

ANTI-CORRUPTION HELPDESK

PROVIDING ON-DEMAND RESEARCH TO HELP FIGHT CORRUPTION

CORRUPTION IN TAX AND CUSTOMS AUTHORITIES

QUERY

Can you please compile existing studies on corruption risks and approaches to fighting corruption in customs and tax administration?

PURPOSE

We are planning to start discussions with companies on corruption issues they are facing. They have identified several topics, including corruption in tax and customs authorities, as their major concerns.

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SUMMARY

Tax and customs authorities handle large sums of money and are responsible for collecting the principal revenue for the state. Corruption within these institutions is perceived to be common all over the world. Complex tax laws, high discretion of public officials and low cost of punishment create ideal conditions for corrupt behaviour to take place. Citizens and companies may bribe officials to evade taxes and duties. In turn, public officials in these institutions may seek to extract illicit rents from taxpayers, either by collusion or extortion.

Effective monitoring and control of tax and customs authorities may significantly reduce the risks of corruption. This answer outlines the corruption challenges related to tax administration and customs authorities and highlights approaches to combat corruption in these institutions.



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1 CORRUPTION IN TAX AUTHORITIES

Overview of key issues

Corruption risks in tax administration

Tax administration is the collection and management of domestic revenues. Tax administration is commonly perceived to be one of the most corrupt institutions in many countries of the world. According to the 2013 Global Corruption Barometer, 15 per cent of respondents believed tax administration to be the most corrupt (Transparency International 2013). This perception is generally due to the fact that tax administration is an attractive sector for corruption to take place, as the opportunities and incentives to engage in illicit activity are numerous. Complex tax systems run by highly technical staff make monitoring and detection of corruption difficult, and the chances of getting caught low. Punishment for tax-related offences tends to be minimal. In addition, tax officials tend to have high discretionary powers over how taxes are levied.

There is no area of tax administration that is immune from corruption. The registration and removal of taxpayers from the national registry, the collection of tax dues, the identification of tax liabilities and the inspection and prosecution of alleged tax offences could all be affected. There are two forms of corruption related to tax administration: abusive, when a tax official takes advantage of their position to extract benefit in the form of bribes or embezzlement; and collusive, when taxpayers and tax officials collude together for mutual benefit.

- **Collusion:** Collusion between tax officials and citizens or businesses to evade taxes has received the most attention from scholars. Tax evasion is when taxpayers actively avoid paying certain taxes by under-reporting turnover or over-reporting expenditures. Tax evasion notoriously cuts into a state's resources which are necessary to pay for services (Ajaz and Ahmad 2010). If tax evasion is widespread, there is an added risk of state capture, as governments begin to be swayed by tax paying individuals and companies.
- **Extortion and embezzlement:** Corruption in tax

administration is not limited to collusion but can also simply benefit tax officials. In situations where tax officials hold discretion to personally levy taxes these officials may use these powers to force taxpayers to pay bribes. Taxpayers may be forced to pay bribes for fear of being overcharged or for fear of suffering the consequences of being arbitrarily labelled a tax evader. Tax officials may also take advantage of their privileged access to state funds and embezzle some of the revenue they collect.

- **Neo-patrimonialism:** Corruption in tax administration is also associated with neo-patrimonialist networks in many countries. Neo-patrimonialism is a form of state capture where patrons within a state's public service use state resources to develop clientelistic relationships with friends, family or associates of a similar political, ethnic or religious background (Gauthier and Reinikka 2005). Tax administration becomes a powerful tool for corrupt politicians to divert state resources to their clients, with the aid of corrupt tax officials.

It is usually difficult to detect problems with corruption within tax administration, especially for collusive forms of corruption. Corruption is clandestine and few people will actually admit to evading taxes in surveys or inquiries. There are, however, several institutional indicators that may point to problems within tax administration.

Complex tax systems with special rules and exemptions where individual officials are given significant discretion over tax collection provide a perfect environment for abuse by public officials. Systems that have considerable red tape and involve numerous personal interactions between tax payers and tax officials may also lead to corruption and the development of corrupt networks. In addition, lack of access to information regarding tax processes and practices and lack of effective and regular monitoring assist corrupt officials in remaining clandestine. An unexplained disparity between tax revenue and money in circulation is another strong indicator of tax evasion and wider corruption (Bridi 2010). Furthermore, if governance is generally weak in general in a state, or there are corruption problems in related private sector fields like auditing and accounting, it may be likely that tax administration

also suffers from similar issues.

Staff policies may also prove useful in identifying corruption problems within tax administration. If, for example, rules and procedures are never explained to staff or they are never enforced, this may be a sure sign of lack of integrity in the workplace. Lack of integrity measures, ethics codes and other integrity building tools within an institution create environments where corruption is more likely to occur. Other factors such as the absence of merit-based recruitment practices, a lack of regular staff rotation schemes to fight the establishment of corrupt networks, the lack of capacity to monitor fiscal transactions and evidence of officials living beyond their means often point to corruption in the revenue sector (Bridi 2010).

Fighting corruption in tax administration

Addressing corruption in tax administration has primarily focused on increasing the institutional capacity of tax authorities. Reforms have aimed at addressing the conditions that fuel corruption including institutional and staff factors and providing stronger institutions with which to detect and punish corruption. A wide range of measures at various levels of the administration can be envisaged to address corruption in tax administration.

Simplification of tax regulations

Establishing an effective tax system is an important way to cut down on all forms of corruption in tax administration, especially tax evasion. Tax systems should be easy to understand and administer and should not contain any loopholes that would allow arbitrary designation of taxes or exemptions from taxes.

Effective organisation

The organisation of the tax authority should help neutralise the discretion of lower-level staff and divide functional work areas. A strong, independent headquarters should monitor compliance of procedures and norms by placing an emphasis on performance and fiscal auditing at all levels of the organisation.

Staff management

Improvement to staff management practices can significantly contribute to reduce corruption. Staffing should be based on transparent and merit-based processes that emphasise staff integrity from the first stages of recruitment. This can help significantly hamper nepotism and position-buying by staff. In addition, building the integrity framework within tax authorities could significantly reduce corruption. Codes of conduct complemented by periodic integrity tests and training should aim to help employees deal with tough ethical decisions related to corruption.

Internal audits, monitoring and investigations

It is important to conduct regular audits and have effective and skilled internal investigation teams, with effective links to other law enforcement agencies. Tax ombudspersons have also been proposed as possible ways to address corruption within tax administrations. Ombudspersons are officials that hear complaints related to tax procedures and investigate possible situations of abuse of office.

Transparency and participation

Any processes relating to tax administration should be made transparent to the general public. Meetings between tax officials and taxpayers outside regular procedures would be red flags to internal monitors. Procedures should also be standardised and should limit to the extent possible one-to-one contact between taxpayers and tax officials. Accurate records of transactions should be kept in a central archive and any decision should be justified and recorded, noting which officers were involved in decisions.

Furthermore, increasing citizen monitoring of tax processes can also contribute to deterring corruption. Taxpayer charters, for example, outline basic taxpayer rights and obligations that tax authorities will adhere to. Taxpayer rights can, for example, relate to taxpayer privacy and confidentiality, the right to appeal tax decisions and the right to a transparent tax process void of corruption.

The use of technology

Wherever possible processes should be automated with the use of information and communication

technology. Filling in forms online, paying taxes electronically and providing statements online are ways that tax administrations limit personal contact between tax officials and taxpayers, thus limiting the chances for corruption.

For more resources related to corruption and anti-corruption initiatives in tax administration, see the Anti-Corruption Helpdesk Answers on [Approaches to curbing corruption in tax administration in Africa](#) and on [Corruption in tax administration](#).

Studies and data on corruption in tax administration

Mapping corruption risks in tax administrations

Purohit, M. C. 2007. "Corruption in Tax Administration." In *Performance Accountability and Combating Corruption*, edited by A. Shah., World Bank.
<http://siteresources.worldbank.org/INTWBIGOVANTCOR/Resources/CorruptioninTaxAdministration.pdf>

This book chapter focuses on different aspects of corruption in tax administration and is a good background paper on the challenges of tackling corruption in tax administration. The chapter is divided into five sections. The first section focuses on the main causes of corruption in tax administration. The second section presents issues related to corruption in tax administration and analyses the role of procedures for administering custom duties, excise duties, and value added tax (VAT). The third section reviews the impact of corruption on the economy. The fourth section suggests policy measures for combating corruption in tax administration. It highlights how the design of the tax structure and procedures of tax administration can reduce the risk of corruption. The last section summarises the chapter's conclusions and recommendations.

Ajaz, T., and Ahmad, E. 2010. "The Effect of Corruption and Governance on Tax Revenues." *The Pakistan Development Review*, 49(4): 405-417.

Abstract

Developing countries face a number of institutional problems in the process of revenue generation. One of the main problems is the corruption in tax

administration. The second main problem of low revenue generation is the poor quality of governance. This study analyses the effect of institutional and structural variables (corruption and governance) on tax revenues using a panel data set for 25 developing countries from 1990-2005. The GMM regression results show that corruption has an adverse effect on tax collection, while good governance contributes to better performance in tax collection. It is further observed that institutional variables have a significant effect on tax revenues.

Alon, A., and Hageman, A. M. 2013. "The Impact of Corruption on Firm Tax Compliance in Transition Economies: Whom Do You Trust?" *Journal of Business Ethics*, 116(3): 479-494.

Abstract

Tax compliance is an important issue for governments and the public alike. To meet public needs and fund public mandates, firms around the world are expected to comply with tax laws. Factors that are related to organisational (firm) tax compliance have not been sufficiently examined in the literature. Owing to the increasing global influence of transition economies, factors associated with firm tax compliance in transition economies are particularly of interest. Based on a sample of over 5,000 firms from 22 former Soviet bloc transition economies, the authors find that higher levels of corruption and higher levels of particularised trust (reliance on friends and family) are associated with lower levels of tax compliance. Interestingly, they also find that the negative relationship between corruption and tax compliance is weakened in situations of higher generalised trust (trust in strangers). Overall, the study's results suggest that institutional factors play an important role and are related to firm tax compliance behaviour in transition economies.

Gauthier, B., and Reinikka, R. 2001. "Shifting Tax Burdens through Exemptions and Evasion: An Empirical Investigation of Uganda." *Journal of African Economies*, 15(3): 373-398.
[Download PDF.](#)

Abstract

In this working paper for the World Bank, the authors look at the prevalence of tax exemptions and evasion among businesses in Uganda, how they translate

into actual tax burdens for firms of different sizes, and how the tax administration attempts to ensure compliance. Despite tax reforms undertaken from 1995 to 1997 to increase the efficiency and equity of the tax system and its administration, exemptions and evasion during this three-year period remained widespread and the dispersion of the tax burden did not decrease. The analysis shows that tax evasion is more prevalent among smaller firms, that tax exemptions are more common among larger firms, and that medium-sized firms tend to shoulder a disproportionate share of the total tax burden.

Acconcia, A., D'Amato, M., and Martina, R. 2003. "Tax Evasion and Corruption in Tax Administration." *IDEAS database entry 0310001*. Retrieved. <https://ideas.repec.org/p/wpa/wuwppe/0310001.html>

In this paper, the authors consider a simple economy where self-interested taxpayers have incentives to evade taxes and, to escape sanctions, resort to bribing public officials in charge of the collection. The authors analyse the interactions between evasion, corruption and monitoring as well as their adjustment to changes in the institutional setting. They find that the effects of a tougher deterrence policy (for example, increasing fines) reduces evasion, though its effect on corruption is ambiguous.

Escobari, D. 2011. "Imperfect detection of tax evasion in a corrupt tax administration." *MPRA Paper 39198*. <https://ideas.repec.org/p/pramprapa/39198.html>

Abstract

This article models the imperfect detection of tax evasion motivated by the existence of a corrupt tax administration. Consistent with previous literature, fines and audit probabilities both have a positive effect on compliance. Moreover, the model shows that they have a negative effect on the bribes paid to corrupt tax officials. More corruption decreases compliance levels, giving honest auditors incentives to work harder to detect evasion. Giving inspectors a share of the detected evasion (tax farming) makes auditors work harder. However, increasing their wages reduces their exerted effort to discover evasion. Higher compliance can as well be achieved by hiring more efficient inspectors.

Odd-Helge, F. 2005. *Revenue administration and corruption*. U4 Issue Brief. <http://www.cmi.no/publications/file/2558-revenue-administration-and-corruption.pdf>

The aim of this U4 Issue Paper is to identify and discuss major challenges, appropriate responses and relevant tools for addressing corruption in revenue administrations. This text is part of the output from the "U4 Focus Area on Public Financial Management and Corruption. How does corruption affect revenue collection, and what are the consequences for development indicators such as growth and poverty?" This paper explores the driving forces behind fiscal corruption in order to facilitate a thorough understanding of the problem – a prerequisite for anyone who wants to succeed in designing appropriate measures to improve the situation.

Approaches to combating corruption in tax

Murdoch, T. 2013. *Detailed guidelines for improved tax administration in Latin America and the Caribbean: Chapter 17., Integrity.*. USAID. [Download PDF.](#)

While this source is dedicated to the Latin American and Caribbean region, it provides a list of best practices and common trends that are applicable in other contexts. The guidelines focus on best practices by looking at several different approaches to fighting corruption, namely a fundamental approach that looks at developing institutional capacity, an administrative and legal approach that looks at strengthening administrative and legal procedures and a transparency and standards approach which looks into increasing standards of transparency and information available to tax payers.

Sanchez, O. 2011. "Fighting Tax Evasion in Latin America: The contrasting strategies of Chile and Argentina." *Third World Quarterly*. 32(6): 1107-1125.

Abstract

In the 1990s both Chile and Argentina embarked on efforts to tackle tax evasion. The strategies they pursued differed substantively. Argentina followed a coercive approach that created an elite audit team endowed with special legal powers. Chile undertook a less spectacular service-oriented approach that improved the fiscal pact between state and society

and enacted tax administration reform. Chile succeeded in permanently lowering tax evasion levels, while Argentina's success was short-lived and evasion levels soon returned to previous heights. Besides important differences in the institutional strength of these countries, the contrasting outcomes can be attributed in no small measure to the different strategies adopted. Their experience can provide some useful lessons in the battle against tax evasion in Latin America.

Alm, J., and Torgler, B. 2011. "Do Ethics Matter? Tax Compliance and Morality." *Journal of Business Ethics*, 101(4): 635-651.

Abstract

In this article the authors argue that the puzzle of tax compliance can be explained, at least in part, by recognising the typically neglected role of ethics in individual behaviour. That is, individuals do not always behave as the selfish, rational, self-interested individuals portrayed in the standard neoclassical paradigm, but rather are often motivated by many other factors that have as their main foundation some aspects of "ethics". They argue that it is not possible to understand fully an individual's compliance decisions without considering in some form these ethical dimensions. Specifically, the authors note that there is much direct and indirect evidence that ethics differ across individuals and that these differences matter in significant ways for their compliance decisions. They then put this in the larger context of the inability of the standard neoclassical paradigm to explain compliance of at least some individuals and suggest several possible avenues by which theory can be expanded to incorporate ethics. The authors conclude by arguing that a full house of compliance strategies is needed to combat tax evasion, strategies that include the traditional "enforcement" paradigm suggested by and consistent with neoclassical theory, a less traditional "service" paradigm that recognises the important role of a "kinder and gentler" tax administration in encouraging compliance, and, importantly, a new "trust" paradigm that is built on the foundation of ethics, in which the tax administration must recognise that it can erode the ethics of taxpayers by its own decisions.

OECD. 2013. *Bribery and Corruption Awareness Handbook for Tax Examiners and Tax Auditors*. OECD Publishing. [Access](#).

This handbook is designed to raise the awareness of tax examiners and auditors about issues concerning bribery and other forms of corruption. It provides guidance on how to recognise indicators of possible bribery or corruption in the course of regular tax examinations and audits. The handbook goes into great detail identifying risks of corruption in taxpayer environments and also describes various indicators related to tax evasion, bribery and illicit financial flows.

Confédération Fiscale Européenne. 2013. *Draft Model Taxpayer Charter*.
<http://www.cfe-eutax.org/publications/cfe-books>

This is a model taxpayer charter prepared by the Asia-Oceania Tax Consultants Association (AOTCA), the Confédération Fiscale Européenne (CFE) and the Society of Trust and Estate Practitioners (STEP). The provisions of the charter were derived from a survey of taxpayer rights and responsibilities in 37 countries, collectively accounting for over 73 per cent of world GDP. The overriding purpose of the charter is to provide in due course a model which can be adapted and used in nation states to embed in law the basis on which taxpayers' obligations to the state are balanced against the rights of taxpayers.

Zuleta, J. C., Leyton, A., and Fanta Ivanovic, E. 2007. "Combating corruption in revenue administration: The case of VAT refunds in Bolivia." In *The many faces of corruption: Tracking vulnerabilities at the sector level*, edited by J. E. Campos and S. Pradhan, Washington, D.C.: World Bank. [Access PDF](#).

The chapter is part of a book by the World Bank that focuses on corruption in different sectors. The chapter describes the different forms in which corruption can take place in revenue administration as well as the factors affecting the behaviour of the various stakeholders and patrimonial networks engaged in these actions. It also discusses the policy environment in which the tax administration operates and shows the core business processes (and sub-processes) characterising a modern tax administration as well as their vulnerabilities to corruption, early warning indicators of the presence of corruption and possible reform measures for addressing those risks. The chapter then briefly summarises the fundamental underpinnings of reforms in tax administration, focusing on political

economy considerations and other institutional factors critical to combating corruption more generally in the public sector. Then, the case study of the institutional transformation of the Bolivian tax administration office is presented, followed by some general conclusions.

2 CORRUPTION IN CUSTOMS AUTHORITIES

Overview of key issues

Corruption risks

There is increasing attention being paid to the issue of corruption in customs administration worldwide, because of the crucial role these authorities play within a state. Customs agencies have three main functions which can be affected by corruption:

- to collect import and export duties and tariffs
- to act as middleman to trade in and out of a country
- to deny entry and exit to certain goods people considered harmful or dangerous to the state

Corruption within customs authorities can affect all three of these functions and can cause serious damages to a state's revenue collecting capacity, trade and security.

Corruption can seriously affect revenue collection. On average, countries count on customs duties and tariffs for 11 per cent of their total state revenue (World Bank 2014b), but in four countries¹ customs duties make up the main source of revenue. Collusion between exporters and importers with customs officials to evade duties cuts directly into the functioning of state. For example, a 2013 study on bribery within two African port authorities found that bribery reduced government revenue from tariffs by five per cent (Sequeira and Djankov 2013).

Corruption can also have a damaging effect on trade. Exporters and importers depend on customs agencies to transit shipments of goods quickly and without extra costs so as to maintain a certain level of

profitability and competitiveness. Complicated and complex tariff schemes or customs regulations may be misused by corrupt customs agents to extort exporters and importers into paying bribes. This has been referred to as a corruption tax for importers and exporters.

Corruption can also affect the security of a country. States invest heavily in legislation to keep certain goods and people out of the country in order to maintain security. Influence or bribes may encourage customs agents to turn a blind eye to shipments of illegal goods entering or exiting a country, which may contribute to proliferation of illegal trade markets. Studies of drug and human trafficking networks claim that bribery of officials at border crossings and borderlands is highly common all over the world (Repetskaia 2005; Decker and Chapman 2008; Farr 2005). Furthermore, corrupt customs officials have been credited with actively aiding smuggling, both of illegal products as well as temporarily detained legal shipments (Andreas 2000; Thachuk 2007).

Factors exacerbating corruption risks

Customs agencies are particularly vulnerable to corruption. In particular, the discretionary power of officials and their monopoly over the flow of persons and goods, combined with weak accountability and difficult supervision make customs particularly vulnerable to corruption (Wickberg 2013). In addition, complex and exception-filled tariff schemes and red tape make collusion all the more tempting from the point of view of an importer/exporter.

There are some specific challenges to combatting corruption within customs administrations. One challenge has to do with the nature of the agencies involved. Customs agencies tend to be spread out amongst different locations within a state, usually in major ports of entry and exit. Monitoring is especially difficult for customs agency posts found at borders in far-flung parts of the country. The geographic disparity between agents makes monitoring especially difficult. Geographic scattered agencies may create problems for implementing policies such as officer rotation, as the relocation of customs officers from one end of the country to another may be costly.

Another challenge points to the potential gain for a

¹ Kiribati, Kuwait, Bahrain and the Maldives

corrupt transaction. Collusion between customs officials and importers/exporters can create large sum gains for both parties, making corrupt acts tempting. For example, a report prepared for Bulgaria by the Centre for the Study of Democracy found that the average bribe totalled nearly 30 per cent of unpaid customs duties and other fees (Ferreira et al. 2007). This means that on average, bribing would decrease costs for importers by 70 per cent by avoiding duties, and it would pay out large sums for officials involved, all while causing revenue loss for the state.

Forms of corruption

Corruption in customs authorities can take many different forms but can either be collusive – as is the case when importers/exporters collude with officials so as to evade duties or evade inspection of goods – or abusive – as is the case when guards extort bribes from merchants or embezzle revenue.

Abusive corrupt activities, namely the extortion of bribes, have received significant attention from scholars. Bribes are extorted from importers and exporters in a variety of ways, mainly taking advantage of bureaucratic red tape and customs officials' ability to detain shipments of goods from entering or leaving a country². Corrupt officials may arbitrarily detain shipments until importers/exporters grease the wheels with bribes. Detention of goods affects the competitiveness of importers/exporters, especially those who ship perishable products or valuable products that require secure storage (World Bank 2014a) and may therefore force merchants to pay bribes. Corrupt officials may also threaten importers with misclassification of goods into more heavily taxed categories unless a bribe is paid (Gatti 1999)

Addressing corruption in customs administration

There have been numerous efforts worldwide to curb corruption at customs authorities. Most efforts focus on trade facilitation, which are policies that aim to create easier ways to enforce tariff and duty payments and also aims at make informal “facilitation

payments” to certain customs officers more difficult. Trade facilitation policies that may have an impact on corruption include (but are not limited to):

Confirmation of origin

Policies that aim to confirm the origin and purpose of imports and exports before reaching the port of entry/exit can help reduce fraud and facilitate trade in customs. These policies aim to stop the port manager from detaining shipments on the basis of the origin or purpose of the shipment. With a pre-established confirmation that is verified and audited by a central customs agency, the discretion of lower-level customs staff is significantly reduced.

Transparency of regulations and tariffs

When regulations and tariffs are clearly demarcated and known by users and customs agencies, there is less room for loopholes or surprise fees established by customs officials used to extract rents. Policies that aim to add transparency to tariff rules vary, from posters at border posts that explain customs procedures to the publishing of customs service evaluations.

Automation

Digitalisation of customs duties and tariffs is a form of e-governance that aims to eliminate personal advantages and connections, as well as the influence of bribes from the process of paying tariffs and duties. Paying duties and tariffs using an automated system also allows for stricter control of funds which prevents embezzlement and manipulation by public officials.

Pre-shipment inspection

Pre-shipment Inspection (PSI) has been proposed in order to decrease corruption at customs authorities. PSI consists of entrusting a third party inspection agency (usually private companies) to inspect shipment details such as price, quantity and quality of goods ordered overseas at the port of exit of a shipment. These third parties supply the inspection information to the recipient country's customs agency so that it can be verified and approval of entry can be sent to the importer before arriving at port.

² Detention of shipments is a legal tool that may be necessary to determine the origin of goods, the proper tariffs that apply to goods or to verify the authenticity of documentation or goods.

Raising ethical standards

Addressing the integrity of customs agents in entry/exit ports is also an important way to tackle corruption in customs agencies. Poor working conditions in far-flung border areas, round-the-clock schedules and lack of monitoring make customs agents especially susceptible to corruption. Integrity can be reinforced within customs with the use of ongoing integrity training and codes of conduct. Codes of conduct provide information for customs agents about what kind of behaviour is permitted at customs. Codes of conduct should aim at addressing tough ethical choices that customs staff are faced with on a daily basis, rather than merely state what is allowed and what is not allowed to do (Michael and Moore 2010). Furthermore, providing comfortable working conditions and remuneration to customs officials may also deter officials from partaking in bribery or embezzlement as their standards of living would have risen.

Effective organisation

There are many procedural policies that have been used by customs administrations around the world that have shown positive results in reducing corruption. Periodic rotation of officers, division of tasks and mandatory witnessing for major decisions are among the procedures used.

Internal audits, monitoring and investigations

On the ground auditing and monitoring of customs operations is essential for the optimal operation of any customs authority. Regular audits of operations can help identify operational problems, verify compliance of procedural policies and can lead to a reduction in fraudulent documentation (Michael and Moore 2010). Auditing increases the risks of corrupt officials getting caught and increases the risks of colluding exporters and importers being caught, thus decreasing the likelihood of engaging in corruption.

For more resources related to corruption and anti-corruption initiatives in ports, see the Anti-Corruption Helpdesk Answers [Literature review on corruption at ports and border points in Southern Africa](#) and [Literature review on corruption in cross-border](#)

[business](#).

Studies and data on corruption in customs administration

Mapping corruption risks in customs

Dutt, P., and Traca, D. 2010. "Corruption and Bilateral Trade Flows: Extortion or Evasion?" *Review of Economics and Statistics*, 92(4): 843-860. [Access](#).

Abstract

The authors analyse the impact of corruption on bilateral trade, highlighting its dual role in terms of extortion and evasion. Corruption taxes trade, when corrupt customs officials in the importing country extort bribes from exporters (extortion effect); however, with high tariffs, corruption may be trade enhancing when corrupt officials allow exporters to evade tariff barriers (evasion effect). The authors derive and estimate a corruption-augmented gravity model, where the effect of corruption on trade flows is ambiguous and contingent on tariffs. Empirically, corruption taxes trade in the majority of cases, but in high-tariff environments (covering 5-14 per cent of the observations) their marginal effect is trade enhancing.

Sequeira, S., and Djankov, S. 2013. *Corruption and firm behaviour: Evidence from African ports*. London School of Economics. [Download PDF](#).

Abstract

This paper investigates how corruption affects firm behaviour. Firms can engage in two types of corruption when seeking a public service: cost-reducing "collusive" corruption and cost-increasing "coercive" corruption. Using an original and unusually rich dataset on bribe payments at ports matched to firm-level data, the authors observe how firms respond to each type of corruption by adjusting their shipping and sourcing strategies. Collusive corruption is associated with higher usage of the corrupt port, while coercive corruption is associated with reduced demand for port services. The results suggest that firms respond to the opportunities and challenges created by different types of corruption, organising

production in a way that increases or decreases

demand for the public service. Understanding how firms respond to corruption has important implications for how one conceptualises, identifies and measures the overall impact of corruption on economic activity.

Sequeira, S., and Djankov, S. 2008. *On the Waterfront: an empirical study into corruption in ports*. Washington D.C.: World Bank and International Finance Corporation.
http://international.cgdev.org/sites/default/files/archive/doc/events/2.10.09/Sequeira_Corruption.pdf

Abstract

This empirical study directly observed bribe payments in the port of Durban and Maputo for about 1,300 randomly selected shipments. The data includes the entire chain of agents involved in bribery, the incentives of the various port and customs officials and the impact of bribery on firms' shipping decisions. The study finds that bribes are high and frequent. They can be as high as 53 per cent of a random sample of 650 shipments, and increase the total port costs by up to 130 per cent, the total shipping costs by up to 14 per cent and the monthly salary of port officials by up to 600 per cent. They are mostly paid to evade tariffs, protect cargo on the docks and avoid costly storage. Forms and levels of corruption are also determined by the bureaucratic structures of the ports. In Maputo, while 80 per cent of bribes were paid to custom agents, 41 per cent of which to evade tariffs, in Durban, 63 per cent of bribes were paid to port operators to ease processes such as moving, storing or protecting cargos on docks.

Gounev, P., Dzhekova, R., and Bezlov, T. 2012. *Study on anti-corruption measures in EU border control (Rep.)*. Centre for the Study of Democracy. [Access](#).

Abstract

The purpose of this study is twofold – first, to provide border guards with a general overview of the relevant academic and policy research available on the subject of corruption; and second, to review and analyse mechanisms of corruption and the principal anti-corruption measures targeting them in the public security sector generally and in the area of border

control institutions more specifically. As there is relatively little empirical work on the effectiveness of anti-corruption measures in law enforcement in general, the study reviewed, compared and analysed anti-corruption measures in place in EU MS border guard services, as well as methods used in investigations into corruption in border guards. The report uses three data collection methods, including a literature review, electronic survey and interviews.

World Bank. 2014. *Trading Across Borders: Why it Matters*.
<http://www.doingbusiness.org/data/exploretopics/trading-across-borders/why-matters>

The World Bank's Doing Business survey measures the time and cost (excluding tariffs) associated with exporting and importing a standardised cargo of goods by sea transport. The time and cost necessary to complete four predefined stages (document preparation; customs clearance and inspections; inland transport and handling; and port and terminal handling) for exporting and importing the goods are recorded. However, the time and cost for sea transport are not included. All documents needed by the trader to export or import the goods across the border are also recorded.

This web page contains useful information regarding the role of trade facilitation and the effects of customs times on revenue and on costs. Several studies on facilitation payments are referenced.

Fighting corruption in customs

Michael, B., and Moore, N. 2010. "What do we know about corruption (and anti-corruption) in Customs?." *World Customs Journal*, 4(1). <http://www.worldcustomsjournal.org/media/wcj/-2010/1/Michael-Moore.pdf>

Abstract

This article discusses many of the lessons learned in the last decade about fighting corruption in customs. A methodology for measuring corruption including the use of internal auditing is suggested. The effectiveness of various treatment approaches is discussed including the criminalisation of corruption, the implementation of codes of conduct, internal inspectorates and the use of conflict of interest statements. The article concludes by suggesting

potential areas for additional research.

World Customs Organisation. 2007. *Compendium of integrity best practices*..

<http://www.wcoomd.org/en/topics/integrity/~media/F8980A7CB73A4F2E80A137967AF75CA8.ashx>

This World Customs Organisation (WCO) report is a compendium of best practices for fighting corruption and promoting integrity in customs authorities. The compilation was prepared with input from WCO members and was edited and formatted by the WCO. The compendium divides best practices by topic. Topics include leadership and commitment, regulatory framework, transparency, automation, reform and modernisation, audit and investigation, codes of conduct, human resource management, morale and organisational culture and relationships with the private sector.

World Customs Organisation. 2007. *Integrity development guide*.

<http://www.wcoomd.org/en/topics/integrity/~media/B89997B68D6A4E34AE9571979EADA39F.ashx>

The Integrity Development Guide is a self-assessment process designed as a practical tool for customs administrations. It focuses on core issues that are central to the development of an effective and efficient integrity program, based on the Arusha declaration's principles. It provides a framework to examine the state of play in terms of management, administrative and integrity strategies and to identify opportunities for further improvement.

Sequeira, S. 2013. *Displacing corruption: evidence from a Tariff liberalisation programme*. London: The London School of Economics and Political Science.

http://personal.lse.ac.uk/sequeira/Displacing_Corruption_Sequeira.pdf

Abstract

The author uses the data set from her previous empirical study of 1,300 shipments to analyse the effect of a progressive tariff lifting that took place from 2007-2011. She shows that while the overall bribery rate was associated with a significant decline (60 per cent) in bribery to customs officials for tariff evasion on imported goods. However, this also led to a 70 per cent increase in average bribe per

transaction, which can be considered a displacement from collusive to coercive forms of corruption. This displacement effect can have an economic impact, as firms are likely to adjust their sourcing strategy accordingly and source a higher percentage of their input domestically, with potential implications on firms' performance. This important substitution effect may diminish the long run impact of trade liberalisation and tariff reduction on bribery as corrupt officials adapt and find other bribe extortion strategies.

Ferreira, C., Engelschack, M., and Mayville, W. 2007. "The challenge of combating corruption in customs administrations." In *The many faces of corruption: Tracking vulnerabilities at the sector level*, edited by J. E. Campos and S. Pradhan. Washington, D.C: World Bank.

<https://openknowledge.worldbank.org/bitstream/handle/10986/6848/399850REPLACEMENT101OFFICIAL0USE0ONLY1.pdf?sequence=1>

Abstract

Given the monopoly of customs over the flow of goods, the potential of corruption in customs administration cannot be overstated. After providing an overview of the detrimental impact of customs corruption on a country's revenue collection, trade operations, competitiveness, importation of illegal goods, smuggling, organised crime and security. Then, the authors provide a customs corruption risk map with examples of integrity challenges for selected customs functions.

Strategies to curb corruption in customs can include a wide range of measures aimed at addressing both incentives and opportunities for corruption. The 2003 Arusha declaration on integrity in customs for example identifies 10 key areas of intervention, including commitment of leadership, regulatory framework, transparency, automation, simplification, streamlining and modernisation of customs services, audit and investigations, code of conduct, human resource management, organisational culture and relationship with the private sector. To be successful, anti-corruption efforts need to combine strategies addressing business processes and systems to reduce opportunities for corruption and measures aimed at changing incentive systems.

Zake, J. 2011. *Customs Administration Reform and*

Modernisation in Anglophone Africa — Early 1990s to Mid-2010. International Monetary Fund. [Download PDF](#).

Abstract

Anglophone African countries have been implementing reform and modernisation initiatives in their customs administrations. This paper outlines the progression of key reform and modernisation initiatives in these countries since the early 1990s and assesses the gap between these reforms and those of more modern customs agencies. The review suggests that customs administration reform and modernisation initiatives in Anglophone African countries generally lag behind international good practice, and it is necessary to speed up implementation if revenue, trade facilitation and trade chain security objectives are to be achieved. The findings also have implications on the design of reform programmes and focus of potential technical assistance for the outstanding reform agenda.

Velkova, E., and Georgievski, S. 2013. "Fighting trans-border organised crime in Southeast Europe through fighting corruption in customs agencies." In *Organised Crime in Southeast Europe*, edited by E. Athanassaopolou. Hoboken: Taylor and Francis.

Abstract

In the past 12 years trans-border organised crime and corruption have continually plagued the countries of southeast Europe. The EU identified both problems as major obstacles to integration and crucial criteria for the assessment of progress made within the context of the Stabilisation and Association Process. Within the broader campaign against organised crime, and trans-border organised crime in particular, the need to fight corruption in customs bureaux is very urgent. Customs bureaux in southeast Europe are more vulnerable to corruption than other law enforcement agencies, because customs officers have discretionary access to tangible wealth, while being substantially underpaid. Based on the central and eastern European countries' experience, this article tries to identify possible measures that the southeast European countries could employ to fight corruption in customs bureaux, as an essential step against trans-border organised crime.

World Trade Organisation. 2011. *Pre-shipment inspection*.

http://www.wto.org/english/tratop_e/preship_e/preship_e.htm

This World Trade Organisation web page offers insight into the benefits and standards regulating Pre-Shipment Inspection. The WTO is a proponent of this initiative and has established guidelines for PSI inspectors. The organisation claims that PSI "safeguard[s] national financial interests (prevention of capital flight and commercial fraud as well as customs duty evasion, for instance) and compensate[s] for inadequacies in administrative infrastructures."

World Customs Organisation. 2003. *The revised Arusha Declaration*. [Access](#).

This legislation is the most important legislation regarding integrity and governance within customs organisation at the international level. The declaration is a non-binding set of recommendations passed by the World Customs Organisation's Customs Cooperation Council that was first created 1993 and then revised in 2003. The declaration provides guiding principles and policies that the WCO's 179 member states and customs territories should aim to follow. The declaration ends by calling upon the organisation's members to implement "comprehensive and sustainable integrity action plans" based on the principles outlined in the declaration.

Yang, D. 2008. "Integrity for Hire: An Analysis of a Widespread Customs Reform." *Journal of Law and Economics*, 51(1): 25-57.

Abstract

Can governments improve bureaucratic performance by "hiring integrity" from the private sector? In the past two decades, a number of developing countries have hired private firms to conduct pre-shipment inspections of imports, generating independent data on the value and tariff classification of incoming shipments. The author finds that countries implementing such inspection programmes subsequently experience large increases in import duty collections. By contrast, the growth rate of other tax revenues does not change appreciably. Additional evidence suggests that declines in falsification of import documentation are behind the import duty improvements. The programmes also

lead to declines in undervaluation and misreporting of goods classifications. Historically, this hired integrity appears to have been cost effective, with improvements in import duty collections in the first five years of a typical inspection program amounting to 2.6 times the programme's costs.

Anson, J., Cadot, O., and Olarreaga, M. 2003. "Tariff Evasion and Customs Corruption: Does Pre-Shipment Inspection Help?." *World Bank Policy Research Working Papers*. [Download PDF](#).

Abstract

This paper provides a new approach to the evaluation of Pre-Shipment Inspection (PSI) programmes as ways of improving tariff revenue collection and reducing fraud when customs administrations are corrupt. The authors build a model highlighting the contribution of surveillance firms to the generation of information and describing how incentives for fraud and collusive behaviour between importers and customs are affected by the introduction of PSI. It is shown theoretically that the introduction of PSI has an ambiguous effect on the level of customs fraud. Empirically, our econometric results suggest that PSI reduced fraud in the Philippines but increased it in Argentina and had no significant impact in Indonesia.

World Customs Organisation. 2014. *Interface Public Members*. <http://ipmpromo.wcoomdpublishings.org/>

In 2010, the WCO introduced the Interface Public-Members (IPM), an online tool serving as an interface between frontline customs officers and the private sector. Seventy-four countries have joined IPM which is the only global anti-counterfeiting tool. It allows operational data concerning products to be communicated directly to customs officers on the ground, facilitating the identification of counterfeit goods. The tool is available online or through a smartphone. IPM can also be considered as a permanent training tool. Customs officers can log on to its e-learning facility at any time and learn about a variety of products, brands and the distinguishing features between counterfeit and genuine products. IPM is made freely available for all 179 member customs administrations that are part of the WCO.

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World Bank. 2014. *World Development Indicators*.

<http://databank.worldbank.org/data/home.aspx>³

“Anti-Corruption Helpdesk Answers provide practitioners around the world with rapid on-demand briefings on corruption. Drawing on publicly available information, the briefings present an overview of a particular issue and do not necessarily reflect Transparency International’s official position.”

³ The indicator used was *Customs and other import duties (% of tax revenue)* from the *International Monetary Fund, Government Finance Statistics Yearbook* and data files available through the *World Bank*.