

# **Battling India's malaise of Corruption**

## **Address to the India CEO Forum**

**Organised by International Market Assessment India Pvt. Ltd.**

### **STATUS OF CORRUPTION IN INDIA:**

1. There is no denying the fact that there is widespread corruption in India. Petty corruption which affects the basic rights and services of the common man is highly rampant besides the grand corruption scandals which break out every now and then. A report on bribery in India published by *Trace International* in January, 09 states that
  - 91% of the bribes were demanded by govt. officials.
  - 77% of the bribes demanded were for avoiding harm rather than to gain any advantage.
  - Of these 51% were for timely delivery of services to which the individual was already entitled. Example, clearing customs or getting a telephone connection.
  
2. Indian economy is 6<sup>th</sup> largest in the world and it fares pretty well in some of the global competitive indices. In terms of the strength of the financial institution, business sophistication and innovation, we are among the first 30 countries in the world, while in terms of corruption we are ranked 85<sup>th</sup> by the Corruption Perception Index of Transparency International. That means half of the countries of the world are less corrupt than India. The Transparency International's Bribe Payer Index for 2008 ranks India in very poor position - 19<sup>th</sup> among 22 countries. This means that Indian firms are perceived by international business as highly likely to engage in bribery when doing business abroad. Most of the corruption as

well as governance indicators show that there is little change in India's position over the years.

### **IMPACT OF CORRUPTION:**

3. Corruption is a serious economic issue as it adversely affects the country's economic development and achievement of developmental goals. It promotes inefficiencies in utilisation of resources, distorts the markets, compromises quality, destroys the environment and of late has become a serious threat to national security. It adds to the deprivation of the poor and weaker sections of the economy.
  
4. Various attempts have been made to indicate the impact of corruption in quantitative terms. Some estimates show that govt. loses about Rs. 2 lakh crores annually due to tax evasion while about Rs. 40,000 crores is lost due to delay in projects. Transmission and distribution losses in the Power Sector are estimated to be about 50%, out of which about 30% is attributed to theft in connivance with the Electricity Boards employees. According to one estimate if corruption was not there, the Public Sector Enterprises would have improved their profit margin by almost 20%. According to a corruption economist (Mauro) if corruption in India is reduced to the level of the Scandinavian countries, then investment would rise by 12% annually and GDP would grow at an additional 1.5%.

### **CAUSES OF CORRUPTION:**

5. The important causes of corruption in India are poor regulatory framework, exclusivist process of decision making aggravated by discretion and official secrecy, rigid bureaucratic structures and processes; and absence of effective internal control mechanism. Social acceptability and tolerance for corruption and absence of a

formal system of inculcating the values of ethics and integrity further propagates corruption.

6. Significant levels of corruption exist in India despite the existence of a relatively strong governance structure, institutions, legal framework and policies. The anti-corruption laws and institutions coupled with a strong oversight system consisting of the CVC, CAG and the CIC have been well acknowledged. The problem lies in implementation and there is a huge gap between the policies and practice.
7. Public procurement is an activity highly prone to corruption and which has serious impact on the industry as well as the market. According to World Bank estimate, the average bribe to obtain a public contract is estimated at 15% of the contract value. The CVC therefore maintains a high focus in this area.

**ANTI-CORRUPTION EFFORTS UNDERTAKEN:**

8. The Central Vigilance Commission though created in 1964, became an independent statutory body only in 2003 by an Act of parliament based on a judgement of the supreme court. Its mandate is to oversee the vigilance administration and to advice and assist the executive in matters relating to corruption. It investigates cases of corruption arising out of complaints or detection by vigilance wings in the various departments and recommends punishment wherever required. It is then for the executive to punish the individual official.

Anti-corruption efforts were so far focussed only on enforcement wherein it was assumed that strict enforcement of anti-corruption laws and punishing the corrupt public servants will have a serious deterrent effect. This approach has not been effective because of the cumbersome process involved in punishing the errant and the

deterrent effect is lost due to delay and dilution of punishment. Therefore having realised the shortcoming of an enforcement focussed strategy, the Central Vigilance Commission is now proposing to lay greater emphasis on prevention and education and generation of awareness among the people as a more effective and sustainable means of fighting corruption. We plan to develop a sound preventive vigilance framework which would enable organisations to assess the risk of corruption and take steps to correct the policies, procedures and systems and strengthen their internal controls to eliminate the scope for corruption in the first place.

9. One of the preventive strategies successfully deployed by the CVC is the leveraging of technology to combat corruption, by persuading organisations to adopt IT and automate the activities and process vulnerable to corruption. The results of this exercise have been encouraging and our efforts been internationally recognised.
10. An important requirement for the success of anti-corruption efforts is that it should be participative i.e. involve all the stakeholders and establish coordination among all agencies fighting corruption. These elements have been lacking so far.

#### **ROLE OF PRIVATE SECTOR IN FIGHTING CORRUPTION:**

11. Anti-corruption efforts in India have been largely focussed on the Public Sector which is called the “demand side” in the parlance of corruption economics. The private sector which forms the “supply side”, which actually pays the bribes, has been largely ignored. The supply side theories often put the onus of fighting corruption on the private sector. It states that firms pay bribes primarily for overcoming their shortcomings in terms of - poor quality of their product/service, high price of their product or to create a market for their goods which otherwise are not in demand. Thus they pay

bribe to stay in competition despite these handicaps or to avoid true and fair competition. Corruption is the anti-thesis of a free, fair, competitive and efficient market, as it distorts the objectivity, transparency and fairplay in the market. It may therefore be argued that business entities are obliged to maintain integrity in order to maintain the efficiency and sanctity of the market. It would be self destructive to distort the very market on which they are dependent for their existence. Therefore the theory X of corruption economics advocates that given an opportunity and if the fears of the private sector are allayed, they will at all cost stand up against corruption. It is this thinking that has given rise to instruments like Code of Conduct and Integrity Pact through which we try to involve the private sector in fighting corruption.

12. International efforts have equally focused on tackling the “supply side” of corruption and most of the countries have either formulated their own Foreign Corrupt Practices Act or are signatories to Anti-Bribery Conventions. Therefore international pressure is building up on countries to formulate laws and take action against the private business in their countries who attempt to bribe foreign governments to obtain contracts. This is aimed at achieving fairplay and competitiveness in international business. International economic and financial organisations are strongly pursuing this. As Indian companies are becoming globally competitive, we may sooner or later have to address these concerns.

**At the end I wish to assure you that the CVC is deeply committed to combating corruption and in this fight we are continuously trying to hone our skills, build our capacity, find innovative solutions to prevent corruption, receptive to global best practices and integrate the expectation of all the stake holders.**

1. Battling India's malaise of Corruption Address to the India CEO Forum  
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3. Convocation Address of CVC at Asia-Pacific Institute of Management

3. Launching of the Journal of Governance Address by CVC