



## CASHLESS POLICY & IMPACT ON CORRUPTION: WITH RESPECT TO INDIA

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### **Abstract**

*This paper studied the relation between cashless economy and its impact on corruption in India. Corruption has been identified as a complex, common, and multi-layered problem that pressure the Indian economy and various efforts have been made by Indian government to curb the threat. A cashless policy was recently initiated with the demonetization decision to curb corruption among other objectives.*

*This study therefore assessed the perceptions of stakeholders regarding cashless policy on the different types of corruption that can be reduced & examined effectiveness of the policy in curbing corruption; and identified vital success factors for effective implementation of the policy. Primary and secondary data were sourced for this study. Primary data were sourced through the administration of structured questionnaire to 100 randomly selected respondents from the General public, customers, bankers, government officials, academics & students. Secondary data were sourced through websites, published articles.*

**Keywords:** *Cashless economy, Cashless policy, Corruption.*

### **Introduction**

Cashless economy is an economy where transaction can be done without necessarily carrying physical cash as a means of exchange of transaction but rather with the use of credit or debit card, cheque, online banking payment for goods and services.

Corruption is an observable fact that has existed throughout the ages; ancient civilizations have traces of wide spread corruption and illegality. It has become the one of the biggest problem for the government and the citizen of the country. Studies show that corruption- n slows growth, impairs capital accumulation, reduces the effectiveness of development and, and increase income inequality and power (Pathak, Singh, Belwal, Naz, & Smith, 2003).

Theoretically, corruption is a form of behavior that departs from ethics, morality, tradition, law, and civic virtue (United Nation on Drugs and Crime, 2005). It includes both monetary and non-monetary benefits. It is seen as a cancer that eats the social, political and economic fabrics of development and requires the involvement of every citizen to combat it (Bitarabeh, 2003). The World Bank and Transparency International view corruption as the use of one's public position for illegitimate private gains. It is also defined as the behavior of private individuals or public officials who deviate from set responsibilities and use their position of power in order to serve private ends and secure private gains.

Not astonishingly therefore, there has been a rising global movement to fight against corruption. In addition, many governments have dedicated substantial resources and energy to fighting corruption.

**Corruption in India** is an issue that unfavorably affects its economy. The country owes its diminutive development largely to the uncontrolled corruption. A study conducted by the Transparency International in 2005 shows that more than 62% of Indians had a firsthand experience of paying bribes or influence peddling to get jobs done in public offices successfully. In a study conducted in 2008, Transparency International reported that about 40% of Indians had firsthand experience of paying bribes or using contacts to get jobs done in public offices. In 2015, India was ranked 76th out of 168 countries in Transparency International's Corruption Perceptions Index.

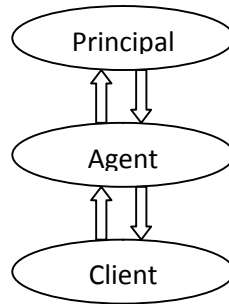
### **Review of Literature**

#### **Corruption**

**Corruption** is a form of dishonest or unethical conduct by a person entrusted with a position of authority, often to acquire personal benefit. Corruption may include many activities including bribery and embezzlement, though it may also involve practices that are legal in many countries. Government, or 'political', corruption occurs when an office-holder or other governmental employee acts in an official capacity for personal gain. It is considered as a dynamic and complex social phenomenon given its changing meanings, manifestations, proliferations, and perceived impacts. The most popular and simplest definition is the one given by the World Bank that "it is the abuse of public power for private benefit (World Bank, 2004). Corruption manifests itself in many forms which include fraud, embezzlement, bribery, favoritism, extortion, abuse of discretion, and conflict of interest (United Nations office of Drug Control and Crime Prevention, 2005).



Klitgaard (1988) provided a classical analysis of corruption by pointing out that acts of corruption involve three parties namely the principal, agent, and the client. The principal creates rules directed at assigning task to the agent and these rules were intended to regulate exchange with the client. However, a conflict of interest may arise between the principal and agent when each of the two actors is maximizing utility. A client may also provide opportunity for the agent to cheat. Consequently, corruption will take place when the agent colludes with the client to sideline the rules set up by the principal for personal aggrandizement.



There is disagreement about whether corruption is perceived similarly in different societies and at different era in the same society and in this regard, there are various schools of thought on how corruption should be conceptualized (Habtemichael, 2009). The Relativist school of thought contend that what is corrupt in one society may not be so in another, hence, the definition of corruption will depend on the country and culture in question.

Corruption has been variously categorized, the most important categories being petty corruption, grand corruption, and systemic corruption. Petty corruption, also known as administrative or bureaucratic corruption relate to tips, commissions or kickbacks that are usually demanded by junior officers in the public sector from the public in exchange for official services to be rendered. Grand or political corruption refers to the behavior of elected officials, including politicians, paying bribes to award contracts and influence elections, and using their position to provide patronage. Systemic corruption refers to a wholly corrupt system. It pervades the entire society and in the process become routinised and accepted as a means of conducting everyday transactions. It is entrenched corruption which affects institutions and influences individual behavior at all levels of a political and socio-economic system, and tends to be monopolistic, organized and difficult to avoid.

**The causes of corruption in India** include excessive regulations, complicated tax and licensing systems, numerous government departments each with opaque bureaucracy and discretionary powers, monopoly of government controlled institutions on certain goods and services delivery, and the lack of transparent laws and processes. There is significant variation in the level of corruption and in the government's efforts to reduce corruption across India.

There is a widespread consensus in the literature about the causes of corruption, however, because of its complex nature; some of the causes of corruption.

- **Cash-Based Economy**
- **Lack of Enough Powers to the judicial System** and other independent organization.
- **Lack of Transparency in Affairs and Deals:** Many seat selection processes like in education, contracts for job, employee income reports (wealth possession), etc lack transparency. For this purpose, there is a new act namely RTI: right to information, but the act is not strong enough to prevent malpractices.
- **Encouragement of Unhealthy Competition:** Competition in business is a good sign for quality of service to be delivered. But in India there is encouragement of unhealthy competition. When there is a tender, you can notice that only few companies bid for it. This is because the companies having political relations have higher chances of winning while others do not. So, companies with no political influence will not bid for the tender in spite of being a good company. That is here the number of bidders for a tender will be low due to political interference.
- **Lack of Accountability:** In government there is a big trend of corruption. This is because of lack of accountability. The employee's on government offices do not perform to their par excellence.
- **Lack of ill Fame:** If a person is found to be corrupt or has done some unacceptable misconduct, he or she has to be avoided and not be respected. But in India those with corruption and other offense related history are given prominent positions like the Member of Parliament or even higher posts. Instead of being disrespected they are respected.



- **Lack of Strict and Fast Punishments:** Even if someone is found guilty or even caught red-handed by the anti-corruption officials or media, the convicts get less punishment. First they will be suspended for few months or weeks and then re-posted to another location with same Job grade and pay.
- **Low Pay scales/ Wages:** Most of the employees in government sector are paid low wages and salaries. Hence some employees revert to corruption for more financial benefits.
- **Low Job Opportunities:** This is another cause of corruption. Due to lack of job opportunities at will, there are many people who like to go for corruption mode to get the job offer. They will be ready to pay lump sum amounts for the job offer to the higher officials or politicians.

### India's Move to a Cashless

Indian government has also taken step to fight with the corruption the decision taken by the Prime Minister Mr.Narendra Modi of Demonetization step on 8th November, 2016, The government claimed that the action would curtail the shadow economy and crack down on the use of illicit and counterfeit cash to fund illegal activity and terrorism. Finance Minister Arun Jaitley said that demonetization would clean the complete economic system, increase the size of economy and revenue base. He mentioned the demonetization along with the impending Goods and Services Tax (GST) as "an attempt to change the spending habit and lifestyle.

On the occasion of a completion of a month of the demonetization process of Rs 500 and Rs 1,000 currency notes, Finance Minister Arun Jaitley sought to persuade citizens towards digital transactions by announcing a slew of steps from cheaper fuel to travel insurance on railway tickets bought online.

"We need to slowly cut out cash transactions and implement cashless economy, Dealing in cash has economic costs, so the government is promoting payment by credit, debit cards and e-wallets," Jaitley said at a press conference in New Delhi.

### Here are the 10 key Points of Jaitley's Digital Push Announcements

- Announces 0.75 percent discount for people buying petrol, diesel via digital payment platforms. A total of 4.5 crore consumers buy petrol and diesel worth Rs 1,800 crore daily. In one month, digital payments have doubled to 40 percent. He said that the government expects fuel transactions worth Rs 2 lakh crore being carried out via digital mode.
- Effective 1 January 2017, 0.5 percent discount would be available for people buying monthly seasonal tickets in the suburban railway networks through digital payment mode, starting from the Mumbai suburban railways.
- Insurance cover worth Rs 10 lakh for travelers who book railway tickets through digital mode
- A discount of 5 percent for transactions on digital payment mode for railway facilities like catering, retiring rooms has also been announced by the Union finance minister.
- Buying general, life insurance policies from the websites of public sector insurance firms and using the same for paying premium would attract discounts of 10 percent and 8 percent respectively
- NABARD will give Rupay card to people who possess Kisan Credit Card
- Seeking to expedite the digital switchover, the government has decided to provide two point-of-sales machines each to villages with and over 10,000 populations. A total of one lakh villages will be selected for the purpose across the country.
- A 10 percent discount on digital payments for RFID or fastags for highway toll has also been made.
- In order to ensure government departments and public sector enterprises go on a cashless path, the Merchant Discount Rate will not be borne by customers for public dealings
- Public sector banks are advised that merchant should not be required to pay more than Rs 100 per month as monthly rental for PoS terminals/Micro ATMs/mobile POS from the merchants to bring small merchant on board the digital payment ecosystem.

The system is targeted at encouraging electronic means of making payments, and not aimed at discouraging cash holdings. What is anticipated by the policy is that instead of making large withdrawals to effect payment for goods and services, such money will be kept in the banking system so that payments are made through electronic means. Some of the ways transactions will be consummated under the new dispensation include the following: **(i) Automated Teller Machine (ATM):** ATMs can be used for balance enquiry, cash withdrawal, cash deposit, funds transfer and bill payment; **(ii) Mobile Banking/Payments:** banking can be conducted from the convenience of mobile phones. It can be used for balance enquiry, funds transfer, and bills payment; **(iii) Internet Banking:** Instant balance enquiry, funds transfer, and other transactions can be made. Most banks require their customers to have a token device for internet banking services. This is to give maximum security for internet banking applications; **(iv) Point-of-Sale (POS) Terminals:** POS terminals allow customers to receive



card payments for sale of products and services. It also allows customers to make commission from sales of third party products and services (e.g., recharge cards, bill payments, etc); **(v) Electronic Funds Transfer:** Money can be transferred electronically from one account to another.

The ultimate object of the cashless policy is the achievement of the cashless or cashlite economy. A cashless economy is simply at its prime when all means of payments are carried out without the use of physical cash. It does not refer to an outright absence of cash transactions in the economy setting but one in which the amount of cash-based transactions are kept to the barest minimum while other forms of payment, especially electronic based payments are utilized. In a cashless economy, the amount of cash with an individual is immaterial as payments can be made by any of an overabundance of credit cards or bank transfer.

The cashless society envisioned and discussed herewith refers to the widespread application of computer technology in the financial system. Some aspects of the execution of the cashless economy are enhanced by e-finance, e-money, e-brokering and e-exchanges. These all refer to how transactions and payments are effected in a cashless economy.

Two factors make the shift to a cashless society possible: the first is the availability of proven technology: telecommunication networks, which are crucial for authorizing the cashless payments as well as clearing and settlement, are becoming much more effective. Both fixed-line telephone and wireless networks can convey not only voice, but data or even images that allow people to make and authorize their payments online in real time. With the advent of wireless technology, people can now make their payments any place at any time. The second factor is customers' need for more efficient payment instruments. Customers are now more demanding and sophisticated. They need better services at lower prices. These two trends are significantly altering the payments market.

#### **View to Curbing the Menace of Corruption**

Though the potential for controlling corruption by means of cashless economy may be possible, it does not work in isolation from other anti-corruption systems. Cashless policy does not work magic in a corrupt environment; they are only as good as the people who utilize them-without integrity, cashless policy is incapable of controlling corruption. There is no anti-corruption silver bullet and no single best way to deal with corruption. If an anti-corruption strategy is to be viable, it must be designed as a multi-pronged endeavor that includes a set of complex measures in different spheres of society.

Thus, cashless economy will not bring any tangible results in the anti-corruption effort unless it is accompanied by other measures, some of which are as discussed below:

#### **(i) Good Governance (including e-governance)**

More open and representative governing systems that allow for a high level of civic participation typically have more vibrant civil society organizations that can publicly reveal the abuses of corrupt officials and put their political futures at risk. The next revolution in public management is e-governance, which is expected to alter methods of service delivery and may bring about a basic relationship between and citizens at large and is currently taking place the world over at varying degrees. It has been discovered that e-governance is a system that helps to fight corruption through increased transparency in conducting public/private affairs.

#### **(ii) Transparency and Accountability**

Secrecy and the failure to disclose information facilitates corrupt activities and its concealment. It also enables poor governance to be concealed which in itself will promote corruption. Consequently, transparency and accountability are important anti-corruption tools. To institute accountability and transparency in government, both internal and external pressure is needed. Accountability must be generated by a combination of political will from the top and public pressure from the base. Improving accountability entails efforts to improve both the detection and sanctioning of corrupt acts. Better detection requires measures to improve transparency and oversight while better sanctioning involves establishing criminal and administrative sanctions

#### **(iii) Legislative Oversight**

Legislative oversight provides a powerful check on executive authority, enhancing accountability where a dominant executive branch might otherwise operate with impunity. For instance, recent amendments to legislation in some countries have directed the anti-corruption commission and the Inspector-General of Police, respectively, to report to Parliament rather than the Head of State;



**(v) Judicial Reforms**

Accountability requires not just establishing sanctions, but enforcing them on an impartial basis. Without enforcement, tough laws have no impact on reducing corruption, and may foster general cynicism about reform efforts. The Judiciary needs independence from the executive branch as well as institutional capacity. Strengthening judicial independence involves revising procedures for appointing, assigning, remunerating, and removing judges and prosecutors to insulate them from political influence. Strengthening the institutional capacity of the judiciary involve modernizing court systems, to facilitate swift and fair procedures. This can be done by improving legal training, establishing codes of conduct for judges, attorneys, clerks and litigants;

**(vi) Civil Service Reform**

Reforming the civil service is a major element of virtually every national anti-corruption strategy. Critical elements of public sector reforms will generally address individual factors, collective factors and systemic factors. For instance, better training and remuneration are intended to change individual behaviors’ by reducing the incentives to engage in corrupt behaviors. Systemic reforms such as reduction of discretion and the de-layering or streamlining of overly-complex bureaucratic structures are intended to combat corruption by improving transparency and reducing the opportunities for corruption to occur. To be effective against corruption, reforms at different levels of government must be developed and integrated. „Top-down” reforms developed for central government institutions take longest time to reach local governments; however, it is the reform of local government institutions, delivering basic services that will make the greatest difference for the average citizens. Failure to deal with corruption at all levels in a co-ordinate manner may result in reforms that are only partly effective as we have seen over the years.

**(vii) Societal Reform**

Efforts to fight corruption include societal reforms to change attitudes toward formal political processes and to mobilize political will for change. Societal reforms generate new information about the costs and causes of corruption to stimulate demand for change and provide guidance on what to change;

**(viii) Promoting Ethical Principles**

Monitoring and enforcing anti-corruption laws are expensive and the compliance process must be supplemented by codes of conduct from trade and professional associations. The development of codes of conduct can control the acceptance of gifts and misuse of entrusted property. Various anti-corruption initiatives are not sufficient unless coupled with ethical theory to fight corruption, that is, there is a need to add the ethical dimension to the fight against corruption; (viii) Effective and Appropriate Sanctions: Applying sanctions to corrupt acts is an important step toward establishing accountability. Sanctions should be centered on legislation to criminalize corruption. In some countries, penal codes allow prosecution not only for direct evidence of corruption but also for possessing wealth and income that cannot be traced to lawful activities.

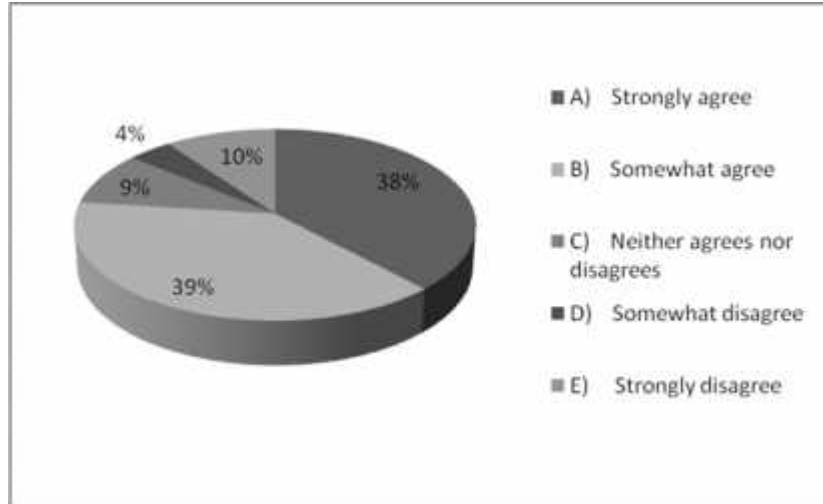
**Research Methodology**

This study assessed the perceptions of stakeholders on the effect of cashless policy of government on corruption in India. Primary and secondary data were sourced for this study Primary and secondary data were sourced for this study. Primary data were sourced through the administration of structured questionnaire to 100 randomly selected respondents from the General public, customers, bankers, government officials, academics & students. Secondary data were sourced through websites, published articles. The questionnaire consisted of two parts, the first part elicited information on the demographic characteristics of the respondents while the second part elicited information on the perceptions of the respondents on the types of corruption that can be reduced by the cashless policy; the effectiveness of the cashless policy in curbing corruption; and the critical success factors for effective implementation of the policy. Secondary data were sourced through library research

**Analysis of Findings**

1. Do you think cashless policy will reduce the corruption?

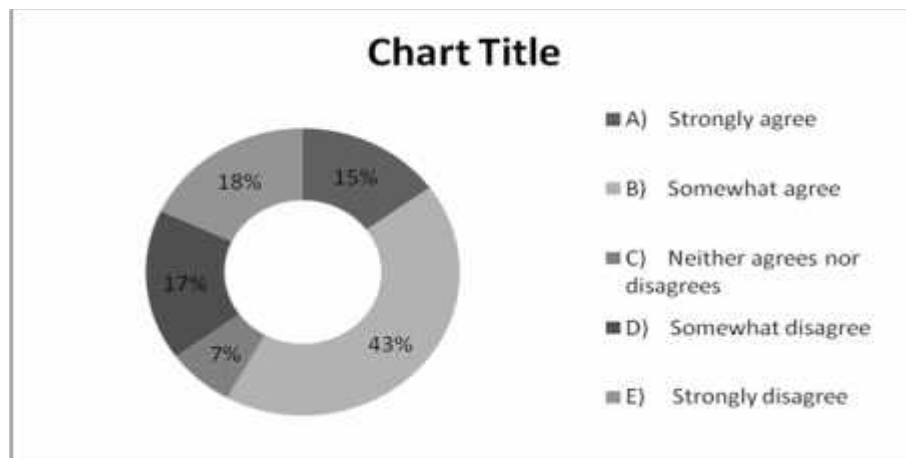
Table1	
A) Strongly agree	38
B) Somewhat agree	39
C) Neither agrees nor disagrees	9
D) Somewhat disagree	4
E) Strongly disagree	10
Total	100



**Interpretation:** With respect to curbing the corruption through cashless policy 39% respondent affirmed that somewhat agree, 38% strongly agree 10% disagree & 9% neither agrees nor disagrees

2. Do you think India is ready for cash less policy?

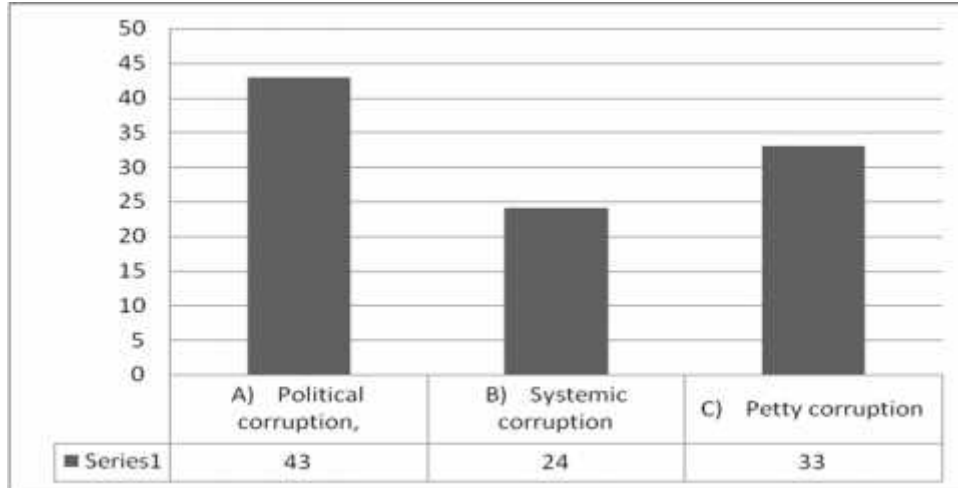
Response	Count
A) Strongly agree	15
B) Somewhat agree	43
C) Neither agrees nor disagrees	7
D) Somewhat disagree	17
E) Strongly disagree	18
Total	100



**Interpretation:** With respect to readiness of India to cashless economy 43% of respondent somewhat agree they think still improvement in the system is required to adopt the policy. 17% says somewhat disagree & 18% strongly disagree looking at the digital literacy in India.

3. Types of corruption that can be reduced by the cashless policy of Government

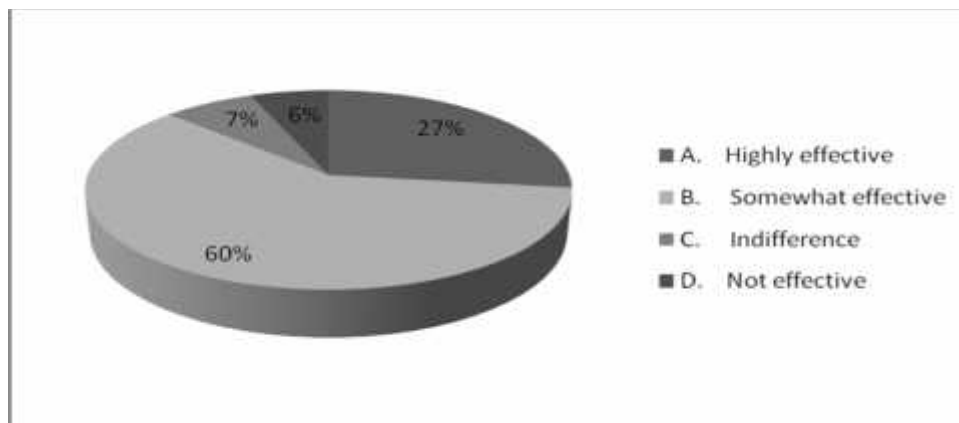
Response	Count
A) Political corruption,	43
B) Systemic corruption	24
C) Petty corruption	33
Total	100



**Interpretation:** Given the fact that corruption can be broadly categorized into petty, political, and systemic corruption, respondents were asked to identify the types of corruption that can be reduced by the cashless policy 43% of the respondents affirmed that cashless policy can reduce Political corruption in the society, 33% says petty corruption can be reduced & 24 % systemic corruption.

#### 4. Effectiveness of cashless policy in curbing corruption

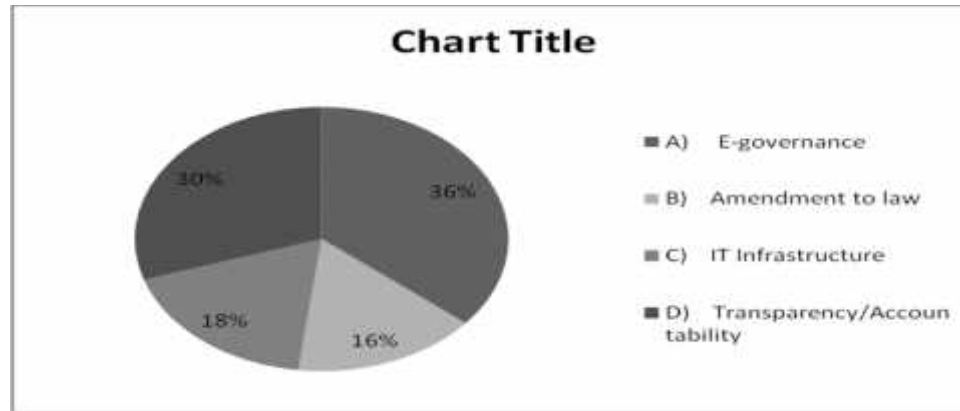
A. Highly effective	27
B. Somewhat effective	60
C. Indifference	7
D. Not effective	6
Total	100



**Interpretation:** With respect to the effectiveness of the cashless policy in curbing corruption, 60% of the respondents affirmed that the policy is somewhat in curbing corruption while 27% says highly effective.

#### 5. Critical success factors for effective implementation of the cashless policy

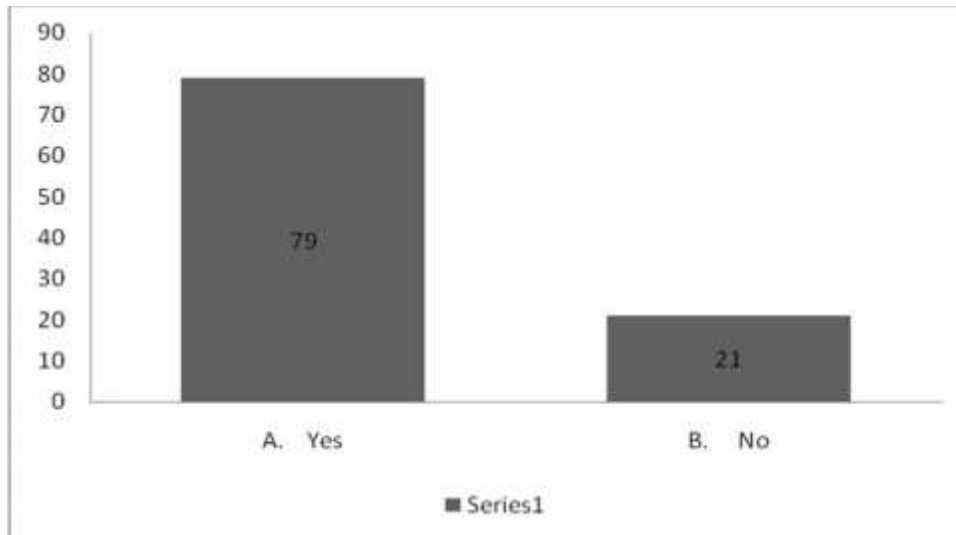
A) E-governance	36
B) Amendment to law	16
C) IT Infrastructure	18
D) Transparency/Accountability	30
Total	100



**Interpretation:** The cashless policy cannot work in isolation from other anti-corruption systems, it cannot work magic in a corrupt environment, and it is only as effective as the people who utilize them. Consequently, respondents were asked to identify critical success factors for effective implementation of the cashless policy. 36% & 30% percents of the respondents rated electronic governance and transparency/accountability as the two most important critical success factors for effective implementation of the cashless policy

6. Do you think cashless policy will lead to other type of corruption like crony capitalism?

Response	Count
A) Yes	79
B) No	21
Total	100



**Interpretation:** With respect to the leading to other type of corruption like crony capitalism from cashless policy 79% of the respondent affirmed that it will lead to other type of corruption & 21% says no.

**Conclusion**

The study assesses the effect of the cashless policy of government to curb the corruption in India can be very successful when E-governance & Transparency/Accountability is very strong. To make cash less policy successful government should start programmes to literate citizen of India on “Digital Literacy”.

To make cashless policy more effective some of the measures to be taken discussed like Good governance (including e-governance), Transparency and Accountability, Legislative Oversight: Judicial Reforms Civil Service Reform, Societal Reform & Promoting Ethical Principles.





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