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# Strengthening Integrity by Combating Corruption in Tax Administration in Nepal

***Dibakar Bhujel***
*Under- Secretary, The Government of Nepal*

*Abstract*

Corruption, the misuse of public resources for personal benefit, is prevalent everywhere, in varied degree and forms. In the context of Nepal, corruption has been a serious challenge since a long time. This paper analyzes this particular governance challenge examining existing theoretical approaches and perspectives on corruption issue internationally, and proposes measures to reform the current integrity mechanisms to ensure corruption- free tax administration in Nepal. For this, this paper suggests amending the current anti-corruption legislations, empowering anti-corruption institutions to enhance their competence, professionalism, efficiency, and effectiveness and advocates for active role of civil society with adoption of innovative approaches such as social boycotting of corrupt public position holders. It also argues for more interventionist role of international financial institutions on the government setting conditions for corruption control in order to continue their support, which can create vehement pressure and motivation to the government to act responsibly on the combat against corruption, in public sector including tax administration.

*Key Words*

Corruption, Governance, Civil Society, Tax Administration

## 1. The Issue

Corruption, the misuse of public resources for personal benefit, is prevalent everywhere, in varied degree and forms. In the context of Nepal, corruption has been a serious challenge since a long time. Despite the announcement of zero tolerance against corruption by the government and with existence of legislations against corrupt practices along with several anti-corruption institutions, reduction of corruption has been a national goal, unattained till date. The status of Nepal in Corruption Perceptions Index (CPI) of Transparency International has not been improved.

The public sector, including politics and bureaucracy, are afflicted by and involved in corruption to a great extent. Specifically, lack of integrity and accountability in tax administration has been a burning issue with the emergence of huge corruption scandals involving high-ranking bureaucrats and

politicians in tax administration in recent times. This is particularly due to the inefficiency, ineffectiveness, and failure of existing integrity mechanisms in the gcountry's governance system Therefore, adoption of better integrity mechanisms in order to combat corruption in public sector including tax administration is essential.

This paper analyzes this particular governance challenge examining existing theoretical approaches and perspectives on corruption issue internationally, and proposes measures to reform the current integrity mechanisms to ensure corruption- free tax administration in Nepal. For this, this paper suggests amending the current anti-corruption legislations including the Prevention of Corruption Act (2002) incorporating the drastic changes in defining and dealing with corruption globally in last two decades. Similarly, this paper argues for empowering anti-corruption institutions including the Commission for Investigation of Abuse of Authority (CIAA) with structural independence and functional autonomy to enhance their competence, professionalism, efficiency, and effectiveness. Further, this paper advocates for active role of civil society with adoption of innovative approaches such as social boycotting of corrupt public position holders. It also argues for more interventionist role of international financial institutions on the government setting conditions for corruption control in order to continue their support, which can create vehement pressure and motivation to the government to act responsibly on the combat against corruption, in public sector including tax administration.

## 2. Background & Current Status

### *Corruption in Nepal*

Despite the promulgation of new constitution followed by the formation of stable government with the popular mandate of general elections held in the year 2017, Nepal has not been able to reduce corruption as is exhibited by the Corruption Perceptions Index (CPI) of Transparency International published in early January 2019 (Shrestha 2019). Contrary to everybody's expectations, the position of Nepal has declined two places down, from 122$^{nd}$ position previous year to 124$^{th}$ this year, with same score of 31 (Setopati 2019).

Nepal, under a decade-long armed insurgency followed by another decade-long transition and peace process, has just begun its journey towards peace, prosperity and development since 2015 with new constitution. This constitution aims to establish corruption-free society with powerful constitutional integrity agencies such as CIAA and Office of Auditor General (OAG). Several government agencies including Special Court, Inland Revenue Department, Department of Money Laundering Investigation, National Information Commission, and National Vigilance Centre are in existence to combat corruption. The CIAA is the most powerful authority among all with constitutional jurisdiction to investigate corrupt practices in public sector; however decisions of the council of ministers, private sector, national army, and non-government organizations are still not under its jurisdiction, as stated in the constitution (2015).

There are many legislative arrangements aimed at enhancing integrity in public sector. Prevention of Corruption Act (2002), practiced by CIAA and Special Court is exclusively for combating corrupt practices by public position holders. The Right to Information Act (2007), Good Governance Act (2007), and Prevention of Money Laundering Act (2007) are some of the few examples of statutes in operation aimingto prevent and control corruption.

However, the situation is rather worsening instead of improving in recent years as is stated in the annual reports of CIAA and OAG. The annual reports of CIAA and OAG in the year 2018 mention rising cases of corrupt practices and irregularities in government funds over the years. This points towards the inefficiency and ineffectiveness of existing integrity systems in the country.

### *Corruption in Tax Administration*

As is true in the case of most underdeveloped nations, tax management in Nepal is carried out under the Ministry of Finance in traditional manners (Mann 2004).

Taxation systems and revenue administration are most prone to corruption and embezzlement in most developing countries (Fjeldstad 2002). In Nepal too, tax administration is one of the most challenging public sector (Dahal 2009) with different cases of fraud, embezzlement and corrupt practices revealed

from time to time. In fact, the biggest cases of corruption in the history of Nepal involving millions of dollars, be it tax settlement commission case of 2017 or Ncell tax dispute of 2018, are all concerned with tax administration.

High levels of corruption in tax administration often lead to decline in tax ratios (Mann 2004). This vicious cycle ultimately affects and restricts the development of the country. Nepal is a victim of this cycle. In fact, huge cases of tax embezzlement and tax disputes have deteriorated the financial status of this nation causing heavy loss to the government revenue that is already limited.

One such example is the case regarding tax settlement commission formed in 2015 by the government. The revelation of tax embezzlement appeared in 2017 when the office of Auditor General pointed out irregularities in the waiving of taxes by the commission. The investigations carried out by the CIAA then revealed that the commission had misappropriated revenue amounting to over 10 billion Nepali rupees by misinterpreting and using loopholes in the existing laws regarding tax settlement. This case resulted in dismissal of Chudamani Sharma, then director general of Inland Revenue Department, who had served as the member secretary of

the commission (Xinhua 2017). The case is still under consideration at the Special Court, with other two convicts still at large.

Similarly, another case of tax dispute involving 61 billion Nepali rupees is concerned with the buyout deal of Ncell, a leading telecommunication company in Nepal which has considerable amount of foreign investment shares (Kamat & Dhungana 2019). There has been years-long controversy over whether and who to pay the tax bill for the buying and selling of its shares that had taken place in December 2015. This case is yet to be resolved as Ncell has sought international arbitration on this issue. These two cases only amount to over 70 billion rupees that has caused huge impact on the national revenue. Such instances point to the weak integrity and corrupt practices prevalent in the sector of tax administration in Nepal.

## 3. Key Considerations

Corruption appears in varied degrees and forms in different societies. It is interesting to note, however, that scholars have no unanimous views on how to define corruption. A mostly agreed upon definition of corruption is that it is the misuse of public authority for private benefits (Lambsdorff 2007). Corruption occurs in four key forms, "bribery, embezzlement, fraud and extortion" (Andvig et al. 2000,

p. 14ff). Corruption is also categorized as grand scale and petty level corruption (Rohwer 2009). The sectors highly impacted by and engaged in corrupt practices are the civil service, political positions, and business (Subedi 2005); however corruption is found prevalent in all sectors and fields in the society (Panday 2005).

Corruption has been one of the most studied topics over the years owing to its prevalence in almost all countries, although in different forms and degrees. Reduction of corruption has been a common agenda of the contemporary governments all over the world. Therefore, a huge volume of literature can be found examining corruption from various perspectives and offering different solutions to control it in multiple manners. No particular theory, however, is found attached to the study of corruption, although there have been attempts to identify and solve corruption problem in different ways by different scholars. There is, in fact, confusion in the corruption scholarship over which specific anti-corruption approaches can be the panacea for reduction of corruption successfully (De Graaf 2007).

There are various approaches that stress on different measures as the most effective ones for corruption control. A group of scholars emphasize, for a very long time, on forming anti-corruption institutions by the government and rely on their active functions and operations as the sole approach to combat corruption. Another perspective opines that civil society engagement can only be the solution to corruption problem. The third perspective examines the role of political systems and state policies on corruption control and stresses on democratic political systems as the controller of corruption in the country. The fourth measure, as proposed by some scholars, is international intervention in the form of specific agenda-setting against corruption by international financial institutions to national governments. Further, some successful models such as Singapore include enhancing the morale and

motivation of bureaucrats with ideal payments and fringe benefits to reduce corruption. A brief summary of these key theoretical considerations is as follows.

*Corruption & Governance Policies*

Montinola & Jackman (2002) employ "public choice explanations" theory in examining why the prevalence of corruption is in different degrees in different countries and suggest that the status of availability of competitions at economic or political sectors in a particular country has direct impact on the existence and degree of corruption in the country. The impact, however, is in a non-linear way. The form of governance, whether it is authoritarian or democratic, leads to different levels of corruption. The central argument is that countries with authoritarian regime with limited scope of political or economic competitions will have higher levels of corruption. Similarly, once such a country is partially democratized, corruption typically declines. However, to a certain extent, corruption appears as increased considerably at the beginning during transitional phase, but once a threshold is passed, democratic form of governance with democratic institutions restrict corrupt practices. Thus, continuous exercise of democratic form of governance is the solutionto corruption problem.

Adding to the same perspective, Mungiu-Pippidi (2015) opine that the initial phase of democratization process just after the abolition of authoritarian regime can have rising instances of corrupt practices; however, enhanced control of citizens on governance process gradually will pave way to reduction in corruption in the long run. "Strong democratic institutions with checks and balances in place", therefore, are the most effective weapons to combat corruption. Independent judicial bodies, free press, rights of access to information and active civil society, thus, can effectively curb corruption (Heimann 2017). In contrast, if the country has weak democratic institutions and low levels of accountability and transparency, it will be certainly difficult to fight against corruption.

Examining the context of Nepal, the country has been recently democratized with the promulgation of new constitution in 2015 after a decade-long armed insurgency and a long transitional peace process;

it seems natural to have a sudden leap on appearance of corrupt practices at the beginning of democratization. This makes us optimistic about the reduction of corruption in the future as democracy gradually gets institutionalized and mature in the days to come.

Similarly, there have been studies on the relationship between the levels of corruption and different policies adopted by the state. The interrelationship between neo-liberal financial policies and political corruption has also been analyzed. Gerring & Thacker (2005) opine that neo-liberal economic policies with open market and deregulation by state, ultimately contributes to decline the levels of corrupt practices. This study highlights the role of economic policies of the state on the level of corruption. However, it is not able to demonstrate continuous interrelationship between the size of the public sector, meaning how pervasive the government roles are, and the effects it has on occurrence of corruption.

***Corruption and Irregular amount***

As per the constitutional provision the auditor general offices audit on the basis of regularities, economy, efficiency and effectiveness of the public funds. Through the five years audit report observation the Irregularities amount increasing year by year.

According to the financial procedural and accountability act , "transactions referred to as fraudulent or fraudulent or unaccounted for, or audited in the manner of conducting financial transactions in an unregulated or arbitrary manner.

Irregular amount in different 5 year as per OAG Annual audit Report (Rs in 00000)

| S.N. | year | total audited amount | as per draft report irregular amount | amount settled in 35 day | reaming irregular amount | percentage of draft report on audited amount | percentage of settle amount with in 35 days |
|---|---|---|---|---|---|---|---|
| 1 | 073/74 | 46879100 | 1051990 | 10385 | 1041605 | 2.24 | 0.99 |
| 2 | 074/75 | 51609200 | 1375940 | 7114 | 1368826 | 2.67 | 0.52 |
| 3 | 075/76 | 51716400 | 1522700 | 192690 | 1330010 | 2.94 | 12.65 |
| 4 | 076/77 | 53279100 | 1187463 | 143843 | 1043620 | 2.23 | 12.11 |
| 5 | 077/78 | 75330900 | 1271940 | 121390 | 1150550 | 1.69 | 9.54 |
| | total | 2.79E+08 | 6410033 | 475422 | 5934611 | 2.30 | 7.42 |

Source: www.oag.gov.np ( Annual Audit Report)

Irregularity amount in comparison to audited amount, which figured at 2.24 percent in the 55th report, has increased and stands at 2.67 percent in the 56th report. Likewise, if the status of irregularity settlement of past 5 years is to be analyzed, it is observed that irregularity figures have surged every year, but irregularity settlements figures through follow up audit has increased at lesser rate as shown in the table. There has been a situation that similar audit observations are repeated every year, but attentions are not given to their improvements. There exists a situation that the regulating agencies are not functioning effectively and directives issued by the parliamentary committees have not been implemented. Hence, the financial accountability situation is found to be below the mark in entirety. Lack of adherence to the financial discipline is attributed to political, administrative & managerial, and external & social circumstance. Financial governance has been witnessed in weak condition due to political transition & instability of the governments, impunity, weakness of centralized governance system, absence of people's representatives in local level since two decades, lack of responsibility & accountability within public officials, lack of technical & managerial capability of the government machinery to implement the increased volume of budget & program, weak manpower management of the government & lack of discipline, and absence of healthy working environment in the government's work processes among others

*Strong Legislative Arrangements*

Some researchers opine in favor of harsh laws against corruption that are morally irrevocable and binding. Nicholas (2000) says that strong legislations against corruption are indispensable for controlling corruption successfully, whether the efforts of states are solitary or collectice.

Quah (2001) argues for strong anti-corruption laws with independent anti- corruption agencies, as adopted by Singapore and Hong Kong, can prove most effective in combating corruption. However, Quah believes that varied contextual constraints and the efficiency and effectiveness of government institutions in different countries can be vital in the success or failure of the measures adopted.

In the context of Nepal, the key anti-corruption laws include the Prevention of Corruption Act (2002) which has not been amended in last two decades. As corruption is a dynamic issue, various changes have taken place globally around defining and dealing with corruption problem. Therefore, there is need of timely amendment of anti-corruption laws as well as taxation legislations to incorporate recent transformations in the field, and also to make them stronger with increased fines and penalties for corrupt practices.

*Powerful Anti-Corruption Institutions*

During 1990's and 2000's, forming powerful anti-corruption institutions was taken as the strongest measure to combat corrupt practices. This theory believes in curative aspect of corruption control by creating fear in the minds of public office holders of being caught and penalized, thus inhibiting corruption. De Sousa (2010) stands for proactive role of powerful anti-corruption agencies to be formed by the government which should have necessary support and cooperation of all concerned government bodies. The institutions should be well equipped with skilful, competent, and expert human resources along with sufficient legislative mandate and inclined to research for identifying and applying innovative measures in their operations.

Same argument is proposed by Feldman & Eichenthal (2014) in support of establishing strong oversight institutions for combating corruption. An overview of corruption literature takes us to the conclusion that although scholars do not agree

on the formation of anti-corruption agencies as the panacea for corruption control, there is more or less agreement on accepting effective role of anti-corruption institutions as an integral aspect of corruption reduction campaign (De Sousa 2010).

Maor (2004), advocating for strong anti-corruption institutions, doubts on the commitment of states and its key actors to combat corruption. The formation of anti- corruption agencies is generally due to the rising internal as well as international pressures from the public, media, and international financial institutions. It is often found that if the anti-corruption agencies attempt to target senior state

bureaucrats and politicians, several obstacles are created to restrict their functions. Sometimes,the legitimacy and credibility of the agencies are attacked and they are compelled to leave the investigations incomplete or insufficient.

As we examine the status of anti-corruption institutions in Nepal, we find that in spite of their existence and operations, they have not been effective to the extent of reducing corruption. Institutions such as CIAA or Money Laundering Investigation Department are often the victims of political interference in their investigations leading to insufficient and incomplete investigations in particular cases that involve senior politicians or even high level bureaucrats. The appointment of commissioners in the CIAA is also directly nominated by government-headed commission that undermines the structural independence and functional autonomy of the institution leading to its ineffectiveness.

*Civil Society Engagement*

There is a good volume of scholarship which puts emphasis on the power of citizen engagement in combating corruption. Vogl (2012) states that combating corruption will result in success if accountability and transparency are enhanced, which is largely reliant upon the level of public engagement to this direction. If civil society is powerful, committed and rich with access and exposure led by strong citizen leaders, reduction of corruption will be a goal easily obtained. Further, replication of successful examples of corruption control in a particular country in other countries can also prove beneficial to strengthen the efforts against corruption (Vogl 2012).

Anechiarico (2002) argues that corruption can be reduced even without adding burden to the public institutions for higher levels of efforts. Movements against corruption by civil society can be the most effective measure that should be applied to control corruption in the country. No other approaches can be as effective as civil society engagement in combating corruption.

Mungiu-Pippidi (2015) believes on the power of civil society to combat corruption. The beginning of democratization process immediately after the end of authoritarian government may be marked by increased corrupt practices, however the development of strong civil society and its sustained control on the governance process, will lead to decline in corruption (Mungiu-Pippidi 2015).

Klitgaard (1998), indicating probable drawbacks in relation to combat against corruption, finds it difficult to sustain the commitment and dedication of the fighters against corruption forever. As corruption is a sensitive and tough socio-political agenda, remaining committed in principle and continuing it when it comes to practice the same is hard to maintain. In fact, sometimes the efforts to be adoptedcan even shake the existing state system which is already corrupt. Therefore, although simplified government procedures, harsh legislations, and competent human capital is prerequisite to combat corruption, this may not be sufficient. Klitgaard (1998) stresses on establishing a dedicated anti-corruption coordination institution at national level supported with citizen engagement and oversight, clear categorization of corrupt sectors or issues to deal with priority basis to create conducive ambience, strengthening and empowering major government agencies along with immediate

prosecution of chosen few major corrupt public authorities will hit rightly at the corrupt government system. Thus, reform in governance is vital to control corruption.

The status of citizen engagement in Nepal is considerably poor owing to limited access to information and impacts upon government functions. In spite of massive prevalence of corruption in all public sectors, more specifically in tax offices, there has been no public movement against corruption, in a collective manner. There are instances of few social campaigners raising voice against corrupt practices, howeverno mass support and movement is seen in this issue.

*International Pressures*

Heinmann (2017) opines that nations having weak democratic institutions should be motivated to control corruption by creating pressures and interventions from international financial and philanthropic institutions such as Transparency International, Asian Development Bank (ADB), International Monetary Fund (IMF), and World Bank. International pressures and deadlines to achieve particular level of success against corruption can be vital to ensure proactive efforts of the concerned governments to combat corruption in order to be able to continue to receive assistance and support from the international institutions for development.

Rothe (2010) analyzing the role that international financial organizations can play in regard to control of corruption in member states, concludes that international financial organizations can play vital role in facilitating, motivating and even forcing states for acting rigorously against corrupt practices. They can use the weapons of restricting their support or assistance in case of higher levels of corruption in public sector.

Liu (2018), to examine the dynamics of obedience to anti-corruption convention of the Organization for Economic Co-operation and Development (OECD), adopts two different interpretative theoretical approaches – "the rational-choice approach" and "the institutional approach". The rational-choice approach emphasizes on the signatory states' own efforts for compliance to the concerned convention. On the

other hand, the institutional approach stresses on the significance of favorable internal institutional contexts, quite contrary to the rational-choice approach to combat corruption in relation to international convention.

Maor (2004) also claims that naturally countries are generally not proactively committed to control corruption, as there may be some influential ones being benefitted by corrupt systems. Therefore, international pressures, especially from international financial institutions can prove supportive to create an ambience apt for corruption control.

*Enhancing Morale and Motivation of Public Officials*

Corruption is also believed to be backed up by low levels of morale and motivation of public office holders. Considerably low payments to public officials can naturally lure them towards seeking other sources of income, which may lead to rise in corrupt practices. Montinola & Jackman (2002) argue that economically strong country with well paid bureaucrats can pave way for decline in corruption.

Mphendu & Holtzhausen (2016), analysing the successful combat against corruption in Singapore, advocates for strong legislation, dedicated and independent anti- corruption agency, and high levels of morale and motivation of public officials with competent salary and fringe benefits, as the most powerful measures to reduce corruption. Singapore has been reliant on two major anti-corruption laws, the Prevention of Corruption Act and the Corruption, Drugs Trafficking and Other Serious Crimes Act, largely practiced by its anti-corruption agency, the Corrupt Practices Investigation Bureau (CPIB). Further, Singapore, to make sure anti- corruption reforms are implemented successfully, stressed on competitive pay to bureaucrats, Service Improvement Units facilitating community expectations and government service delivery, and formation of a departmental committee under each government minister to ensure prevention of corrupt practices. The Singaporean model can be replicated in other developing countries such as Nepal; however, that must be internalized incorporating internal contexts.

The status of monetary and non-monetary payments and fringe benefits to government employees is

considerably poor in Nepal, in comparison to other countries including its immediate neighbours with similar socio-economic conditions.

In short, as De Graaf (2007) suggests, identifying the internal reasons behind the occurrence of corrupt practices is the first step in the journey towards corruption control. Knowing the inherent reasons behind prevalence of corruption ultimately drives us towards choosing better and more effective policies to be adopted to combat against corruption.

## 4. Proposed Solutions

The prevalence of corrupt practices and weak integrity in the public sector of Nepal, specifically in the context of tax administration, can be explained as the byproduct of existence of multiple socio-political characteristics ranging from weak political will, largely inefficient and ineffective anti-corruption agencies, poor status of civil society engagement and oversight, and low pay scales to public officials, to lack of sufficient international pressures and intervention from international community on the government setting challenges and deadlines to acquire certain minimum progress in corruption control. As stated above, right identification of underlying reasons behind the prevalence of corruption will enable selection of appropriate approaches and measures to control corruption.

The measures and approaches to be adopted and implemented in order to combat corruption, therefore, should be based on the specific circumstances of emergence and continuation of corrupt practices in different sectors in a particular society. The lessons from successful efforts elsewhere can be replicated in other countries but cautious consideration must be paid to the particular attributes and characteristics of the society being dealt with. The proposed anti-corruption measures should less be based on the theoretical logic but more on what might work in a best way in what specific conditions (De Graaf 2007). However, insights from successful corruption combating measures and mechanisms can be

helpful in examining and evaluating

ur existing anti-corruption mechanisms and deciding on how to move ahead in our fight against corruption in tax administration.

*Legislative Amendment*

Getting rid of corruption in tax management demands simplification of tax legislation, independent, effective, well-equipped, and efficient judicial body, and powerful audit mechanisms (Mann 2004), which are missing in Nepal.

At first, the laws regarding taxation must be made simple, easily, not open to multiple interpretations, scientific, transparent and objective. Tax administration in Nepal, in contrast, is suffering from structural constraints along with complexities in administrative as well as procedural issues. High level of complexity in taxation legislation, leads to loopholes and multiple interpretations paving way for corruption to take place (Dahal 2009). Lack of transparency and efficiency, effectiveness and capability are the characteristics of the administrative mechanisms of taxation. It is interesting to observe that such weak tax administrative mechanisms, is mostly beneficial not only to tax administrators but also to private sectors, as they can play under loopholes, but is heavily dangerous to national revenue (Rahman 2009).

For combating corruption in tax administration, legislations regarding taxation must be simplified and made easy to understand to the public so that all probabilities of misinterpretation and fraudulent activities will be erased. Tax administration has to be fully modernized with optimum application of information and communication technologies in administration that increases efficiency as well as transparency ultimately decreasing any scope for corrupt practices.

Further, the key anti-corruption law, the Prevention of Corruption Act (2002), which has not been amended to incorporate the recent changes in this dynamic field of corruption control, needs to be amended immediately with inclusion of heavier fines and penalties for corrupt acts. There is need of

identifying and including broader definition of corruption so that none of corrupt practices can stay out of its jurisdiction. Similarly, Prevention of Money Laundering Act (2007), Right to Information Act (2007), and other concerned laws are also waiting for amendment to meet contemporary requirements.

Reforming tax administrative mechanisms warrants effective approaches against both the taxation administrators and business enterprises. Reform in tax administration is essential to build more attractive environment for foreign and national investments that gradually contributes to fall in poverty by means of economic growth, for rise in revenue, equal and inclusive tax obligations, and to

keep pace up with highly modernized operational systems of tax-paying enterprises in the context of globalized world (Rahman 2009).

***Institutional Empowerment***

The most important aspect of maintaining integrity, ethics and morality in the public sector is by creating fear factor with formation and active operation of powerful anti- corruption or regulatory agencies (Head 2012). The anti-corruption institutions must be enabled to carry out their mandated functions, rights and responsibilities by supporting them with necessary economic, human and technical resources.

Empowerment of CIAA along with other supporting anti-corruption agencies is a must for combating corruption. The CIAA needs to be structurally independent and functionally autonomous so that it can act freely, fairly and effectively against corruption. The appointment system of commissioners needs revising. It must be freed from the shadow of the incumbent government by adopting transparent and free selection process of commissioners on the basis of merit, instead of current system of appointment by the government-headed commission on basis of political affiliation. The CIAA and other anti-corruption agencies should be provided with more freedom and authority in technical, human and financial resources so that there will be no compromise in their capability. The agencies must be capable enough to say "no" to any undue pressures in their jurisdiction from politicians or senior bureaucrats.

The anti-corruption agencies need to be inclined to research activities proactively in order to devise innovative approaches or measures to carry out investigations or prosecutions so that their success

rates in regard to corruption cases will rise. In Nepal, the success rate of corruption cases prosecuted to the Special Court by the CIAA is only about two-third. The other cases are lost owing to inefficient or weak investigations, which needs improvement with adoption of research and innovation. The frequent transfer of government employees in anti-corruption agencies is also responsible for lack of skilled, competent and expert manpower. More authority in retaining own human resource is essential for enhanced efficiency.

*Civil Society Engagement*

Change in social behavior is highly important in relation to corruption control. In case of grand corruption scandals and revelations of tax embezzlement, it is seen that the society immediately condemns such acts and they get attention for quite a long time in different mediums too. However, when it comes to cases of petty bribes,or be it instances of favoritism or nepotism, which too are forms of corrupt practices, people generally turn blind eye to such occurrences considering them as normal (Truex 2011). Such societal behavior is not supportive to control corruption in all its forms. Moreover, rising awareness against corrupt practices and societal resistance, discouragement, reporting and even boycotting corrupt authorities socially will prove extremely beneficial for creating and maintaining favorable impacts in combat against corruption.

In spite of pervasive corruption in public sector in Nepal, there is no movement by civil society against corruption. The civil society engagement is weak which is the result of multiple factors including limited access to information and impacts on government operations and capacity constraints on the side of civil society. There is need of capacity building and empowerment to civil society for uplifting citizen engagement, and raising voice for enhanced transparency and accountability on the side of governance actors. No combat against corruption can yield success if there is no or limited public engagement in governance. Philanthropic institutions such as Transparency International Nepal Chapter should be encouraged to work on this aspect for reduction of corruption in tax administration and other public sectors.

*International Intervention*

Nepal, as a member state of several international financial institutions including IMF, ADB, and the World Bank, must be pressurized by the organizations to achieve

certain minimum progress in corruption control timely, in order for the support and assistance to continue. As a considerable portion of development budget of Nepal is dependent upon foreign aid, such agenda-setting against corruption for the continuation of foreign assistance, can prove highly beneficial for increasing motivation and urgency on the side of the government because inability to do so may result in failure of the government itself due to financial crisis. Likewise, major donor countries such as Japan, the USA, and the UK should also adopt same strategies to ensure that the governments of corruption-ridden countries like Nepal will act more responsibly and proactively in regard to corruption control.

In brief, strong political determination on the side of political actors to control corruption, adoption of zero tolerance policy against corruption by government, clear, simple and powerful taxation laws and anti-corruption legislations and their serious implementation, effective, efficient, independent and capable anti-corruption agencies powered by clear and strong constitutional and legislative mandates and authority, proactively engaged, aware and empowered civil society, and higher pressure from international community including international financial and philanthropic institutions such as Transparency International, International Monetary Fund, and the World Bank along with public officials with high morale and motivation, can be the powerful weapons against corruption that ensure success in controlling corruption to a great extent in all public sectors including tax administration in Nepal.



## 5. Conclusions & Recommendations

Corruption is detrimental to the society as it restricts the development of the states and further deteriorates the life and wellbeing of its citizens (Ksenia 2008). The pervasiveness of corruption in public sector can lead to fall in political legitimacy of the state system itself (Anderson & Tverdova 2003). Thus, curbing corruption is essential also for the legitimacy and dignity of the state itself. However, solitary and disorganized efforts from key actors leads to nowhere in regard to corruption control. Controlling corruption not only ensures prosperous state but also happy citizens, the dream shown by current government of Nepal to the people. The efforts of corruption control must be well-planned, combined, collective, coordinated, andconnected with key government agencies as well as with civil society. Measures of reform for corruption control should be highly comprehensive and inclusive (Rahman 2009).

In short, the right set of solutions to be applied in order to get rid of corrupt practices must not stay limited to the domain of the government or the state; it rather should extend right to the level of citizens ensuring free, credible, effective, accountable and transparent governance (Panday 2005). There is need of social revolution against corrupt practices employing innovative approaches such as boycotting or excluding corrupted public position holders from the society. The goal of corruption control can be possible only with right set of tools such as transparency, democratic

governance, rule of law and powerful anti-corruption agencies. Such tools should be adopted considering national contexts. (Subedi 2005). The most basic requisite, again, is the existence of political will against corruption (Fjeldstad 2002).

Combating against corruption does not have a specific end date; it is a continuous and gradual process. However, the present national and international scenario seems favourable to control corruption. Rising awareness among people regarding corruption leading to higher demands for more transparency and accountability in governance functions is supportive to corruption control. Digital revolution, the fast development of information and communication technologies, has endangered the theory of "secrecy" which helps corrupt practices to occur. The rise of Facebook and Twitter along with

other social media is also supportive towards corruption control (Heimann 2017).

To sum up, this paper, analysing the pervasive problem of corruption in tax administration and other public sectors in Nepal employing existing theoretical and empirical approaches, suggested for timely amendment of anti-corruption legislations, empowered, autonomous and independent CIAA and other supporting anti-corruption agencies, enhanced civil society engagement against corruption, motivated civil service personnel, and increased pressures from international philanthropic and financial institutions on the government as the most effective approaches that must be immediately adopted in order to combat corruption and build corruption-free tax administration system in the country.

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*(The author, Master of Public Policy and Management Graduate from the University of Melbourne, Australia, is an Under- Secretary at the Government of Nepal.)*