

Module 1

Anti-Corruption Enforcement Mechanisms Framework in India

Chapter: 1A

Understanding Corruption and its Impact: Economic, Social and Political

Corruption as an outcome of greed, an affliction of human state has been in existence since formation of early societies. It is challenging to come up with a cogent, acceptable description for the multifaceted construct known as corruption. Some attempts have been made to define corruption. Generally, corruption is perceived as a dishonest or illegal behaviour, especially of people in position of power and authority. Two definitions for Corruption have been used in recent years, i.e., ‘the abuse of public office for private gain’ (World Bank) and ‘the abuse of entrusted power for private gain’(Transparency International).

2. Prevention of Corruption Act, 1988 describes ‘Corruption’ basically in terms ‘of taking gratification other than legal remuneration in respect of an Official act’. Corruption, in other words, is use of official position, rank, status, public office or property by an office bearer for his own personal benefit. Corruption in private sector may mean making unjust profits by exploiting employees and consumers by skirting governmental rules & regulations. Examples of corrupt behaviour, inter-alia, includes:

2.1. *Bribery*: It is the most common form of corruption. Bribery involves giving money, gifts, real estate, promotions, employee benefits, company shares, privileges, employment, etc.. The favour given can be anything from giving preferential treatment to overlooking a crime committed to rules broken.

2.2. *Embezzlement, Theft and Fraud*: Embezzlement and theft involve someone with access to funds or assets illegally taking control of them. Fraud involves using deception to convince the owner of funds or assets to give them up to an unauthorized party.

2.3. *Graft*: Graft is when funds intended for public projects are intentionally misdirected to maximize the benefits to private interests of the corrupt individuals.

2.4. *Extortion and Blackmail*: Extortion and blackmail centre around threat of physical violence, false imprisonment, exposure of an individual's secrets or threatening to expose secrets if they do not act in a particular manner, or demanding money in exchange of maintaining secrecy.

2.5. *Influence Peddling*: It is the illegal practice of using one's influence in government or connections with persons in authority to obtain favours or preferential treatment, usually in return for payment.

2.6. *Abuse of discretion*: It is misuse of one's powers and decision-making facilities for personal gain. Examples include a judge improperly dismissing a criminal case or a customs official using his discretion to allow a banned substance through a port.

2.7. *Favouritism, Nepotism and Clientelism*: It involves favouring of not the corrupt, but someone related to them, such as a friend, family member or member of an association. Examples would include hiring or promoting a family member or staff member to a role they are not qualified for.

3. Activities such as fraud and embezzlement can be undertaken by an official alone, while others such as bribery, extortion etc. involve two parties – the giver and taker. This kind of corruption arise under a variety of circumstances as under:

- i. *Government Tenders/ Contracts*: bribes can influence who gets the contract, the terms of the contract, as well as terms of subcontracts when the project is implemented.
- ii. *Government benefits*: bribes can influence the allocation of monetary benefits such as credit subsidies, licenses, permits and tenders to engage in lucrative economic activities.
- iii. *Government revenue*: bribes can be used to reduce the amount of taxes, fees, dues, custom duties, and electricity and other public utility charges collected from business firms and private individuals.
- iv. *Time savings and regulatory avoidance*: bribes can speed up the granting of permission, licenses and permits to carry out activities that are perfectly legal.

- v. Bribes can be used to provide incentives to regulatory authorities to refrain from acting, and to look the other way, when private parties engage in activities that are in violation of existing laws, rules, and regulations.

Types of Corruption

4. **Petty Corruption** occurs at a smaller scale and takes place at the implementation end of public services when public officials meet the public, for example, registration offices, police stations, transport offices, Public Distribution Centres, and many other private and government sectors.

5. **Grand Corruption** occurs at the highest levels of government and requires significant subversion of the political, legal, and economic systems. Such corruption is commonly found in countries with authoritarian or dictatorial regimes. This is also found in democratic countries without adequate safeguards and measures to tackle corruption. Humongous or “grand” corruption takes the form of enormous bribes on significant public contracts involving imports of arms; bulk goods; infrastructure contracts; allotment of natural resources, like mines and represents a significant form of "political" corruption. Straightforward theft of state money from infrastructure projects like roads and irrigation, from social and anti-poverty initiatives, from government-financed loans to the poor, as well as the diversion of price-controlled commodities that are in limited supply for sales at greater market rates, also constitute the major political form of corruption. This type of corruption, which involves the outright theft of public resources, occurs down to the panchayat (Sridharan, 2014).

6. **Systemic corruption (or endemic corruption)** is corruption which is primarily due to the weaknesses of an organization or its systems and procedures. Factors which encourage systemic corruption include

- i. Rigid and vague systems & procedures
- ii. Too much of discretionary powers
- iii. Concentration of powers
- iv. Lack of transparency
- v. Low pay but high authority

- vi. Authority without accountability
- vii. Culture of impunity

7. At macro level, the following factors contribute to corruption:

- ❖ Low levels of democracy, weak civil society participation, and low political transparency
- ❖ Political instability
- ❖ Scarcity
- ❖ Inefficient administrative structures
- ❖ Market and political monopolization
- ❖ Low press freedom
- ❖ Low economic freedom
- ❖ Inequality
- ❖ Poverty
- ❖ Weak property rights
- ❖ Low levels of education
- ❖ Unemployment
- ❖ Lack of proper strategy against corruption

Corruption in India

8. Indian economy is growing at fast pace and India is now the 5th largest economy in the world. In terms of the strength of the financial institution, business sophistication and innovation, India is among the top countries in the world, while in terms of corruption we are ranked 85th by the Corruption Perception Index.

9. The causes of corruption in India are varied and may include excessive regulations, discretionary powers, weak rule of law, ineffective regulatory systems and monopoly of government-controlled institutions on certain goods and services delivery, lack of culture of transparency and accountability, absence of effective internal control mechanism etc. Nearly 20 per cent of GDP is spent on public procurement which is another activity highly prone to

corruption. Further, social acceptability and tolerance for corruption is quite high. Absence of a formal system of inculcating the values of ethics and integrity further exacerbates corruption. Significant levels of corruption exist in India despite the existence of a relatively strong governance structure, institutions, legal framework, and policies.

10. Impact of Corruption: Corruption can have a range of negative impacts on society including political, social, and economic consequences. Here are some of the impacts of corruption:

Economic Impact

- ❖ The World Economic Forum estimates that corruption costs 5% of global GDP (\$2.6 trillion), and the World Bank estimates that both businesses and individuals pay more than \$1 trillion in bribes yearly (Antonio Guterres, 2018). So, Corruption is a serious economic issue as it adversely affects the country's economic development and achievement of developmental goals. It promotes inefficiencies in utilisation of resources, distorts the markets, compromises quality, destroys the environment and of late has become a serious threat to national security. Corruption is being cited major detriment in achieving Sustainable Development goals.
- ❖ Many studies have presented empirical evidence to show that corruption hinders investment, reduces growth, restricts trade, distorts the size and composition of government expenditure, weakens the financial system, and strengthens the underground economy. A strong connection has been demonstrated between corruption and increasing levels of poverty and income inequality. Uneven distribution of wealth is also one of important impact. Corrupt economies are characterized by a disproportionately small middle class and significant divergence between the living standards of the upper class and lower class. Because most of the country's capital is aggregated in the hands of oligarchs or persons who back corrupted public officials, most of the created wealth also flows to these individuals.
- ❖ Corruption decreases foreign investment by increasing the risk of doing business in a country and undermining the credibility of government institutions. Further, investment is significantly affected by the level of uncertainty in the business environment. Corruption results in lower economic growth.
- ❖ According to a paper titled The Impact of Corruption on Growth and Inequality published by Transparency International, "At the macro level, the literature generally shows that corruption has a negative, direct impact on economic growth and development. Corruption also has an indirect effect on a country's economic performance by affecting many factors fuelling economic growth such as investment, taxation, level, composition, and effectiveness of public expenditure".
- ❖ Research also shows that in a corrupt economy, businessmen are often made aware that an up-front bribe is required before an enterprise can be started and that afterwards corrupt officials may lay claim to part of the proceeds from the investment. Businessmen therefore interpret corruption as a species of tax--though of a particularly pernicious nature, given the need for secrecy and the uncertainty that the bribe-taker will fulfil his part of the bargain. Also due to corruption, companies

that otherwise would not be qualified to win government contracts are often awarded projects because of speed money/ bribery or kickbacks. So, corruption increases the cost of business due to illicit payments, process delays, inefficiencies, and the risk of detection.

- ❖ Corruption in the way deals are made, contracts are awarded, or economic operations are carried out, leads to monopolies or oligopolies in the economy. Those business owners who can use their connections or money to bribe government officials can manipulate policies and market mechanisms to ensure they are the sole provider of goods or services in the market.
- ❖ Corruption also impacts [public sector](#) by diverting public investment into capital projects where bribes and [kickbacks](#) are more plentiful. Corruption may distort the composition of government expenditure. Corruption may tempt government officials to choose government expenditures less based on public welfare than on the opportunity they provide for extorting bribes. Corruption lowers compliance with construction, environmental, or other regulations, reduces the quality of government services and infrastructure, and increases budgetary pressures on government.

Social Impact

- ❖ **Poverty and inequality:** Corruption exacerbates inequality by making it more difficult for disadvantaged groups to access public services, and by concentrating wealth and power in the hands of a few. According to the World Bank, the average income in countries with a high level of corruption is about a third of that of countries with a low level of corruption. Also, the infant mortality rate in such countries is about three times higher and the literacy rate is 25% lower. Other effects of corruption may result in organized crime and terrorism, diminished state capacity, increasing polarization and unrest, human rights violations.
- ❖ **Health Care:** Countries with high levels of corruption spend less on health care as a percentage of GDP. In addition, high levels of corruption in Health Care result in higher infant and child mortality rates, lower life expectancy for the poor and lower immunization rates. Corruption also has a negative effect on the mental health of citizens and their happiness. Corruption leads to violation of human rights as people supposed to benefit from the basic health care from the government are denied due to unscrupulous processes.
- ❖ **Effects on Education:** Corruption in higher education has a larger negative influence, it destroys the relation between personal effort and reward anticipation. Students develop a belief that personal success does not come from hard work and merit but through canvassing with teachers and taking other shortcuts. Unbridled corruption through Capitation Fee undermines meritocracy. Corruption hinders the international standards of an education system. Corruption increases the cost of education in countries where bribery and connections play an important role in the recruitment and promotion of teachers. As a result, the quality of education decreases
- ❖ **Impunity and Partial Justice:** When corruption pervades the justice system, people can no longer count on prosecutors and judges to do their jobs. The powerful may escape justice. And citizens, especially those with few resources or few powerful allies, may be unfairly accused of crimes, deprived of due process, and wrongly imprisoned.

Political Impact

- ❖ Undermines democratic institutions: Corruption undermines the legitimacy of democratic institutions and the rule of law. Corruption in elections and in the legislature reduces accountability and distorts representation in policymaking.
- ❖ Reduces transparency: Corruption reduces transparency and accountability, making it harder for citizens to trust government officials and institutions.
- ❖ Diminishes public trust: Corruption diminishes public trust in government and undermines the social contract between citizens and the state.
- ❖ Increases political instability: Corruption can increase political instability by weakening public trust in government and fuelling social unrest.
- ❖ Encourages authoritarianism: Corruption can encourage authoritarianism by empowering leaders who rely on bribes and patronage to maintain power.

11. Overall, corruption has serious negative effects on political, social, and economic development. It erodes trust in government, discourages investment, and impedes economic growth, all of which can have lasting effects on a country's development trajectory.

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