

Essay for Punjab state civil services Main Exam

Corruption in India

Corruption in India is a major issue and adversely affects its economy. In 2012 India has ranked 94th out of 176 countries in Transparency International's Corruption Perceptions Index.

Indian media has widely published allegations of corrupt Indian citizens stashing trillions of dollars in Swiss banks. Most of the largest sources of corruption in India are entitlement programs and social spending schemes enacted by the Indian government. Examples include Mahatma Gandhi National Rural Employment Guarantee Act and National Rural Health Mission. Other daily sources of corruption include India's trucking industry which is forced to pay billions in bribes annually to numerous regulatory and police stops on its interstate highways.

The causes of corruption in India include excessive regulations, complicated taxes and licensing systems, numerous government departments each with opaque bureaucracy and discretionary powers, monopoly by government controlled institutions on certain goods and services delivery, and the lack of transparent laws and processes. There are significant variations in level of corruption as well as in state government efforts to reduce corruption across India.

Politics

As of March 2013, 150 of India's 523 parliament members were facing criminal charges. Many of the biggest scandals since 2010 have involved very high levels of government, including Cabinet Ministers and Chief Ministers, such as in the 2G spectrum scam, the 2010 Commonwealth Games scam and the Adarsh Housing Society scam, Coal Mining Scam, mining scandal in Karnataka and cash for vote scam.

Bureaucracy

A 2005 study done by Transparency International (TI) in India found that more than 50% of the people had firsthand experience of paying bribe or peddling influence to get a job done in a public office. Taxes and bribes are common between state borders; Transparency International estimates that truckers pay annually ₹ 22,200 crores (US\$ 4.5 billion) in bribes. Government regulators and police share in bribe money, each to the tune of 43% and 45% respectively. The en route stoppages including those at checkpoints and entry-points take up to 11 hours in a day. About

60 percent of these (forced) stoppages on road by concerned authorities such as government regulators, police, forest, sales and excise, octroi, weighing and measuring department are for extorting money. The loss in productivity due to these stoppages is an important national concern. The number of truck trips could increase by 40%, if forced delays are avoided. According to a 2007 World Bank published report, the travel time for a Delhi-Mumbai trip can be reduced by about 2 days per trip if the corruption and associated regulatory stoppages to extract bribes was eliminated.

A 2009 survey of the leading economies of Asia, revealed Indian bureaucracy to be not just least efficient out of Singapore, Hong Kong, Thailand, South Korea, Japan, Malaysia, Taiwan, Vietnam, China, Philippines and Indonesia; further it was also found that working with India's civil servants was a "slow and painful" process.

Land and property

Officials are alleged to steal state property. In cities and villages throughout India, consisting of municipal and other government officials, elected politicians, judicial officers, real estate developers and law enforcement officials, acquire, develop and sell land in illegal ways.

Tendering processes and awarding contracts

A 2006 report claimed state-funded construction activities in Uttar Pradesh, such as road building, were dominated by construction mafias, which are groupings of corrupt public works officials, materials suppliers, politicians and construction contractors.

Corruption caused problems in government funded projects are not limited to the state of Uttar Pradesh. According to The World Bank, aid programs are beset by corruption, bad administration and under-payments. As an example, the report cites only 40% of grain handed out for the poor reaches its intended target. The World Bank study finds that the public distribution programs and social spending contracts have proven to be a waste due to corruption.

As an example, India enacted the so-called *Mahatma Gandhi National Rural Employment Guarantee Act* (MGNREGA) on 25 August 2005. The Central government outlay for this welfare scheme is ₹40000 crore (US\$7.4 billion) in FY 2010–2011.¹ After 5 years of implementation, in 2011, the programme was widely criticised as no more effective than other poverty reduction programs in India. Despite its best intentions, MGNREGA is beset with controversy about corrupt officials pocketing money on behalf of fake rural employees, poor quality of infrastructure built under this program, and unintended destructive effect on poverty.

Medicine

In Government Hospitals, corruption is associated with non availability/duplication of medicines, getting admission, consultations with doctors and availing diagnostic services.

National Rural Health Mission is another health care-related government program that has been subject to large scale corruption allegations. This social spending and entitlement program hoped to improve health care delivery across rural India. The program has been run since 2005 by the Ministry of Health of the Indian government. The Indian government mandated a spending of INR 277 billion in 2004–05, and increased it annually to be about 1% of India's gross domestic product. The National Rural Health Mission program has been clouded by a large-scale corruption scandal in which top government appointed officials were arrested, several of whom died under mysterious circumstances including one in prison. Corruption, waste and fraud-related losses from this government program has been alleged to be ₹ 100 billion (US\$2 billion).

Science and technology

CSIR, the Council of Scientific and Industrial Research, has been flagged in ongoing efforts to root out corruption in India. Despite being established with the directive to do translational research and create real technologies, CSIR has been accused of devolving into an ritualistic, overly-bureaucratic organization that does little more than churn out papers.

There are many issues facing Indian scientists, with some - such as MIT systems scientist VA Shiva Ayyadurai - calling for transparency, a meritocratic system, and an overhaul of the bureaucratic agencies that oversee science and technology. Sumit Bhaduri stated, “[t]he challenges of turning Indian science into part of an innovation process are many. ... Many competent Indian scientists aspire to be ineffectual administrators [due to administrative power and political patronage], rather than do the kind of science that makes a difference.”¹ Prime minister Manmohan Singh spoke at the 99th Indian Science Congress and commented on the state of the sciences in India, after an advisory council informed him there were problems with “the overall environment for innovation and creative work” and a ‘warlike’ approach was needed.

Income tax department

There have been several cases of collusion of officials of the income tax department of India for a favorable tax treatment and relaxed prosecutions in return for bribes.

Preferential award of mineral resources



Protests against corruption in Pune.

Illegal mining in India

In early August 2011, an iron ore mining scandal became a media focus in India. In September 2011, Janardhana Reddy – an elected member of Karnataka’s legislative assembly – was arrested on charges of corruption and illegal mining of iron ore in his home state of Karnataka. It was alleged that his company received preferential award of resources, organised and exported billions of dollars worth of iron ore to China in recent years, without paying any royalty to the state government exchequer of Karnataka or the central government of India, and these Chinese companies made payment to shell companies controlled by Reddy and registered in Caribbean and north Atlantic tax havens. It was also alleged that corrupt government officials cooperated with Reddy, starting from government officials in charge of regulating mining to government officials in charge of regulating port facilities and shipping. These officials received monthly bribes in exchange for enabling illegal export of illegally mined iron ore to China. Such scandals have led to a demand in India for consensually driven action plan to eradicate the piracy of India’s mineral resources by an illegal-political-corrupt government officials-business nexus, removal of incentives for illegal mining, creation of incentives for legal mining and domestic use of iron ore and steel manufacturing. corruption in india is a major issue and adversely affects its economy

Driver Licensing

A study conducted between 2004 and 2005 found that India’s driver licensing procedure was a hugely distorted bureaucratic process and allows drivers to get licenses despite their low driving ability through promoting the usage of agents. Individuals with high willingness to pay make a significant payment above the official fee and most of these extra payments are made to agents, who act as an intermediary between bureaucrats and applicants.^[46] The average license getter paid Rs 1080, approximately 2.5 times the official fee of Rs 450, in order to obtain a license. On average, those who hired agents had a lower driving ability, with agents helping unqualified drivers obtain licenses and bypass the legally required driving

examination. Among the surveyed individuals, approximately 60% of the license holders did not take the licensing exam and 54% of those license holders failed an independent driving test.^[47]

Agents are the channels of inefficient corruption in this bureaucratic driver licensing system, facilitating access to licenses among those who are unqualified to drive. Some of the failures of this licensing system are caused by corrupt bureaucrats who collaborate with agents by creating additional barriers within the system against those who did not hire agents.

Claimed trends

Professor Bibek Debroy and Laveesh Bhandari claim in their book *Corruption in India: The DNA and RNA* that the public officials in India may be cornering as much as Rs.921.22 billion (\$18.42 billion), or 1.26 per cent of the GDP, through corruption. The book claims most bribery is in the transport industry, real estate and government delivered services.

A 2011 KPMG study reports India's real estate, telecommunications and government-run social development projects as the three top most corruption plagued sectors. The study found India's defence, information technology industry and energy sectors are the most competitive and least corruption prone sectors.

CMS India claims in its 2010 India Corruption Study report that socio-economically weaker section of the Indian society is most adversely affected by government corruption – these include the rural and urban poor. The study additionally claims that corruption perception nationwide has decreased between 2005 to 2010. Over the 5-year period, significantly more number of people from the middle class as well as the poorest segments of Indian society surveyed, in all parts of the India, claimed government corruption had dropped over time, and they had lesser direct experiences with demands for bribes.

The table below compares the perceived anti-corruption effort across some of the major states in India.^[1]

A rising index implies higher anti-corruption effort and falling corruption. According to this table, the states of Bihar and Gujarat have experienced significant improvements in their anti-corruption efforts, while the conditions have worsened in the state of Assam and West Bengal. Consistent with the results in this table, in 2012, a BBC News report claimed the state of Bihar has transformed in recent years to become the least corrupt state in India.

Black money

Indian black money

Black money refers to money that is not fully legitimate 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.^[9] The first includes activities not permissible under the law, like 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 dollars, 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.

Black Money in Switzerland

According to a 2010 The Hindu article, unofficial estimates indicate that Indians had over US\$1456 billion in black money stored in Swiss banks (approximately USD 1.4 trillion). While some news reports claimed that data provided by the Swiss Banking Association 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, suggests "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 1948–2008. This includes corruption, bribery and

kickbacks, criminal activities, trade mispricing and efforts to shelter wealth by Indians from India's tax authorities.^[50]

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 (INR 92.95 billion, US\$ 2.1 billion). 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.

Judiciary

According to Transparency International, judicial corruption in India is attributable to factors such as "delays in the disposal of cases, shortage of judges and complex procedures, all of which are exacerbated by a preponderance of new laws".

Armed forces

The Indian Armed Forces have witnessed corruption involving senior armed forces officers from the Indian Army, Indian Navy and Indian Air Force. A number of scandals in the 2000–2010 period damaged the military's reputation; such scandals included skimming of armed forces money, re-selling of government property, and faking combat missions.

Right to Information Act

Right to Information Act

The Right to Information Act (2005) and equivalent acts in the states, that require government officials to furnish information requested by citizens or face punitive action, computerisation of services and various central and state government acts that established vigilance commissions have considerably reduced corruption or at least have opened up avenues to redress grievances.

Anti-Corruption Laws in India

Public servants in India can be penalised for corruption under the

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

India is also a signatory to the UN 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 Bill, 2011 is a bill pending before the Rajya Sabha.

India's lower house of parliament voted to pass The Whistle Blowers Protection Bill, 2011. The bill is now pending in its Rajya Sabha.

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 (Andhra Pradesh Anti-corruption Bureau) and Karnataka (Lokayukta) also have their own anti-corruption agencies and courts.

Andhra Pradesh's Anti Corruption Bureau (ABC) 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.

Anti-corruption organisations

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

- Bharat Swabhiman Trust established by well known Yog Guru Swami Ramdev running a large campaign against black money and corruption since last 10 years.
- 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.

- India Against Corruption is a movement created by a citizens from a variety of professions and statuses to work against corruption in India. It is currently headed by Anna Hazare.
- Jaago Re! One Billion Votes is 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.
- Association for Social Transparency, Rights and Action (ASTRA) is an NGO focused on grass-roots work to fight corruption in Karnataka.

One organisation, 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.

Causes of 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 to search and question 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, claims 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. The correlation between high real estate taxes and corruption, claims the KPMG report, 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, state 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 authorization requirements, complicated taxes and licensing systems, mandated spending programs, lack of competitive free markets, monopoly of certain goods and service providers by government controlled institutions, bureaucracy, lack of penalties for corrupt behavior by 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.

Effects of corruption

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

Economic Concerns

Corruption may lead to further bureaucratic delay and inefficiency as corrupted bureaucrats may introduce red tape to extract 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 capital 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 the developed economies such as the United States, India's GDP growth rate could increase by an additional 4 to 5 percent, to 12 to 13 per cent each year. 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.

The level of corruption varies in different parts of India. In a July 2011 report, *The Economist* as an example cites the state government of Gujarat, which has kept red tape to a minimum, does not ask for bribes, and does not interfere with entrepreneurial corporations. The state, the article claims, has less corruption, less

onerous labour laws and effective bureaucracy. With growth rates matching some of the fastest growing economic regions of China, Gujarat continues to outpace growth in other Indian states.¹