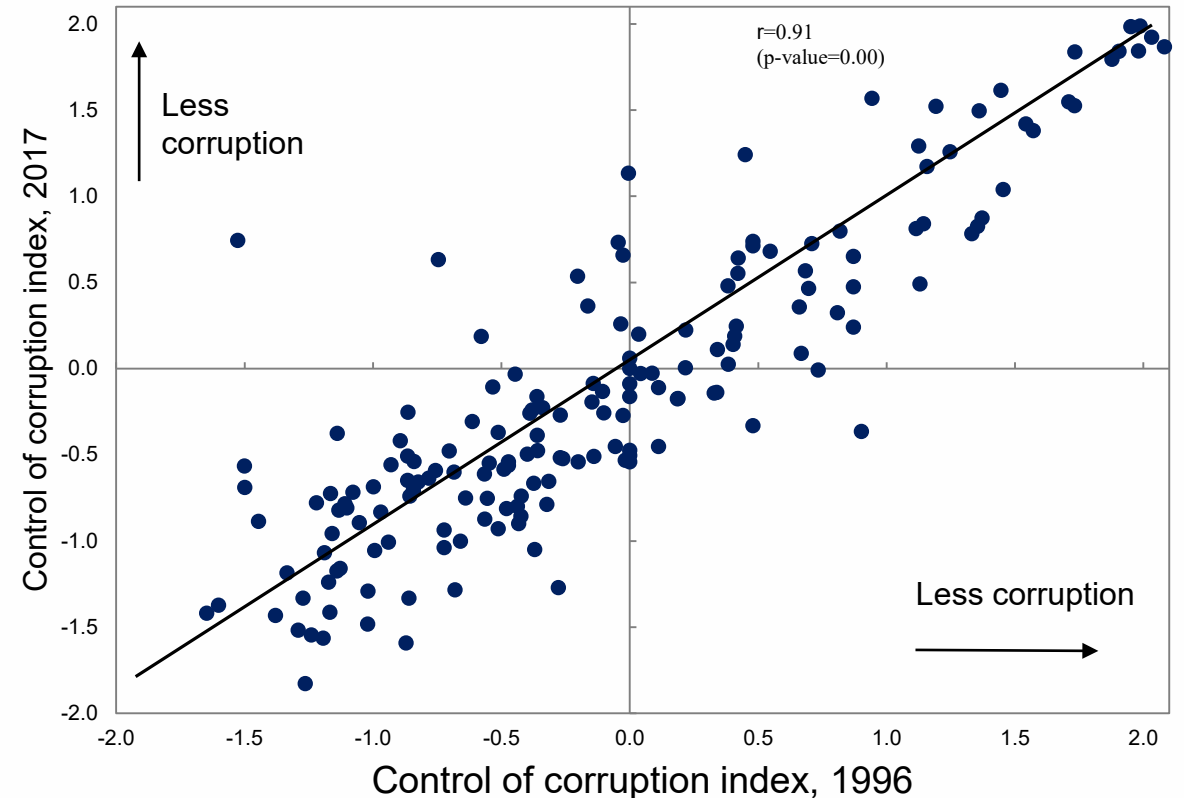
Overview

- 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

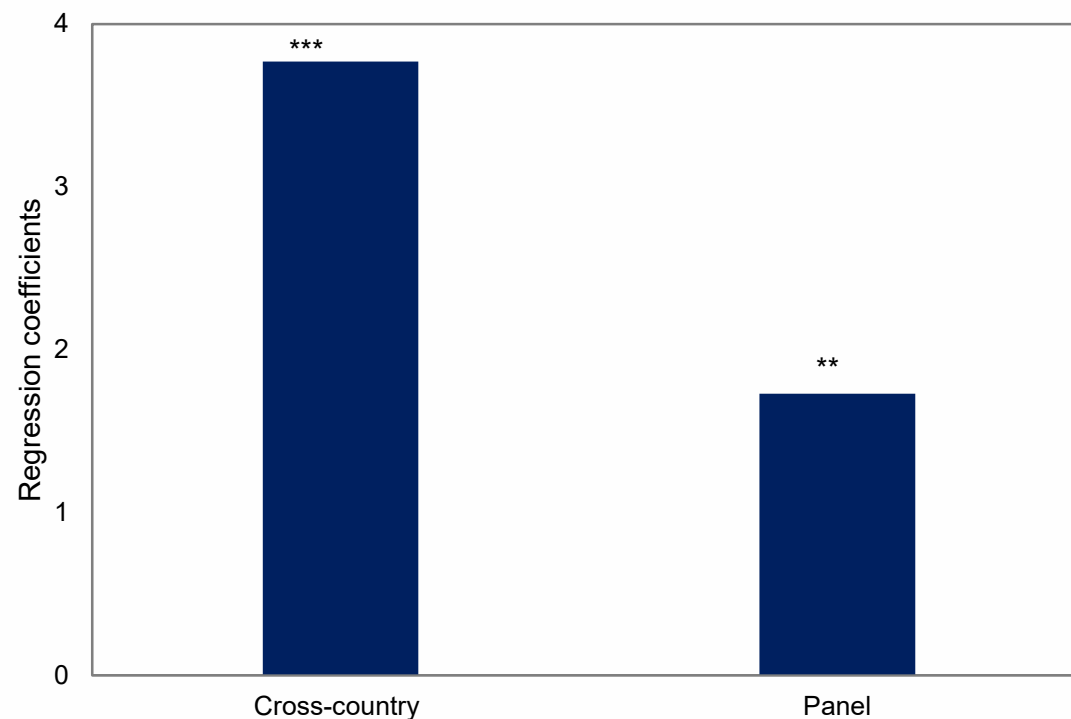
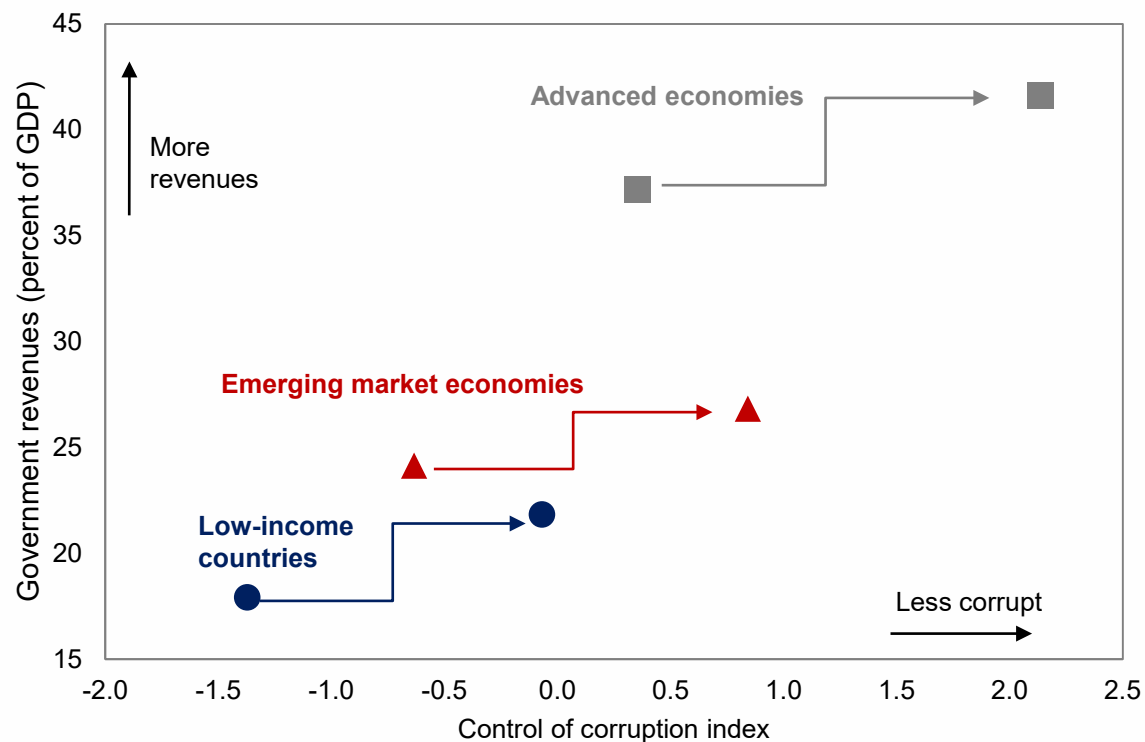
- Corruption enhances tax evasion
 - ▶ Tax laws
 - ▶ Tax administration
 - ▶ Undermines culture of tax compliance
- Management of Natural Resources

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

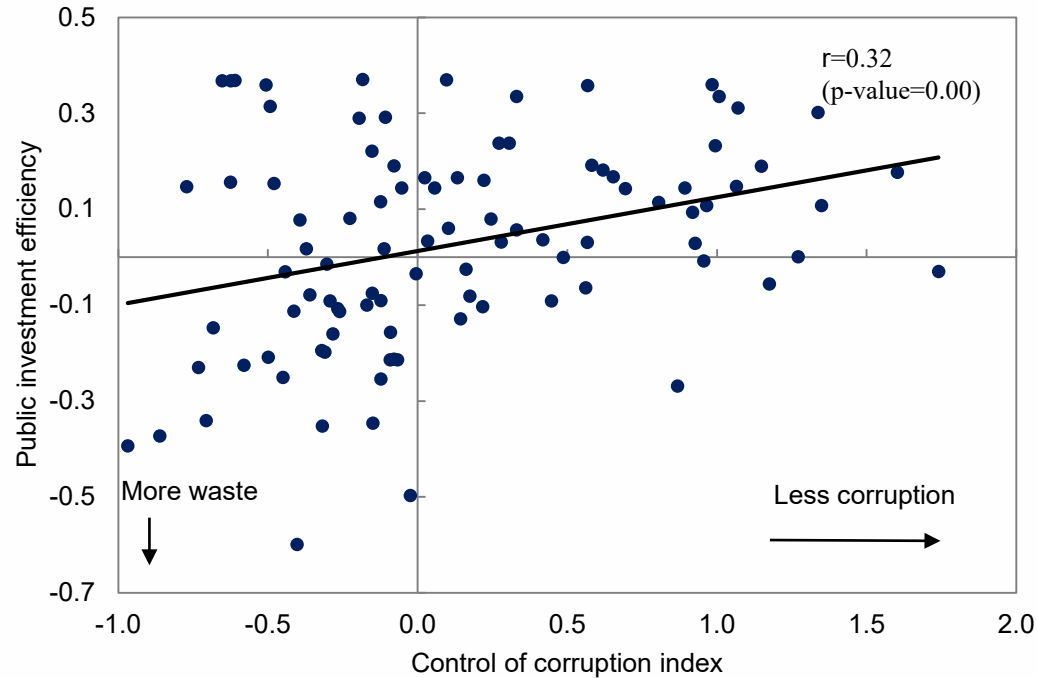


Source: Worldwide Governance Indicators, World Economic Outlook, and staff estimates.
Note: average government revenues as share of GDP for countries with the lowest levels of corruption (top 25% of the control of corruption) and highest levels of corruption (bottom 25%) for each group. It excludes oil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

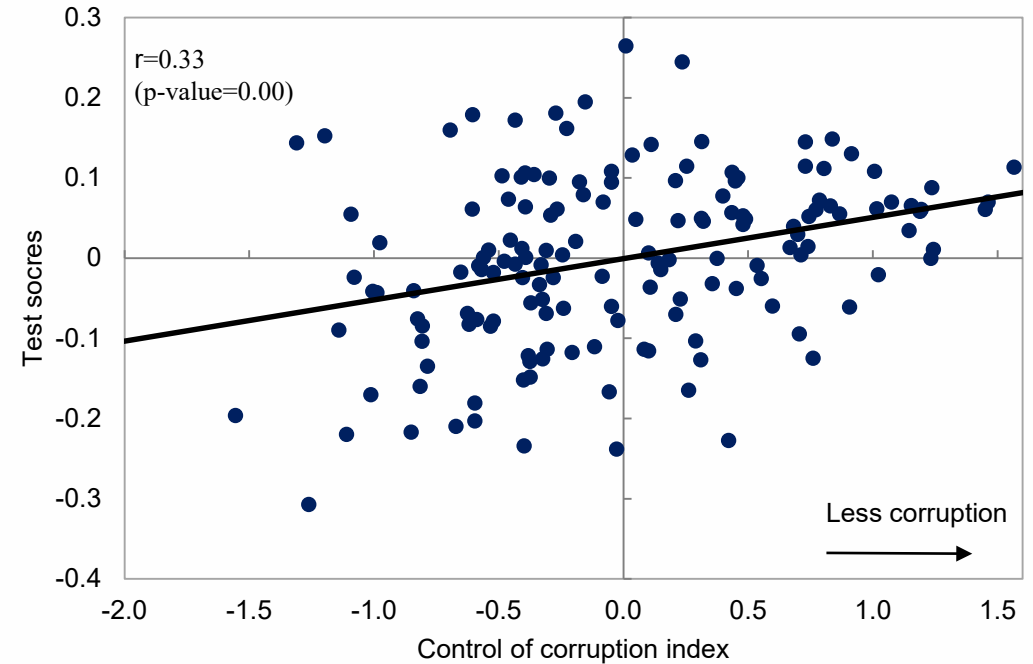
Note: IMF staff estimates based on cross-country and panel regressions. Shows the impact on government revenues when there is one standard deviation improvement in the control of corruption (WGI). *** statistically significant at 1%; ** significant at 5%.

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.

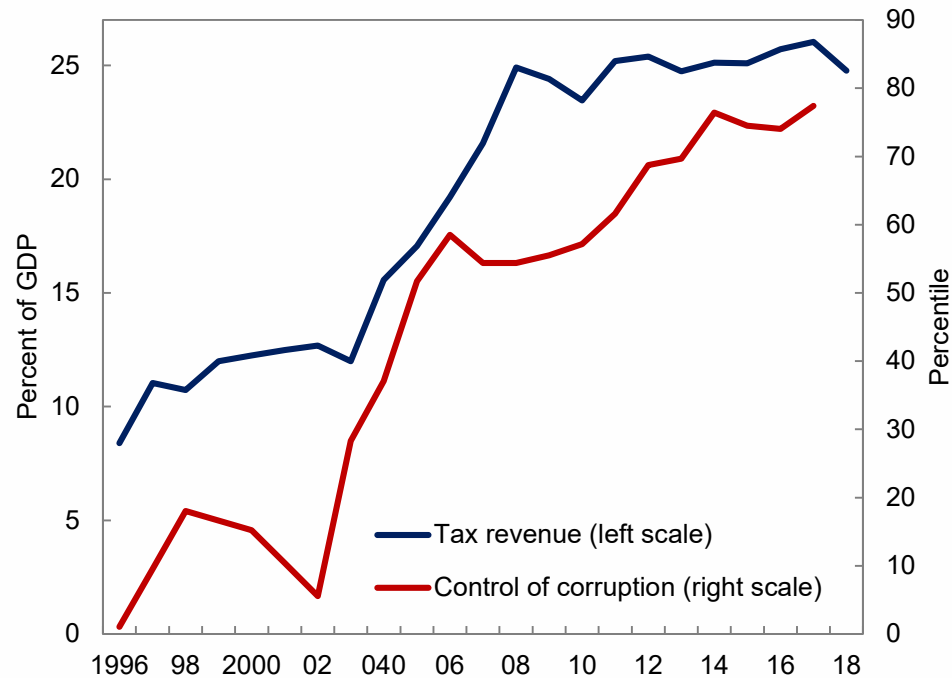
Note: Public investment efficiency is estimated using efficiency frontier analysis and measures inefficiency as the distance to the frontier—maximum level of output for given levels of inputs. The output is measured by a physical indicator on the volume of economic infrastructure and social infrastructure.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

The Role of Fiscal Institutions

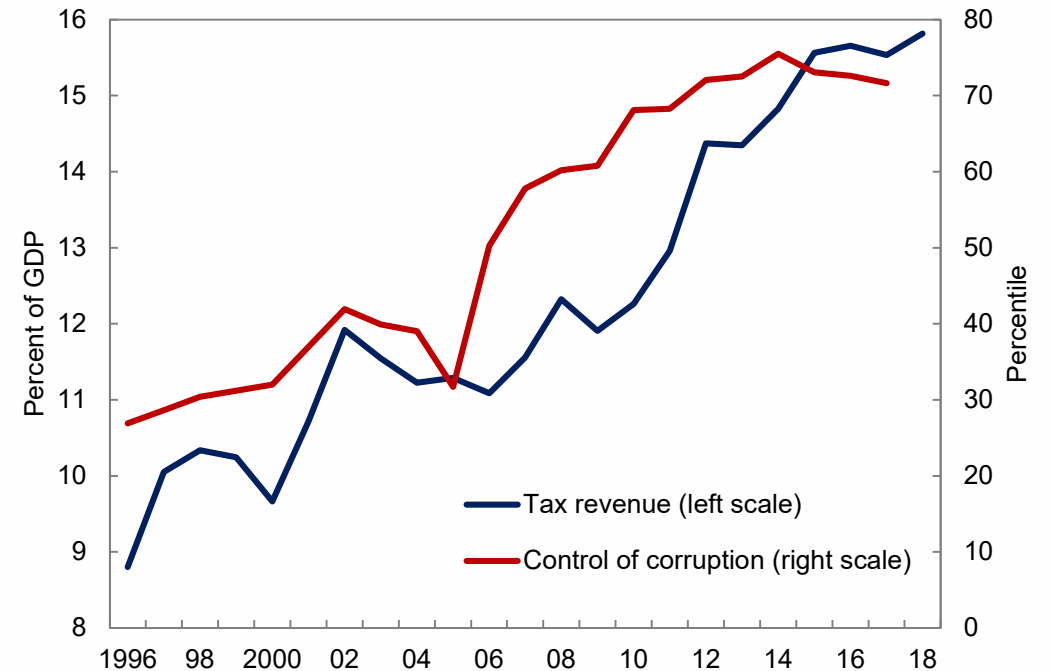
The Role of Fiscal Institutions

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

Lessons from micro studies

Institutional design, supported by technology, can create the right incentives

Wages can help, but not by themselves

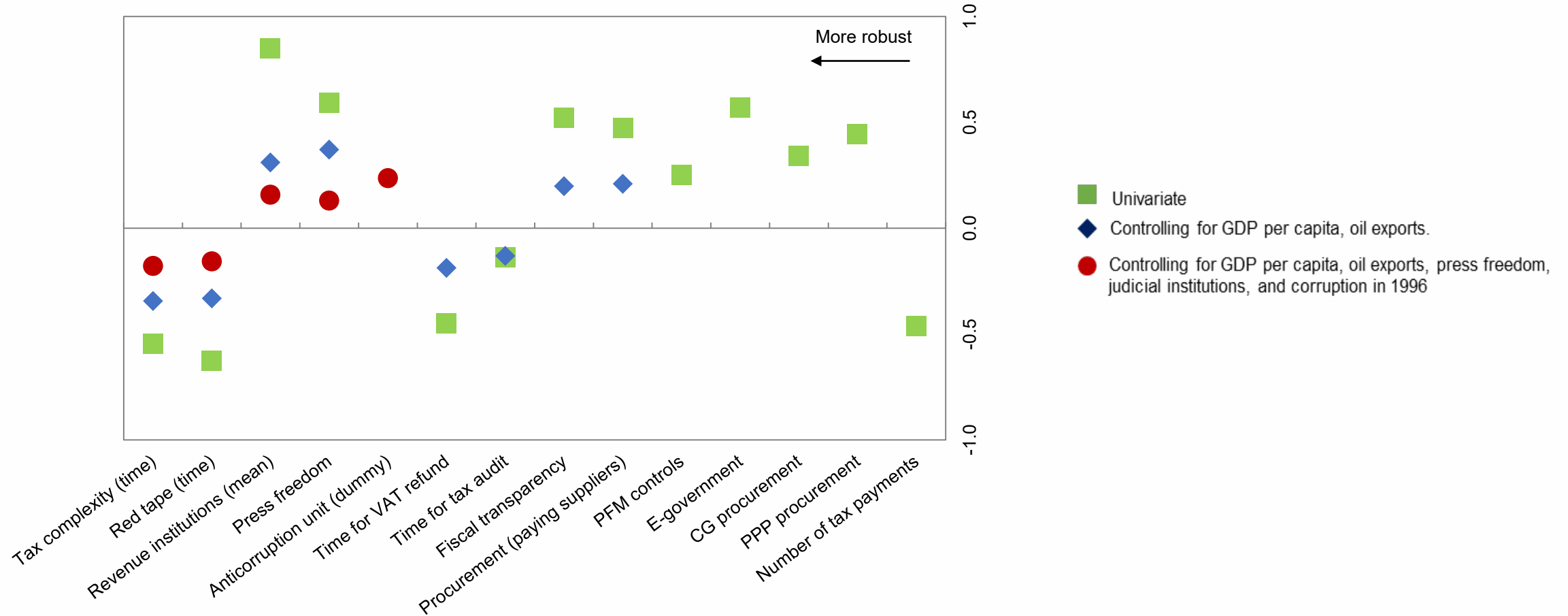
Monitoring and credible sanctions needed to contain corruption

Transparency particularly effective when supported by free media and civil society participation.

The Role of Fiscal Institutions

Cross-country evidence

Corruption and Institutions

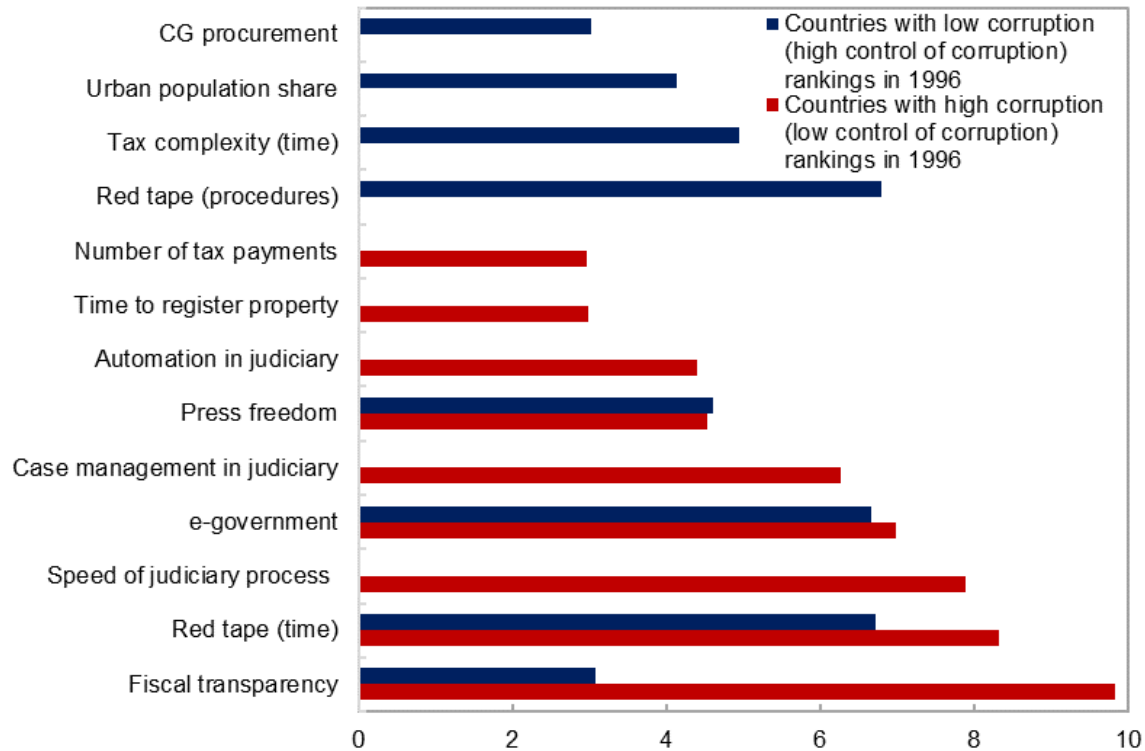


Note: Coefficients are only shown if significant at the 5% level. Series are standardized.
 CG - Central Government. PFM - Public financial management. Revenue institutions is an average of limits to discretionary power (RA-FIT), use of third party information (RA-FIT), and the inverted time for tax 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

Fiscal Institutions: Promoting Integrity and Accountability

Appropriate Legal and Regulatory Framework

- e.g. reduce complexity of tax laws; simplify regulations

Professional, merit-based, and ethical civil service

- e.g. set right tone at the top; manage conflict of interests

Integrity of Fiscal Processes and effective Internal Controls

- e.g. budget systems; procurement; tax administration

Fiscal Transparency and External and Independent Scrutiny

Continuous improvement of fiscal institutions; keep pace with technological advances (Digitalization)

A Global Challenge

Corruption as a global challenge (“Supply side”)

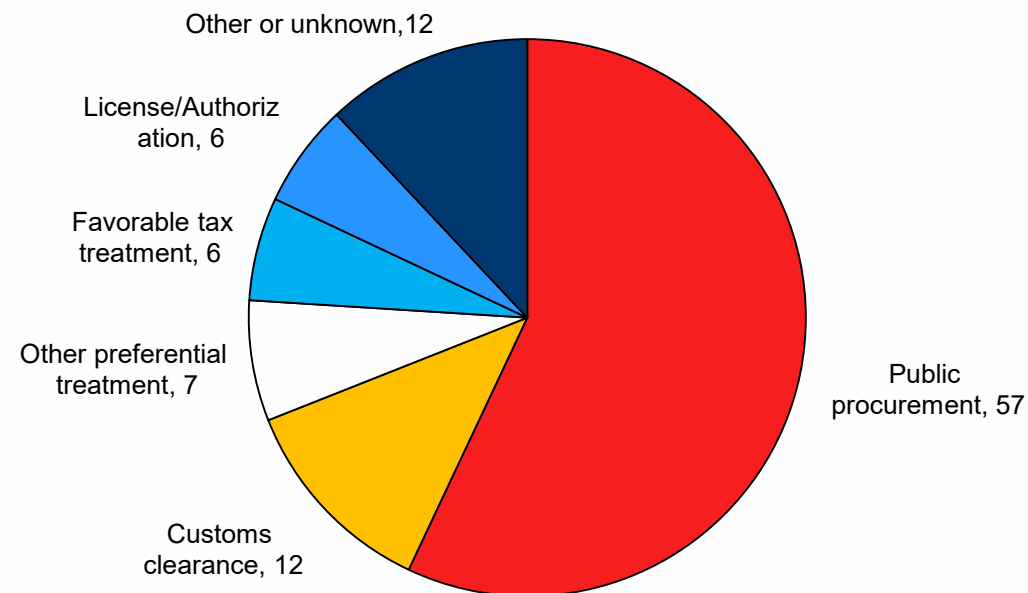
- Multinational companies
- Opaque offshore financial centers

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. Fiscal Transparency Evaluations)

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**

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Learn more in the latest Fiscal Monitor.

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