

Corruption as Way of Life – An Old Problem Taking New Dimensions

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Abstract

Corruption is use of one's position for personal unethical and unlawful gains. The recent wave of scams has just been a stark reminder of the enormity of the problem. As nation grows, the corrupt also grows to invent new methods of cheating the government and public. Traditionally clean sector such as healthcare and education are also not free from corrupt practices. We do not exactly know when and how it became 'under the table' thing to 'over the table' thing. In spite of recent anti-corruption movements and anti-corruption initiatives, people don't hesitate accepting or offering bribes. Though unfortunate but it has become a harsh reality of life and a routine affair. The paper observed that not only corruption and corruption perception had increased but it has taken new dimensions not only in terms of volume but also in terms of method and process. Based on the various reports and survey paper shows that both corruption perception and experience has increased significantly in India. The corruptors have become innovative with changing times. We found innovative methods adopted by business firms for paying bribes and hiding bribe. Corruption is negatively associated with investment and growth, reduces foreign direct investment and private investment, increases inequality and poverty, increases rent seeking activities in the economy and raises and distorts public investment and reduces government revenue.

Keywords:

Corruption; Economic Growth; Corruption Perception; Corruption Consequences; Bribery ; Corruption

1. Introduction

Corruption is not a recent phenomenon but an ancient problem. It has persisted for centuries. It has been an administrative and ethical problem. Kautilya in *Arthshastra* has nicely summed up it in following lines:

“Just as it is impossible not to taste the honey or the poison that finds itself at the tip of the tongue, so it is impossible for a government servant not to eat up, at least, a bit of the king's revenue. Just as fish moving under water cannot possibly be found out either as drinking or not drinking water, so government servants employed in the government work cannot be found out taking money.”

Though '*Arthshastra*' identified 40 methods in which funds could be embezzled by those handling them, the methods have increased manifolds. Corruption can be seen in every sphere of life. The recent spate of scams has just been a stark reminder of the proportion of the problem. Corruption is growing by leaps and bounds in India. As the nation grows, the corrupt also grows to invent new methods of cheating the government and

public. Expressing the state of corruption affairs, Desai (2009) remarked that *'very often, we have a choice of not taking bribe, but not giving bribe becomes very difficult'*. Though corruption and unethical practices prevailed all through human history, but its magnitude and frequency has increased considerable. There were only five major scandals during 17 years of Nehru rule and six scandals till the death of Rajiv Gandhi. Since then, we hear about major scandals too frequently to feel comfortable. Since 2010, corruption cases have seen an unprecedented growth. The three largest corruption scandals uncovered in 2012 cost India over US\$100 billion. This is also reflected in the *'corruption perception'* index rating of India as its ranking slipped to 94 in 2013 from 87 in 2010 similarly on *'ease of doing business'* barometer of world bank country slipped three places from 134 in 2013 from 131 in 2012.

We do not exactly know when and how it became *'under the table'* thing to *'over the table'* thing. In spite of recent anti-corruption movements and anti-corruption initiatives, people don't hesitate to accept or offer bribes. Though unfortunate but it has become a stark reality of life and a normal thing. FICCY & EY (2013) survey remarked: *'Alarmingly, a large number of respondents appeared to be comfortable with (or were aware of) unethical business conduct, including irregular accounting to hide bribery and corruption, gifts being given to given to seek favours and third parties being used to pay bribes'*. Likewise CEO of a leading pharmaceutical company remarked: *"Ethical values in general have drastically come down and society has become permissive and accepts corruption as normal."* [KPMG, 2010¹]

¹KPMG India conducted this survey with leading Indian corporate in order to understand their perception of how corruption is corroding the economy as well as the corporate environment.

Traditionally clean sector such as healthcare and education are also not free from corrupt practices. Kickbacks and bribes oil every part of the country's healthcare machinery (Berger, 2014 and Nagral, 2014). Corruption in healthcare takes form of distorting medical reports in medico-legal cases, providing false certificates to protect criminals, sexually assaulting their patients, and even trading in human organs, kickbacks from any expensive operation or diagnostic procedure, 'facilitation charges' or fees for 'diagnostic help' in five-star corporate hospitals and referral incentives. Narayan & Meet (2014) have discussed in detail the nature and causes of corruption in education. They pointed out that corruption in educational system manifest in the form of teacher's absenteeism, appointments, transfers, admission and examination malpractices, affiliation related malpractices, affiliation related corruption and corruption in scholarship related activities. Global Corruption Report (2013) has also highlighted corruption in education. It sheds light on the many shapes and forms that corruption in education can take.

2. Defining Corruption

There is no single, comprehensive and universally accepted definition of corruption. Attempts to develop such a definition invariably encounter legal, criminological and, in many countries, political problems. This is the reason that forced the negotiators of the United Nations Convention against Corruption in early 2002, to have a option of not defining corruption at all but to list specific types or acts of corruption' (UN 2004). However, the attempts to arrive at an acceptable definition of corruption have been made by many researchers from time to time. A

KPMG sent queries to approximately 300 businesses operating in India and received responses from about 100, with about 80% of the responses coming from company heads.

comprehensive review of definition of corruption by various scholars and agencies can be found in Narayan (2011).

Corruption is use of one's position for personal unethical and unlawful gain. Transparency International (TI) defines corruption as *"the misuse of entrusted power for private gain"*. This is similar to the definition by the United States Agency for International Development (USAID, 2005) defining corruption as *"the misuse of public office for private gain. It encompasses abuses by government officials such as embezzlement and nepotism, as well as abuses linking public and private actors such as bribery, extortion, influence peddling, and fraud"*. The definitions do not include corruption in the private sector which is also worth mentioning. United Nations Development Programme (UNDP, 2003) in its Anti-Corruption Practice Note, defined corruption as *"the misuse of public power, office or authority for private benefit – through bribery, extortion, influence peddling, nepotism, fraud, speed money or embezzlement"*. In the same Anti-Corruption Practice Note, UNDP acknowledged that corruption is also prevalent in the private sector but this should be incorporated in the definition. All these definitions are incomplete since corruption also takes place in the private sector, non-governmental organisations and other sectors that cannot be represented in UNDP and USAID's label of 'public power and office'. Neild (2002) define corruption as 'the breaking by public persons, for the sake of private financial or political gain, of the rules of conduct in public affairs prevailing in a society in the period under consideration'. Senior (2006, p.27) states that corruption takes place when *"... a corruptor covertly gives a favour to a corruptee or to a nominee to influence action(s) that may benefit the corruptor or a nominee and for which the corruptee has authority"*

3. Perception and Experiences Regarding Corruption in India

XIIth five year plan asserted that corruption level in the last decade has been high, but has remained almost at the same level. The fact that perception of corruption has increased is a different issue and reflects the consequence of greater transparency and awareness. The plan document asserted that *"Corruption is a problem which arises in all countries, developed or developing, and it is self evident that corruption is not only morally objectionable, but also that it leads to serious economic distortions. No country can afford to ignore the problem of corruption and all must find ways of combating it."* Planning Commission had recognised the problem in its Xth Plan document when it noted that *"Corruption is most endemic and entrenched manifestation of poor governance in Indian society, so much so it has almost become an accepted reality and a way of life"*. In the XIth Five Year Plan reiterated that "good governance" is not possible without addressing corruption in its various manifestations, especially in the context of basic services. The ultimate proof of "inclusive growth", for "bridging the divides" and equity goals is the extent of access to essential services by those "below the poverty line".

*'Bribery and Corruption: Ground Reality in India'*² survey of 200 senior executives of the business firms carried out by FICCI and EY reveal that Corruption – real or perceived – is having a detrimental impact on the country's economy. Around 83 per cent of the respondents felt that the recent spate of scams

²The survey was conducted from March to May 2013 via an online questionnaire and covers over 200 responses from senior executives. The principal respondents belonged to business functions such as Internal Audit & Finance, Legal & Compliance, and Vigilance & Risk Management. Respondents represented a mix of Indian enterprises with domestic operations.

will negatively impact FDI inflows into the country. Findings reveal that the sectors most vulnerable to corruption include the government and public sector, infrastructure and real estate, metals and mining, aerospace and defense, and power and utilities sectors. A large number of respondents appeared to be aware of unethical business conduct, including irregular accounting to hide bribery and corruption, gifts being given to agents and third parties being used to pay bribes. More than half of the respondents felt that it is the lack of will to obtain licenses and approvals

the ‘right way’, which leads to bribery and corruption. Complicated taxes and licensing system also fuel corruption. Around 89% of the respondents felt that inadequate enforcement of laws is resulting in bribery and corruption proliferating in the country. Various studies have been conducted in India to know the perception and experiences of Corruption in India.

The CMS-Transparency International conducts India Corruption Study surveys; the salient findings of the various rounds of these studies are presented below:

Table-1: Summary of Various Rounds of India Corruption Studies Survey

Round	Focus	Services Covered	Main Findings
2005	Common Citizens	Education, Police Land Records & Registration, Electricity, Water Supply, Government Hospitals, Income Tax, Public Distribution System, Judiciary, Municipal Services, Rural Financial Institutions	<ul style="list-style-type: none"> • 62 per cent of citizens have had firsthand experience of paying a bribe or “using a contact” to get a job done in a public office. • Among the 11 Public Services covered in the Study, the Police is the most corrupt. Judiciary (Lower Courts) and Land Administration are the next most corrupt Public Services. • 10 per cent think that such corruption is on the decline. • Three-fourths of citizens think that the level of corruption in public services has increased during the last one year.
6 th (2008)	BPL households, mostly in rural India	PDS, Hospital Service, School Education, Electricity Service and Water Supply Service) and “need based services”	<ul style="list-style-type: none"> • About one-third of BPL households, across the country paid bribes in the last one year to avail one or more of the eleven public services covered in the study • The percentage of BPL households, who paid bribes, to avail the particular services covered in the last one year ranges from 3.4 per cent in the case of School Education to as high as 48 per cent in the case of Police Service.

7 th (2010)	Rural Areas	PDS, Schooling, Water supply and Hospitals.	<ul style="list-style-type: none"> • 45 percent of the rural households opined that ‘corruption has increased’ in public services in the previous one year. • 28% percentage of rural households paid bribe for availing services. • Rural households’ perception about increase in level of corruption in these four public services varied between 32 percent (school) and 54 percent (hospital). • On an average in a year, a rural household paid around INR 164 as bribe to avail the services of the four public services.
8 th (2012)	Slums and basic public services usually availed by the residents of slums	Drinking Water, Electricity, Public Distribution System (PDS), Public Health/Hospital Services, Housing, Municipal Services and Police.	<ul style="list-style-type: none"> • More than half of the slum dwellers from nine major cities in the 2012 survey felt that corruption in general has ‘Increased’ in public services in the last 12 months. • The incidence of corruption has doubled since 2008 in urban India from 34% to 67%. • Out of those who were asked to pay, 84% paid bribe to pay to avail the services. • Around 35 percent of the slum dwellers were denied service at least once as they could not pay bribe. • Highest percentage of slum dwellers ‘Experienced’ Corruption in Police Services (75 percent).
9 th (2003)	Women from eight cities	Drinking Water, Electricity, Public Distribution System (PDS), Public Health/Hospital care, Housing, Municipal, Police and Judiciary	<ul style="list-style-type: none"> • More than half of the women (56%) shared that she or any member of the household experienced corruption at least once during the last 12 months. • 8 out of every 10 households, who were asked to pay bribe, had no option and paid bribe to avail the desired public service. • In five out of eight public services, between 20 and 25% of their families

			<p>had to pay bribe or use influence to avail the services.</p> <ul style="list-style-type: none"> • 67% of the women opined that level of corruption in general has 'Increased' in Public Services in the last 12 months.
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Source:Compiled from *CMS-India Corruption Study, Report of the Various Rounds.*

*KPMG Fraud Survey*³, 2012 observed that Corporate India’s unwillingness to see fraud as a strategic risk poses a grave threat to firms as they start experiencing frauds of the future. Report identified that Cyber crime, Intellectual Property fraud (including counterfeiting and piracy) and Identity theft identified as frauds of the future. According to the report the incidents of fraud had increased by 10% from 2010 to the same survey in 2012. 71% of respondents reported that fraud is an inevitable cost of business.

Latest survey of the international anti-corruption watchdog Transparency International in its report '*Global Corruption Barometer 2013*' found that 40 percent of respondents felt that corruption in India had increased 'a lot' and 31 per cent 'a little'.

According to report virtually all key institutions and sectors in India, including the private sector, were regarded as being corrupt or extremely corrupt by respondents - at the top of the list were political parties (86 per cent), police (75 per cent) and public officials

³The KPMG fraud survey was conducted by circulating an online questionnaire and received responses from 293 CXOs from varied industries across Financial Services, Information & Entertainment, Industrial markets, Real Estate & Infrastructure, Consumer markets, Telecom, Travel Tourism and leisure, Healthcare & Social sector. The respondents represent both Indian and multinational firms.

and civil servants as well as parliament/legislature (65 per cent each). Least corrupt was the military (20%). 54% of the respondents reported paying bribes for 08 surveyed services. 62 per cent reported that they or someone from their household had paid a bribe to the police, 61 to 'registry and permit services' and 58 per cent to 'land services'. Among the common reasons for paying a bribe, 36 per cent in India said it was the only way to get a service and 35 per cent, to 'speed up things'. A snapshot of various transparency indices is depicted below:

Table-2: Snapshot of Corruption, Transparency and Governance tools

Corruption Indices	
Corruption Perceptions Index (2013)	Rank:94/177
	Score:36/100
Control of Corruption ⁴ (2013)	Percentile Rank:35.89%
	Score:-0.56
Bribe Payers	Rank: 19/28

⁴This indicator measures the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as “capture” of the state by elites and private interests. It also measures the strength and effectiveness of a country’s policy and institutional framework to prevent and combat corruption. The value of Index ranges from approximately -2.5 (weak) to 2.5 (strong) governance performance.

Index ⁵ (2011)	Score: 7.5/10
Transparency Indices	
Financial Secrecy Index ⁶ (2013)	Rank: 32/82 Score: 46/100
Open Budget Index ⁷ (2012)	Openness: Significant Score: 68
Voice and Accountability ⁸ (2012)	Percentile Rank: 61.1% Score: -0.14/-2.5 to +2.5
Global Competitiveness Index ⁹ (2014-15)	Rank: 71/144 Score: 4.21/10
Human Development	Rank: 135/187

Index ¹⁰ (2013)	Score: 0.586/10
Governance And Development Indicators	
World Press Freedom Index ¹¹ (2013)	Rank: 140/179 Score: 41.22
Rule of Law Index ¹² (2012)	Percentile Rank: 52.61% Score: -0.10

Source: Transparency International, World-wide Governance Indicators (WGI). Global Competitiveness Report and UNDP.

According to Global Financial Integrity data on Illicit Financial Flows by Country India lost an average of \$34.39 billion per year for the period 2002-12 by way of illicit financial flows because of tax evasion, crime and corruption (Kar and LeBlanc, 2013). Country report for India titled *'The Drivers and Dynamics of Illicit Financial Flows from India: 1948-2008'* highlighted that from 1948 to 2008 India lost a total of US\$213 billion in illicit financial flows (US\$462 billions at 2008 prices). These illicit financial flows were generally the product of: corruption, bribery and kickbacks, criminal activities, and efforts to shelter wealth from a country's tax authorities. The illicit financial outflows increased at the rate of 11.5 percent per year in nominal term and 6.4 percent per year in real

⁵The index ranks 28 of the world's largest economies according to the perceived likelihood of companies from these countries to pay bribes abroad. It is based on the views of business executives as captured by Transparency International's 2011 Bribe Payers Survey.

⁶The Financial Secrecy Index ranks countries according to their secrecy and the scale of their activities. A politically neutral ranking, it is a tool for understanding global financial secrecy, tax havens or secrecy jurisdictions, and illicit financial flows. It covers information on the legal, administrative, regulatory, and tax structures of the secrecy jurisdictions.

⁷The Open Budget Survey is designed to provide a better understanding of the current state of budget transparency and accountability, as well as how these have changed over time.

⁸Voice and accountability captures perceptions of the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media. The value of Index ranges from approximately -2.5 (weak) to 2.5 (strong) governance performance.

⁹The Global Competitiveness Index measures the set of institutions, policies, and factors that set the sustainable current and medium-term levels of economic prosperity.

¹⁰HDI takes into account long-term progress in three areas—a long and healthy life, access to knowledge and a decent standard of living.

¹¹The Index reflects the degree of freedom that journalists, news organizations and netizens enjoy in each country, and the efforts made by the authorities to respect and ensure respect for this freedom.

¹²Rule of law captures perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence. The value of Index ranges from approximately -2.5 (weak) to 2.5 (strong) governance performance.

term. Main drivers of illicit financial flow had been High Net-Worth Individuals (HNWIs) and private companies. India's underground economy is also a significant driver of illicit financial flows. With time deposits at offshore financial centers (OFCs) has shown increasing trend. The share of OFC increased from 36.4 percent in 1995 to 54.2 percent in 2009. Report identified that the total present value of India's illicit assets held abroad accounts for approximately 72 percent of India's underground economy.

4. New Dimensions of Corruption in India

Not only corruption and corruption perception had increased but it has taken new dimensions not only in volumes but also in methods. Recent cases of corruption such as cash-for-votes scandal, Cash for question in parliament, aavin scam¹³, Coal allocation scam or Coalgate, 2G Spectrum Allocation Scam, Vyapam Scam¹⁴ used innovative methods. Private firms both multinationals and domestic are also using innovative method of giving and hiding bribes. FICCY and EY(2013) reported that business firms are adopting innovative ways of paying bribes such as (a) Paying high salaries to selected employees with an understanding that the excess amount will be used to make improper payments (b) Routing improper payments through payment facilitators (existing vendors or material suppliers), who pass on the cash to liaising agents, keeping themselves out of the loop (c)

¹³The Aavin milk scam involved continuous diversion of supply vans from various districts midway on the route to Chennai and pilfering with water. The initial estimate of the loses have been valued at one per cent of the total ten lakh litres, amounting to ₹23 lakhs a day for 10 years. (http://en.wikipedia.org/wiki/Aavin_scam).

¹⁴Vyapam scam was a massive admission and recruitment scam involving politicians, senior officials and businessmen (http://en.wikipedia.org/wiki/Vyapam_Scam).

Paying a periodic performance bonus to vendors assisting in procurement of licenses and (d) Presenting gift cards (prepaid cash cards issued by banks) to government officials with whom organizations frequently interact. Companies are not only adopts innovative ways of paying bribes, they also adopt innovative way of hiding bribes. Survey highlights companies adopts methods such as (a) bribes paid in cash are recorded fictitiously as repairs and maintenance (b) bribes paid through dealers and distributors and recorded as annual performance bonus payments (c) amount spent on giving gifts or sponsoring massages recorded under reimbursement for meals, refreshments or travel (d) funds spent on liaising with government offices recorded as retainer fees for hiding bribery paid.

5. Consequences of Corruption

Available empirical evidences show that corruption is negatively associated with investment and growth¹⁵ (Mauro, 1995; Kaufmann and Wei, 1999; Pellegrini and Gerlagh, 2004; Svensson, 2005; Hodge¹⁶ et. al, 2009), it reduces foreign direct investment (Wei,1997; Wei & Wu, 2001; Wei, 2002), increases inequality and poverty due to lower economic growth (Gupta, Davoodi & Alfanso,

¹⁵But the available evidences differ in micro and macro impacts of corruption. Svensson (2005) claims that there appears to be a mismatch between the micro and macro evidence of corruption on growth and asserts that the relationship between corruption and growth is inconclusive. Meon and Weill (2008) report a detrimental effect of corruption in economies with effective institutions but a positive association between corruption and efficiency in economies where institutions are ineffective.

¹⁶However they argue that corruption-growth relationship is not straightforward and efforts to improve governance and reduce unnecessary regulations are needed in combination with efforts to reduce corruption levels.

2000; You & Khagram, 2005; Negin et. al¹⁷), swells rent seeking activities in the economy (Murphy, Shleifer & Vishny¹⁸, 1991;), raises and distorts¹⁹ public investment and reduces government revenue (Tanzi and Davoodi, 1997).

Bribery and corruption has not only ethical and moral implications but it also put a system of incentives and disincentives which threaten to disrupt and destruct very social fabric of the society. World Bank has estimated that around 05 percent of GDP is lost due to corruption but in addition to these direct economic costs, corruption has many indirect costs to an economy. Corruption is anti-competitive by its nature and effects. It erodes public trust in democratic institutions, undermines the rule of law and obstructs good governance. Empirical analysis reveals that poor are forced to pay higher share of their income on bribes than the rich and affluent thereby widening income inequalities. A 0.78 per cent increase in corruption reduces the income growth of the poorest 20 per cent of the people in a country by 7.8 per cent a year.

Corruption has adverse impact on business. According to KMPG survey most of the senior executives of firms felt that corruption skew the level playing field and attract organisations with lesser capability to execute projects.

¹⁷Their empirical findings suggest that corruption and poverty go together, with causality running in both directions.

¹⁸Corruption causes the reallocation of talent away from entrepreneurial activities towards unproductive rent-seeking activities, as the most talented people compete for the greatest payoffs available within the economy (Murphy, Shleifer & Vishny, 1991)

¹⁹The investment goes into those activities where chances of undetected bribes are high and by same parameters investment in education and health are less as chances of rent seeking and bribes are comparatively less in them.

Corruption creates inefficiency in the system and hence increases the cost of operations. Corruption reduces ability of the firms to access funds from both domestic and overseas financial markets. The World Bank identified corruption as the biggest impediment to investment in an investment survey of nine African countries. A 2006 survey of seven countries by risk consultancy Control Risks found that *“More than 35% of companies surveyed had been deterred by an otherwise attractive investment because of the host countries reputation for corruption.”* Corruption’s negative impact on foreign direct investment can amount to an extra 20% in tax – discouraging investment and reducing profit margins. The adverse macro-economic impacts of corruption are self-reinforcing. Control Risks (2006).

6. Conclusions

Corruption is growing by leaps and bounds in India. As the nation grows, the corrupt also grows to invent new methods of cheating the government and public. We do not exactly know when and how it became ‘*under the table*’ thing to ‘*over the table*’ thing. In spite of recent anti-corruption movements and anti-corruption initiatives, people don’t hesitate accepting or offering bribes. Though unfortunate but it has become a harsh reality of life and a normal thing. The paper observed that not only corruption and corruption perception had increased but it has taken new dimensions not only in volumes but also in methods. Based on the various reports and survey paper shows that both corruption perception and experience has increased significantly in India. The corruptors have become innovative with changing times. Business firms are adopting innovative methods for paying bribes and hiding bribe. Corruption is negatively associated with investment and growth, reduces foreign direct investment and private investment, increases inequality and poverty, increases rent seeking

activities in the economy and raises, distorts public investment and reduces government revenue.

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