



A STUDY ON THE PROBLEM OF CORRUPTION IN INDIA

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Abstract

Corruption in India is an issue that adversely affects its economy. More than 62% of Indians had a first hand experience of paying bribes or influence peddling to get jobs done in public offices. (A study conducted by the Transparency International in 2005) and in a study conducted in 2008, Transparency International reported that about 40% of Indians had first hand experience of paying bribes or using contacts to get jobs done in public offices. The overall objective of the study is to examine the problem of corruption in India. The specific objectives of the study are :to examine the problem of corruption in various states of Indian economy,. to examine the Indian black money in Switzerland, to examine the domestic black money, to examine the anti-corruption laws in India, to examine the anti-corruption police and courts, to examine the civic anti-corruption organisations, to examine the factors contributing to corruption in India, to examine the impact of corruption.

Key words: *Corruption, black money, anti-corruption laws, prevention of corruption act, Indian penal code.*

Introduction

Corruption in India is an issue that adversely affects its economy. More than 62% of Indians had a first hand experience of paying bribes or influence peddling to get jobs done in public offices successfully. (A study conducted by the Transparency International in 2005) and in a study conducted in 2008, Transparency International reports that about 40% of Indians had firsthand experience of paying bribes or using contacts to get jobs done in public offices.

The Methodology

The overall objective of the study
To examine the problem of corruption in India.

The specific objective of the study

1. To examine the problem of corruption in various states of Indian economy.
2. To examine the Indian black money in Switzerland
3. To examine the domestic black money
4. To examine the anti-corruption laws in India
5. To examine the anti-corruption police and courts
6. To examine the civic anti-corruption organisations
7. To examine the factors contributing to corruption in India
8. To examine the impact of corruption.

Nature and source of data

The study made with the help of secondary data and information obtained through journals,reports, and internet.

Analysis of the results

During 2015, India was ranked 76th out of 168 countries in Transparency International's Corruption Perceptions Index, compared to its neighbours Bhutan (27th), Bangladesh (139th), Myanmar (156th), China (83rd), Nepal (130th), Pakistan (117th) and Sri Lanka (84rd). The largest contributors to the corruption are entitlement programmes and social spending schemes enacted by the Indian government. Examples include Mahatma Gandhi National Rural Employment Guarantee Act and National Rural Health Mission, Other sources of corruption include India's trucking industry which is forced to pay billions of rupees in bribes annually to numerous regulatory and police stops on its interstate highway.

It is clear from the secondary data and information that the media has widely published allegations of corrupt Indian citizens keeping millions of rupees in Swiss banks. Swiss authorities, however, have denied these allegations, which has now been proven in 2015-2016. The Indian media is mainly owned by corrupt politicians and industrialists who also play a major role in most of these scams, thus misleading public with wrong information and using media for mud-slinging their political and business opponents.

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.

State	1990-95	1996-00	2001-05	2006-10
Bihar	0.41	0.30	0.43	0.88
Gujarat	0.48	0.57	0.64	0.69
Andhra Pradesh	0.53	0.73	0.55	0.61
Punjab	0.32	0.46	0.46	0.60
Jammu &Kashmir	0.13	0.32	0.17	0.40
Haryana	0.33	0.60	0.31	0.37
Himachal Pradesh	0.26	0.60	0.23	0.35
Tamil Nadu	0.19	0.20	0.24	0.29
Madhya Pradesh	0.23	0.22	0.31	0.29
Karnataka	0.24	0.19	0.20	0.29
Rajasthan	0.27	0.23	0.26	0.27
Kerala	0.16	20	22	0.27
Maharashtra	0.45	0.29	0.27	0.26
Uttar Pradesh	0.11	0.11	0.16	0.21
Odisha	0.22	0.16	0.15	0.19
Assam	0.21	0.02	0.14	0.17
West Bengal	0.11	0.08	0.03	0.01

The above table indicate the corruption in various states.

Black money refers to money that is not fully or legitimately the property of the 'owner'. A white paper on black money in India by the Government of India suggests two possible sources of black money in India. The first includes activities not permitted by the law, such as crime, drug trade, terrorism, and corruption, all of which are illegal in India. The second, more likely source is that the wealth may have been generated through a lawful activity but accumulated by failing to declare income and pay taxes. Some of this black money ends up in illicit financial flows across international borders, such as deposits in tax haven countries.

A November 2010 report from the Washington-based Global Financial Integrity estimates that over a 60-year period, India lost US\$213 billion in illicit financial flows beginning in 1948; adjusted for inflation, this is estimated to be \$462 billion in 2010, or about \$8 billion per year (\$7 per capita per year). The report also estimated the size of India's underground economy at approximately US\$640 billion at the end of 2008 or roughly 50% of the nation's GDP.

Indian black money in Switzerland

India was ranked 37th by money held by its citizens in Swiss banks in 2004 but then improved its ranking by slipping to 61st position in 2015 and further improved its position by slipping to 75th position in 2016. According to a 2010 The Hindu article, unofficial estimates indicate that Indians had over US\$1,456 billion in black money stored in Swiss banks (approximately US\$1.4 trillion). While some news reports claimed that data provided by the Swiss Banking Association¹ Report (2006) showed India has more black money than the rest of the world combined a more recent report quoted the SBA's Head of International Communications as saying that no such official Swiss Banking Association statistics exist.

Another report said that Indian-owned Swiss bank account assets are worth 13 times the country's national debt. These allegations have been denied by Swiss Bankers Association. James Nason of Swiss Bankers Association in an interview about alleged black money from India, holds that "The (black money) figures were rapidly picked up in the Indian media and in Indian opposition circles, and circulated as gospel truth. However, this story was a complete fabrication. The Swiss Bankers Association never published such a report. Anyone claiming to have such figures (for India) should be forced to identify their source and explain the methodology used to produce them."

In a separate study, Dev Kar of Global Financial Integrity concludes, "media reports circulating in India that Indian nationals held around US\$1.4 trillion in illicit external assets are widely off the mark compared to the estimates found by his study." Kar claims the amounts are significantly smaller, only about 1.5% of India's GDP on average per annum basis, between 1948



and 2008. This includes corruption, bribery and kickbacks, criminal activities, trade mispricing and efforts to shelter wealth by Indians from India's tax authorities.

According to a third report, published in May 2012, Swiss National Bank estimates that the total amount of deposits in all Swiss banks, at the end of 2010, by citizens of India were CHF 1.95 billion (92.95 billion (US\$1.4billion)). The Swiss Ministry of External Affairs has confirmed these figures upon request for information by the Indian Ministry of External Affairs. This amount is about 700 fold less than the alleged \$1.4 trillion in some media reports. The report also provided a comparison of the deposits held by Indians and by citizens of other nations in Swiss banks. Total deposits held by citizens of India constitute only 0.13 per cent of the total bank deposits of citizens of all countries. Further, the share of Indians in the total bank deposits of citizens of all countries in Swiss banks has reduced from 0.29 per cent in 2006 to 0.13 per cent in 2010.

Domestic black money

Indian companies are reportedly misusing public trusts for money laundering. India has no centralised repository – like the registrar of companies for corporate – of information on public trusts.

Anti-corruption laws in India

Public servants in India can be penalised for corruption under the

1. Indian Penal Code, 1860
2. Prosecution section of Income Tax Act, 1961
3. The Prevention of Corruption Act, 1988
4. The Benami Transactions (Prohibition) Act, 1988 to prohibit benami transactions.
5. Prevention of Money Laundering Act, 2002

India is also a signatory to the United Nations Convention against Corruption since 2005 (ratified 2011). The Convention covers a wide range of acts of corruption and also proposes certain preventive policies.

The Lokpal and Lokayuktas Act, 2013 which came into force from 16 January 2014, seeks to provide for the establishment of the institution of Lokpal to inquire into allegations of corruption against certain public functionaries in India.

Whistle Blowers Protection Act, 2011, which provides a mechanism to investigate alleged corruption and misuse of power by public servants and also protect anyone who exposes alleged wrongdoing in government bodies, projects and offices, has received the assent of the President of India on 9 May 2014, and (as of 2 August) is pending for notification by the Central Government.

At present there are no legal provisions to check graft in the private sector in India. Government has proposed amendments in existing acts and certain new bills for checking corruption in private sector. Big-ticket corruption is mainly witnessed in the operations of large commercial or corporate entities. In order to prevent bribery on supply side, it is proposed that key managerial personnel of companies' and also the company shall be held liable for offering bribes to gain undue benefits.

The Prevention of Money Laundering Act, 2002 provides that the properties of corrupt public servants shall be confiscated. However, the Government is considering incorporating provisions for confiscation or forfeiture of the property of corrupt public servant in the Prevention of Corruption Act, 1988 to make it more self-contained and comprehensive.

A committee headed by the Chairman of Central Board of Direct Taxes (CBDT), has been constituted to examine ways to strengthen laws to curb generation of black money in India, its illegal transfer abroad and its recovery. The Committee shall examine the existing legal and administrative framework to deal with the menace of generation of black money through illegal means including inter-alia the following: 1. Declaring wealth generated illegally as national asset; 2. Enacting/amending laws to confiscate and recover such assets; and 3. Providing for exemplary punishment against its perpetrators. (Source: 2013 EY report on Bribery & Corruption).

The Companies Act, 2013, contains certain provisions to regulate frauds by corporations, including, increased penalties for frauds, giving more powers to Serious Fraud Investigation Office, mandatory responsibility of auditors to reveal frauds, and increased responsibilities of independent directors. The Companies Act, 2013 also provides for mandatory vigil mechanism which allows directors and employees to report concerns and whistleblower protection mechanism for every listed company and any other companies which accepts deposits from public or has taken loans more than 50 crore rupees from banks and financial institutions. This intended to avoid accounting scandals such as the Satyam scandal which have plagued India. It replaces The Companies Act, 1956 which was proven outmoded in terms of handling 21st century problems.



In 2015, the Parliament passed the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Bill, 2015 to curb and impose penalty on black money hoarded abroad. The Act is pending for assent of the President of India.

Anti-corruption police and courts:

The Directorate General of Income Tax Investigation, Central Vigilance Commission and Central Bureau of Investigation all deal with anti-corruption initiatives. Certain states such as Andhra Pradesh (Anti-Corruption Bureau, Andhra Pradesh) and Karnataka (Lokayukta) also have their own anti-corruption agencies and courts.

Andhra Pradesh's Anti Corruption Bureau (ACB) has launched a large scale investigation in the "cash-for-bail" scam. CBI court judge Talluri Pattabhirama Rao was arrested on 19 June 2012 for taking a bribe to grant bail to former Karnataka Minister Gali Janardhan Reddy, who was allegedly amassing assets disproportionate to his known sources of income. Investigation revealed that India Cements – one of India's largest cement – had been investing in Reddy's businesses in return for government contracts. A case has also been opened against seven other individuals under the Indian Penal Code and the Prevention of Corruption Act.

Civic anti-corruption organisations

A variety of organisations have been created in India to actively fight against corrupt government and business practices. Notable organisations include

1. [Bharat Swabhiman Trust], established by Ramdev, has campaigned against black money and corruption for a decade.
2. 5th Pillar is most known for the creation of the zero rupee note, a valueless note designed to be given to corrupt officials when they request bribes.
3. India against Corruption was a popular movement active during 2011-12 that received much media attention. Among its prominent public faces were Arvind Kejriwal, Kiran Bedi and Anna Hazare. Kejriwal went on to form the Aam Aadmi Party and Hazare established Jan Tantra Morcha.
4. Jaago Re! One Billion Votes was an organisation originally founded by Tata Tea and Janaagraha to increase youth voter registration. They have since expanded their work to include other social issues, including corruption.
5. Association for Social Transparency, Rights and Action (ASTRA) is an NGO focused on grass-roots work to fight corruption in Karnataka.
6. The Lok Satta Movement, has transformed itself from a civil organisation to a full-fledged political party, the Lok Satta Party. The party has fielded candidates in Andhra Pradesh, Tamil Nadu, and Bangalore. In 2009, it obtained its first elected post, when Jayaprakash Narayan won the election for the Kukatpally Assembly Constituency in Andhra Pradesh.

Factors contributing to corruption in India

In a 2011 report on Corruption in India, one of the world's largest audit and compliance firms KPMG notes several causes that encourage corruption in India. The report suggests high taxes and excessive regulation bureaucracy as a major cause. India has high marginal tax rates and numerous regulatory bodies with the power to stop any citizen or business from going about their daily affairs.

This power of Indian authorities to search and question individuals creates opportunities for corrupt public officials to extract bribes - each individual or business decides if the effort required in due process and the cost of delay is worth not paying the bribe demanded. In cases of high taxes, paying off the corrupt official is cheaper than the tax. This, according to the report, is one major cause of corruption in India and 150 other countries across the world. In real estate industry, the high capital gains tax in India encourages large-scale corruption. Moreover, the KPMG report claims that the correlation between high real estate taxes and corruption, is high in India as well as other countries including the developed economies; this correlation has been true in modern times as well as for centuries of human history in numerous cultures.

The desire to pay lower taxes than those demanded by the state explains the demand side of corruption. The net result is that the corrupt officials collect bribes, the government fails to collect taxes for its own budget, and corruption grows. The report suggests regulatory reforms, process simplification and lower taxes as means to increase tax receipts and reduce causes of corruption.

In addition to tax rates and regulatory burden, the KPMG report claims corruption results from opaque process and paperwork on the part of the government. Lack of transparency allows room for maneuver for both the demanders and suppliers of corruption. Whenever objective standards and transparent processes are missing, and subjective opinion driven regulators and opaque/hidden processes are present, the conditions encourage corruption.



Vito Tanzi in an International Monetary Fund study suggests that in India, like other countries in the world, corruption is caused by excessive regulations and authorisation requirements, complicated taxes and licensing systems, mandated spending programmes, lack of competitive free markets, monopoly of certain goods and service providers by government controlled institutions, bureaucracy, lack of penalties for corruption of public officials, and lack of transparent laws and processes. A Harvard University study finds these to be some of the causes of corruption and underground economy in India.

Impact of corruption

Loss of credibility

A study on Bribery and Corruption in India conducted in 2013 by one of the largest global professional services firms Ernst & Young (EY), a majority of the survey respondents from PE firms said that a company operating in a sector which is perceived as highly corrupt, may lose ground when it comes to fair valuation of its business, as investors bargain hard and factor in the cost of corruption at the time of transaction.

According to a report by KPMG, "high-level corruption and scams are now threatening to derail the country's its credibility and [its] economic boom".

Economic loss

Corruption may lead to further bureaucratic delay and inefficiency as corrupted bureaucrats may introduce red tape in order to extort more bribes. Such inadequacies in institutional efficiency could affect growth indirectly by lowering the private marginal product of capital and investment rate. Levine and Renelt showed that investment rate is a robust determinant of economic growth. According to the neoclassical growth model, institutional variables contribute to determining steady-state per capita income levels and speed of convergence to its steady state, hence affecting its growth rate.

Bureaucratic inefficiency also affects growth directly, such as through misallocation of investments in the economy. Additionally, corruption results in lower economic growth for a given level of income.

Lower corruption, higher growth rates

If corruption levels in India were reduced to levels in developed economies such as Singapore or the United Kingdom, India's GDP growth rate could increase at a higher rate annually. C. K. Prahalad estimates the lost opportunity caused by corruption, in terms of investment, growth and jobs for India is over US\$50 billion a year.

Conclusion

Corruption is very much dangerous to any economy. Corporate sector surely will be adversely affected by corruption. Specialised corporate strategy should be formulated to safeguard the corporate sector from corruption. In India corruption is the serious problem. Government has taken several measures to overcome the problem of corruption. But unfortunately in India the problem of corruption and black money now also exist. The Lokayuktha took several measures to reduce the problem of corruption. If Indian economy reduce the problem of corruption then surely the Country can become developed nation by 2020 and it is possible to utilize the money for productive purpose. Then surely India can achieve faster rate of development and can achieve self reliance.

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