

The Impact of the Lava Jato on Corruption and Trust: Evidence from Brazil

This brief summarises the lessons learned from the Lava Jato analysis on Corruption and Trust in Brazil and selected countries. The findings point that Lava Jato did not significantly impact citizens' experience with corruption and their trust in the local government. However, corruption perception has a significant negative impact on local government trust for Brazil and countries not involved in this anti-corruption operation. The findings suggest that respondents with leftist political ideology tend to have less trust in local government. The data also suggest that men who are interested in living outside the country and who have some organizational involvement (attend religious organization meetings, parent association community, improvement group, movements, or political parties) are more exposed to corruption.

What is the issue?

Corruption affects nations' economic development, reducing market efficiency, eroding the quality of public services, and contributing to the increase of poverty and social inequality. Also, corruption is an old, widespread, and multifaceted phenomenon that is difficult-to-solve. Maybe, this complexity may be the reason several anti-corruption policies failed to deal with it.

The estimate of the cost of corruption is also a challenge. The International Monetary Fund claims that corruption costs \$1 trillion in tax revenue globally. According to the United Nations, those illicit transactions cost at least 5% of GDP, around USD 3.6 trillion¹, every year. Corrupt activities can lead to leakages of public money. Consequently, governments will collect smaller tax revenues and/or pay higher values for goods, services, or investment projects.

Corruption increases the cost to the economy and reduces key functions of the public sector, like tax collection or expenditure choices. If, in exchange for bribes, corrupt politicians or even civil servants facilitate tax evasion for some people or firms, others will end up facing higher tax rates, and the government may be unable to generate enough

revenue to pay for productive spending. Likewise, the quality of public services and infrastructure suffer when project selection reflects bribery or nepotism opportunities. Bribery of foreign officials by multinationals and the use of obscure financial centers, or secrecy jurisdictions, to hide corrupt gains or to evade taxes add a global dimension to the challenge. Against this backdrop, and by contributing to growing inequality, corruption undermines government trust and can lead to social and political instability.

Corruption in Brazil and Operação Lava Jato (Operation Car Wash)

Since March 17, 2014, an anticorruption operation known as *Operação Lava Jato* (Operation Car Wash) found an international corruption scheme with reverberations in 61 other countries². Lava Jato is a Brazilian anticorruption investigation related to the Petrobras' corporation, a Brazilian oil company. This operation started with the investigation of money laundering and became the biggest corruption scandal in Brazil's history and one of the largest in the world.

Lava Jato has requested reimbursement of BRL 20.5 billion³ (around 5 billion USD in 2018-dollar value),

¹ <https://www.weforum.org/agenda/2018/12/the-global-economy-loses-3-6-trillion-to-corruption-each-year-says-u-n>

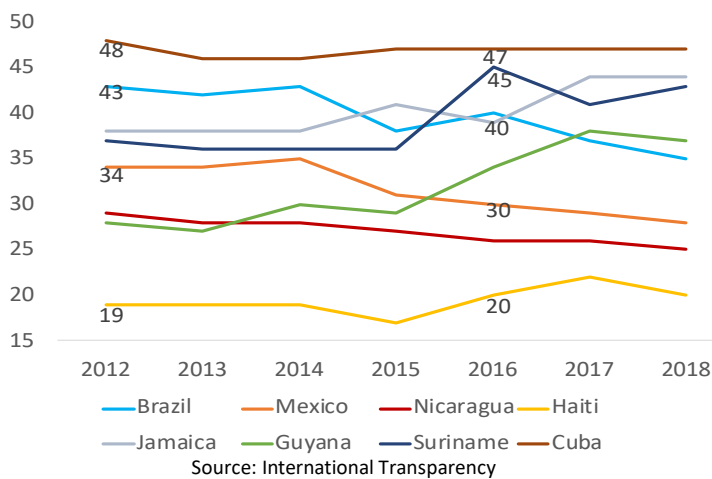
² <http://www.mpf.mp.br/grandes-casos/lava-jato/efeitos-no-exterior>

³ FIESP, 2010. Relatório Corrupção

criminal charges against 221 people, 204 convicted people, including politicians, top-level corporate executives, and a former president⁴. The socio-economic impact of corruption in Brazil is estimated to be over 2.5% of GDP, around US\$ 50 billion in addition to 13% of GDP tax evasion.

Corruption Indicators

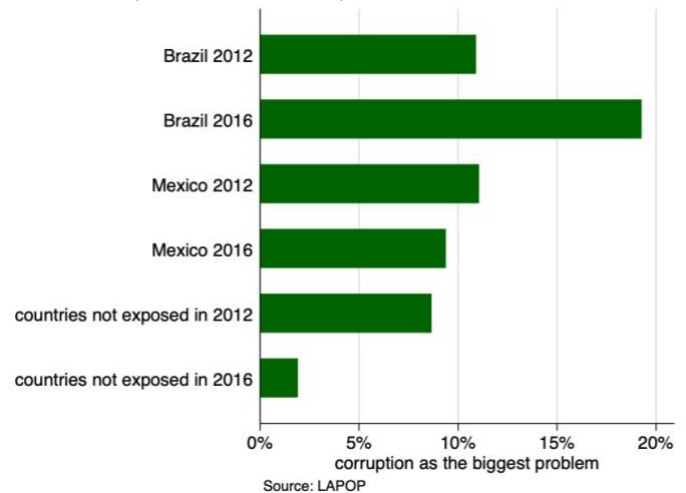
Corruption Perception Index (2012 - 2018)



According to experts and businesspeople, the Corruption Perception Index (CPI) ranks countries by "their perceived levels of public sector corruption" and goes from 0 to 100, where 0 means highly corrupt and 100 means very clean. Considering this index, all the countries considered in this study have less than 50, which reveals a considerably high level of corruption perception.

Brazilian core corruption challenges lie in systems and institutions that have allowed grand corruption to persist as a plague that weakens social and political trust and undermines economic growth.

Corruption as the main problem (2012 and 2016)



Considering the proportion of citizens who consider corruption the most important problem, the cluster of American countries not involved by the Lava Jato dropped from 8.6% to 1.9%, and from 11% to 9% in Mexico. However, the Brazil indicator rose from 11% to 19%.

This policy brief addressed two main questions

1. Is there a strongly endogenous (simultaneous) relationship linking corruption experience and trust in the local government, and what factors explain corruption and trust?
2. Does Lava Jato influence corruption and trust in Brazil?

⁴ <http://www.mpf.mp.br/grandes-casos/lava-jato/resultados>
accessed on 11/20/19

Main Findings

For the question regarding the reciprocal relationship between corruption experience and trust in local government, the substantive conclusion is that there is no evidence of this simultaneous relationship. However, the proposed model provided some interesting results.

The estimations suggest that respondents with the intention to live or work abroad and/or tolerant of corruption have more chance to face corruption. In the same vein, citizens with a higher level of trust in political parties report higher trust levels in the local government. Similarly, respondents more satisfied with the public services have, on average, higher trust in local government.

For the question regarding if Lava Jato influenced corruption and trust in Brazil and Mexico, I found mixed results. Lava Jato did not significantly impact citizens' experience with corruption and their trust in the local government. A possible explanation or justification would be the fact that all the countries in this study have, in some way, considerable levels of corruption, independent of their involvement in Lava Jato.

The most promising result appears in the trust in local government equation, in which the coefficients for corruption perception and leftist ideology are stronger in Brazil than in other countries. Corruption perception has a significant negative impact on local government trust for Brazil and countries not involved in this anti-corruption operation.

Another intriguing result is related to political ideology. The results shown for Brazil and not investigated countries suggest that respondents with leftist political ideology tend to have less trust in the local government than more conservative political profile citizens. For Brazil and the countries not in the Lava Jato, being leftist decreases trust in the local government. In Brazil's case, most of the governors in charge in 2012 and 2016 were from left or central parties.

What should policy makers do?

- Provide training about ethics and corruption for target audiences.
- Identify areas or sectors with a higher potential for corruption exposure and adjust auditing and oversight actions.
- Control and audit bodies could also adjust the internal capacity to build actions or incorporate information from groups most exposed to corruption in the audit trails.
- Develop a synergic action plan to fight corruption but not segmented by race, age, political ideology, and employment type (public or private).
- Constantly reassess and improve the tools of public transparency, compliance, and communication with the society.
- Increase confidence in local governments by deepening citizens' trust level in their community, whether through integration events (culture and sports), improving public safety, or improving transportation, health, and safety services.

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