

Are the Monitors Over-Monitored?  
Corruption in Lending

*Discussion by*  
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## Under-researched topics in corruption

- The role of middlemen
- The psychology of self-rationalizations
- Wages and corruption
- Impact of media exposure
- [When] is corruption efficient?

## When is corruption relatively efficient?

- Bargaining frictions
- Excessive regulation requires 'grease'
- Excessive monitoring costs to reduce corruption

## Crown agents in Mozambique – An inefficiently honest bureaucracy?

- Mozambique outsources customs administration to Crown Agents
- “[The] short-term effect of the reform program was a slowdown in clearance procedures as guidelines were strictly followed for the first time.” (World Bank report)
- “For everything we import, we have to fill out a dozen forms in triplicate. This is fine for big companies, but it’s killing us.” (Small furniture manufacturer)

# Banks in India – An inefficiently monitored bureaucracy?

- “It’s like the sword of Damocles hanging over my head”
- “This leads us to the main causes of banking losses in India, namely corruption, a slow legal process and government meddling.” (Asia Times)

## Corruption in India: Too much or too little?

	Does corruption produce unsafe drivers?	Are bank monitors over-monitored?
Cost of corruption	<b>Lower driving test scores</b>	Inefficient loan allocation
Benefit of corruption	More people get licenses	<b>More loans in high return economy</b>
Net effect	?	?

## A more comprehensive CBA?

- Can we calibrate the overall deterrence effects of bribe cases?
- Overall cross-sectional profitability is poorly identified
- What then *can* we say about bank monitoring efficiency?

## Some casual theory: Cross-sectional differences in the impact of corruption crackdowns

- **Low versus high NPL branches**  
If 'efficient' we should see a lesser decline in 'good' branches?  
(one versus many bad apples)
- **Bank Officer-specific effects**  
Do 'good' loan officers also reduce lending?
- **Size versus number of loans**  
Seems that 'good' margin should be along number rather than  
size of loans
- **Two-stage measure**  
Reduction in classes of loans prone to corruption?

## A final complication: Who searches for bad apples?

- How are investigations triggered?
  - Non-performing loans (Table 9)
- What is the cross-sectional variation like?
  - Are there any investigations in ‘bad’ branches?
- Not all corruption cases are created equal

# Conclusions

- Very interesting contribution to the million dollar question: Measuring efficiency of corruption
- Title/question is perhaps too ambitious
- Cross-sectional comparisons of differential monitoring rates and differential responses to corruption cases may be illuminating...but unlikely to be the last word