

Launching Workshop on Cambodia's Anti-Corruption Draft Law and International Standards

Remarks by

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Your Royal Highnesses,
Your Excellencies,
Distinguished guests,
Ladies and Gentlemen,

I am honored to have this opportunity to make brief remarks at the opening of this workshop on one of the most important pieces of legislation on the Royal Government of Cambodia's crowded reform agenda. The Prime Minister's participation earlier this morning is testimony to the importance the government attaches to this law.

Why the IMF thinks it is important to eradicate corruption should come as no surprise to anyone here today. The world community recognizes that corruption reduces economic growth, and this alone should be reason enough to take firm action. But of equal concern is that corruption is extremely harmful to the distribution of a nation's income. The IMF believes that Cambodia needs to take stronger action now to combat corruption, a corruption that shows all too many signs of being systemic, which requires dramatic action.

I actually have only one objective today, to convince everyone that fighting corruption is to the advantage of every Cambodian. The reason for this is very simple; failing to do so will lead not only to economic under-performance in the long run, but also risks causing social and political instability. Everyone, from the ordinary citizen to the highest ranking public official, has an obligation to take action to help reduce the risks of such a scenario.

There are several ways that corruption causes economic harm. First, by raising business costs (the bribe tax in Cambodia is estimated at 5 ¼ percent of sales in manufacturing, or about 1 percent of GDP), by making very uncertain the business environment and causing investment to fall (FDI fell from 7% of GDP in the mid-1990s to 2 ½ percent of GDP in 2004!), corruption reduces growth. In a recent quantitative study, IMF staff found that corruption was the single most important detriment to economic growth in Cambodia. Researchers have estimated that a significant reduction of corruption raises investment and economic growth *per capita* substantially. A country that improves the quality of its governance from a low level to an average level can multiply by four its *per capita* income in the long run compared to the alternative of not addressing governance problems. Think about this. A country whose income per person would otherwise increase to only \$5,000 over several decades could instead see it rise to \$20,000, other things equal. This is a colossal difference, and one that can and should convince everyone of the benefits of tackling corruption now! And this is not

a figment of the imagination either; it is entirely possible. Consider the case of Singapore. While in the early 1960s its leaders were envious of Cambodia's achievements at that time, per capita GDP there had reached over \$24,000 in 2004.

A second way in which corruption is terribly harmful is that it weakens public finances. Not only does corruption reduce state revenues; it also reduces the quality and quantity of public goods and services, which is especially directly disadvantageous to the poor. This terrible unfairness, this pernicious effect of corruption, directly slows poverty reduction. Failing to reduce corruption urgently will in turn prevent the government from achieving the MDG of cutting by half the poverty rate by 2015.

There are of course many other ways in which corruption harms the economy, such as by forcing the government to possibly raise tax rates (which are disproportionately harmful), by causing unfair competition and reducing efficiency, etc.

A few months ago, I learned from a wise and experienced international expert that the key to jump-starting political momentum in support of anti-corruption initiatives is to convince a critical mass of those benefiting from corruption that reduced corruption is in the interest of everyone, including theirs. It's in their interest because the economic pie can be so substantially larger than otherwise. Equally important, the path to that larger pie will be more sustainable.

The verdict is in. The direction of causality is clear: better governance leads to higher growth, not the other way around.

The anti-corruption law has been ten years in the making. The time really has come to get this done, correctly. The IMF attaches considerable importance to the enactment of a good law, and this is why our legal experts have been so involved in advising the drafters. We place great importance on many key features needed for the law to be good, but I take this opportunity to loudly echo the features that Mark Storella stressed as critical a few moments ago.

The technical work is almost completed, thanks to the immense efforts of the Royal Government of Cambodia since December 2004. This workshop, by facilitating public comment, will help to bring this phase of the work to conclusion. We will all then look for the political will needed to see adopted, enacted, and enforced an anti-corruption law that reflects international best practice.

I look forward to a very successful workshop.

Thank you for your attention.