

**GRECO**  
**High-Level Launch—Fifth Evaluation Round**  
**Strasbourg, March 20, 2017**

**Opening Remarks of Ceda Ogada**  
**Second Panel 10:45pm to 12:45pm**

**I. Why is the IMF increasing its focus on the issue of corruption?**

There are a number of reasons:

- Global opinion surveys identify corruption as one of the key problems facing the world today, on a par with concerns about poverty and unemployment.
- At a time of rising inequality in income and wealth and subdued prospects for growth and employment, there is outrage in many countries that elites are abusing public resources for their own advantage.
- Major corruption scandals are front page news in several of our member countries in South America, Africa, Asia and here in Europe. In some of the countries, citizens are taking to the streets on the need to confront corruption.
- Technology is also playing a role. Social media is a powerful tool in disseminating information and in organizing public responses.
- There is also a greater understanding of the economic and social costs of corruption.
- For all of the reasons that I have just outlined, we are finding that our members have become much more open to discussing corruption. And many of them are indicating that the IMF should engage with them on this issue in a more forthright and systematic manner.

**II. What are the costs of corruption?**

Let me give a brief overview of the costs of corruption based on some recent analytical work that we did last year and is published in a May 2016 paper entitled “Corruption: Costs and Mitigating Strategies.” It is available on the IMF website ([link](#)).

Corruption is sometimes referred to as a victimless crime. This is not the view of the IMF. Corruption has real direct and indirect economic costs as well as social costs that affect everyone.

- The direct economic costs are easily recognized. Two clear examples are bribes given in order to evade taxes and to bypass public tender procurement. The first example results in a direct loss of public revenues; the second may result in both higher public expenditure and lower-quality public investment.
- The indirect costs are however even more substantial and debilitating, leading to low growth and greater income inequality.
- Corruption affects growth, especially sustainable and inclusive growth, through a number of channels of the state's functions in the economy—fiscal and monetary policy, financial market supervision and regulation, oversight of business, and provision of security and law and order.
- The fiscal channel is perhaps the most important. For example, corruption leads to low tax compliance by delegitimizing the tax system. If the granting of a tax exemption is perceived to be the product of a bribe, people will be less willing to comply with tax laws and tax evasion will flourish.
- Corruption also undermines the amounts, composition and quality of public spending, which are skewed to big infrastructure projects that have little economic justification, but can generate a lot of bribes. It leads to inflated public procurement costs and siphoning of funds through off-budget transactions.
- The combined effects of lower revenue and wasteful spending can result in large fiscal deficits and ultimately substantial debt accumulation.
- Corruption impedes both foreign and domestic investment. The higher costs associated with corruption are a form of tax on investment. Moreover, by introducing uncertainty as to how the regulatory framework will be applied, it increases the 'country risk' associated with investments. It also undermines the overall business climate, which stifles the creation of new enterprises and reduces the economy's dynamism.
- Corruption weakens financial oversight and stability. This can lead to weak lending practices, poor banking supervision, and regulatory forbearance. All of these can threaten the stability of the financial system.
- Corruption can perpetuate inefficiency. Because an over-regulated economy provides opportunities for regulators to demand bribes, corruption creates a strong incentive to delay economic liberalization and innovation.

- The impact of corruption on social outcomes is consequential. Social spending on education and health is typically lower in corrupt systems. This, in turn, leads to higher child and infant mortality rates, lower birth-weights, less access to education and higher school dropout rates.
- These outcomes disproportionately affect the poor, since they rely more heavily on government services. By breeding public distrust in government, corruption undermines the state's capacity to act as an agent for society's redistributive goals. It thus entrenches income inequality and poverty.
- When corruption becomes extreme and pervades virtually all the state's functions in the economy, it can lead to political instability and conflict, with significant and long-lasting economic and social implications.