

**Challenges to Economies in Transition:
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Session V: Governance Issues during the Transition

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COMMENTS ON GEORGE ABED'S PAPER "GOVERNANCE AND THE TRANSITION ECONOMIES"

By Thanos Catsambas

Mr. Chairman:

I would like to join other speakers in expressing my pleasure at participating in this Conference. Since I am in Bishkek today in a dual capacity--as a discussant and as the mission chief of the IMF for the Kyrgyz Republic--I am very interested in the exchange views and the conclusions of the various sessions. I regret that, due to my obligations vis-a-vis the Managing Director of the IMF who has been visiting the Kyrgyz Republic for the past two days, I have been unable to attend all sessions, but I look forward to being here from this point on.

I found the paper by Dr. Abed both interesting and important. It analyzes governance, and the more narrow concept of "corruption", not from a vague, socio-political viewpoint, such a "corruption erodes the moral fabric of society"; instead, the paper establishes two important **quantitative** relationships: first, the impact of corruption on economic performance; second, the impact of reforms on the level of corruption.

By doing so, the paper established two unambiguous messages : if you wish to maximize your economic performance, you should minimize corruption; and if you wish to minimize corruption, you should advance structural reforms. These are relationships which, of course, have been discussed by economists for many years and are probably understood intuitively. These are also relationships that are encountered frequently in the policy dialogue of operational IMF missions with various countries around the world. The contribution of this paper is that it quantifies these relationships, with very interesting results and rankings of countries.

Due to the very limited time left in this session, I will not elaborate more on the findings of the various papers cited by Dr. Abed, although I will ask a question from the author before closing my statement¹. Rather, I would like to turn to the next important issue addressed in this paper,

¹ Due to time limitations, the following statement was also omitted from delivery:

" Before commenting on Dr. Abed's paper, I would like to echo one important point made by the chairman of this session, Ambassador Wienand, in his introductory remarks: governance and corruption for many years had been a "taboo" subject, certainly among staff of international organizations. These issues were considered to be intimately related to political considerations, from which international financial organizations abstain, as required by the charters. We have, therefore, come a long way today, when the staff of the IMF (and I will now confine my comments only to my own organizations) are not only encouraged, but indeed required by the Executive Board to identify and report on important governance issues. Although the mandate of

namely how to best fight corruption. Here the paper also advances an important proposition, namely that in the long run the most effective approach is through macroeconomic and structural reforms. Dr. Abed wisely advises that two other approaches (*administrative und legal reforms* and *moral suasion*) are to be seen as complementary to the *reform-based* approach. Although I fundamentally agree with that synergy, I personally feel more strongly that, at least the first approach, is really ineffective and in many cases serves as lip service for the lack of political will to address the fundamental causes of corruption.

Permit me, Mr. Chairman, to cite an anecdotal example of what I have just said. To understand this better, and also for the sake of the interpreters, I am going to ask the audience to remember the following three terms in the next thirty seconds: "anti-corruption squad", "anti-corruption commission", and "anti-corruption task force". Here, then, is a quote from the Nairobi, Kenya, *Daily Nation* (October 1997):

"The Government this morning formed an anti-corruption squad to look into the conduct of the anti-corruption commission, which has been overseeing the anti-corruption task force, which was earlier set to investigate the affairs of a Government ad-hoc committee, appointed earlier this year to look into the issue of high-level corruption among corrupt Government Officers"²

Although this is clearly an extreme example, it certainly corroborates the view that simple pronouncements to combat corruption are not likely to produce any visible results.

I would now like to ask Dr. Abed two questions regarding the paper:

The first is related to the main thesis, namely the *economic effects of corruption*: While Dr. Abed's evidence appears compelling, one must admit that in many countries there is a certain ambivalence about corruption. A commonly held view is that corruption merely oils the wheels of commerce, and without it, there would be few transactions and little growth. The proponents of this view also base their belief on some empirical evidence, in the sense that some countries that rank high in surveys of corruption, also rank high in economic growth. I would be most interested to hear Dr. Abed's views on this apparent paradox.

the IMF staff is still limited in this area, and its involvement is circumscribed by economic considerations alone, IMF missions are required to raise specific issues both with the authorities and bilateral donors and other multilateral agencies. The IMF is also committed to providing technical assistance to member countries on all aspects of economic policy that may improve governance, such as budget management and control, tax and customs administration, foreign exchange laws and regulations, and statistical systems and dissemination practices".

² Quoted in Daniel Kaufmann, "Handout for Workshop Presentation on Corruption", the World Bank, November 25, 1997.

The second question is related to the *methodological pitfalls of the surveys*: This question is indirectly related to the above paradox. How certain can we be about the robustness of those surveys? Are the indices compiled by the different groups usually consistent with each other? How does one avoid the obvious moral hazard problem in the responses of businessmen or others dealing directly with corrupt officials? I would very much like to hear Dr. Abed's views, if we have the time to expand a little bit on this issue.

In conclusion, Mr. Chairman, I found this a fascinating paper with important policy implications. For those of us who work in operational departments of the IMF, I am sure that the results of the paper would facilitate our dialogue with the authorities and would enhance our position about the importance of structural and institutional reforms.

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