

## Backgrounders

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### Governance in India: Corruption

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#### Introduction

With a booming economy throughout the 2000s, India was touted as one of the most promising major emerging markets. But that breakneck growth sputtered to a decade low in 2012, with many observers pointing to the corrosive effect of endemic corruption—including a spate of scandals under former prime minister Manmohan Singh—as a culprit. Perhaps more than India's weak currency and rising inflation, the graft problem has undermined institutions and thwarted efforts to reduce poverty and catalyze sustainable growth in the world's largest democracy. Public revelations of corruption, including major scandals in the telecommunications and coal industry, have galvanized a [rising middle class](#) with increased demands for better governance. The tide has spurred new political movements, and forced the government to address transparency and marshal reforms.

#### The Roots of Corruption

Corruption in India can be traced back to the country's colonial past, analysts say. The British Raj period, beginning in 1858, excluded Indian citizens from political participation by dividing the country into districts with provincial governments controlled by a commissioner. The 1923 Official Secrets Act made it an offense for officials to reveal state information to citizens, ostensibly to protect military and government intelligence.

After India gained independence in 1947, the new regime implemented heavy economic regulations intended to develop domestic markets; the 1951 Industries Act, for instance, required all new industrial operations to obtain a license from the central government. The policy limited foreign investment and stifled competition, and bribery became part and parcel of doing business. The period up to 1991 was dubbed the "License Raj" as a result of the government's excessive oversight of the economy. The poor often suffered most from the widespread corruption, which diverted large amounts of public revenue intended for public works, aid, and social welfare programs.

"Historically, the roots of India's corruption came from the proliferation of licenses," said former CFR Senior Fellow for International Economics [Jagdish Bhagwati](#). "The idea was to ensure economical use of resources, so you would not waste foreign exchanges. To this day, this is what Indians have been very aware of: that the institution of licenses and permits was responsible for creating corruption on a massive scale."

The first major law to combat government malfeasance was the Prevention of Corruption Act (PCA) of 1947, enacted to prevent officials from cashing in on postwar reconstruction funding. Parliament also established the Anticorruption Bureau in 1961 to investigate violations of the PCA, which has since been amended twice (most recently in 1988). The latest revision was a direct response to the

late-1980s **Bofors scandal**, in which then prime minister Rajiv Gandhi and other politicians were accused of receiving large kickbacks in a weapons bid from Swedish arms company Bofors. Many observers considered the scandal to be a main reason the Gandhi-led Congress Party was voted out of power in 1989.

Under the PCA, bribery is punishable by a fine and up to five years imprisonment. But many analysts believe India's sprawling bureaucracy and weak institutions—the police and judiciary were ranked as the second and third **most corrupt institutions** in India, respectively, after political parties—have thwarted convictions, and arguably increased incentives for bribery. In recent years, graft pervaded society from small-scale "harassment bribes" (payments for essential social services) to scandals on a national level. At least **42 percent** of young Indians have paid a bribe, according to a 2012 *Hindustan* survey.

"There's been corruption in India for thousands of years—it's endemic—but what you see is the kind of corruption changing," says **Milan Vaishnav**, a South Asia associate at the Carnegie Endowment for International Peace. "In the past two decades, there's been a shift toward grand corruption: the recent scandals are just qualitatively and quantitatively bigger than anything we've seen. And a big reason for that is India's rapid growth. Growth has expanded the possibilities for rent-seeking."

A 2011 report from KPMG stated that **68 percent** [PDF] of India's total illicit capital loss happened after the country's economic liberalization in 1991, indicating that the reform and rise of India's economy has contributed to the transfer of "black money" abroad.

### **A Spiraling Problem**

In 2013, India ranked ninety-fourth out of 176 countries in Transparency International's **Corruption Perception Index**, alongside Mongolia and Colombia and below neighbors like China and Sri Lanka. The country has steadily slipped since ranking seventy-second of 179 in 2007, when the report debuted. Several recent high-profile scandals have underscored the extent of the problem. In 2010, allegations emerged surrounding the gross misallocation of funds at the **Commonwealth Games**, which cost almost eighteen times its budget estimate. Reports surfaced of **shoddy infrastructure** and financial irregularities regarding contracts, and the scandal led to the resignation of two senior Congress Party members and other government officials. The Central Vigilance Commission cited the total misappropriation of funds to be around **\$1.8 billion**.

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Soon after, controversy mired the government again when an auditor's report uncovered a massive **telecom scam** estimated to have cost the government some \$39 billion, making it one of the largest cases of state corruption in Indian history. Telecom minister Andimuthu Raja, accused of orchestrating the sale of licenses below market value, resigned in 2010. (He was arrested in 2011, and was out on bail as of late 2013.) During the affair, outraged opposition parties shut down parliament for three weeks and prompted **massive protests in Delhi**.

Public anger escalated when the 2012 **"Coalgate"** scandal, in which an estimated \$34 billion was lost, implicated the prime minister himself. The breadth of corruption has even touched the U.S. government, as cables released in 2011 by Wikileaks revealed that a Congress Party aide allegedly showed a U.S. diplomat chests of cash intended as **a bribe** to secure Parliament's endorsement of a controversial 2008 U.S.-India nuclear deal.

## The Fallout From Corruption

Public outrage peaked by the spring of 2011. A social activist named Anna Hazare emerged as a prominent organizer of the anticorruption movement, vowing a "fast unto death" unless the government established a new [anticorruption agency \(Lokpal\)](#) to review complaints at the highest level. Thousands of citizens took to his cause, and the United Progressive Alliance (UPA)–led government announced in August that it would form a committee to [draft the law](#). After stalling for months in Parliament, India's lower house finally [passed the bill](#) in mid-December 2013 with both Congress and BJP's support, ending Hazare's nine-day hunger strike in a rare show of unity.

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Mounting graft has stirred not only domestic worries, but has also tarnished the country's image among international investors. Since 1947, India has lost hundreds of billions of dollars in [illegal capital flows](#) (tax evasion, corruption, bribery, kickbacks, etc.), and was ranked 134th of 189 countries in the World Bank's 2014 [Doing Business Report](#). At Davos in 2013, [NGOs warned](#) that the hefty investment needed for India's infrastructure development could breed more corruption.

Some experts note that while there isn't necessarily a [direct correlation](#) between corruption levels and India's economic health, the *nature* of the graft has been corrosive to its growth. "The way corruption has been practiced in India has been particularly harmful," says Bhagwati, who contrasts India's [rent-creating corruption](#), which carves out monopolies for cronies, with China's profit-sharing system, which takes an interest in growth. "In the end, the corruption in India is of a form that undermines growth in our institutions. It's a very expensive way to be corrupt."

## Campaigning for Reform

As [India's economy slowed](#), successive revelations of graft exacerbated public outrage at the inability of the former Congress-led government to mitigate corruption. In turn, the country saw an uptick of anticorruption rhetoric ahead of state elections in November and December 2013. The Aam Aadmi Party, led by activist Arvin Kejriwal, emerged as a [new political party](#) that got its start on an anticorruption platform, while the opposition Bharatiya Janata Party (BJP) also emphasized good governance. Meanwhile, Chief Minister Nitish Kumar, who leads one of India's poorest states, Bihar, also won accolades for [his success](#) in emphasizing good governance.

"What is new and politically relevant has been, in response to citizen outrage, the rise of parties explicitly focusing on governance," says CFR's [Alyssa Ayres](#). "And most importantly, the transformation of campaigning from a mode that focused on a language of empowerment with an appeal to caste, to one focusing on good governance and delivering services to citizens."

The BJP championed the clean track record of its leader Narendra Modi, whose reform efforts as chief minister of Gujarat, made his home state a key driver of national economic growth, and who went on to win the 2014 national election. Yet corruption remains rife in India's political landscape. In 2012, criminal cases were pending against [31 percent](#) of members of parliament and the legislative assembly. Campaign spending limits are low, driving expenditure underground and fostering reliance on "black money." Many experts also point to Indian voters' complex relationship with corruption; research from a wide range of states finds that political candidates often [promote their criminality](#) as an indication of their ability to defend the interests of their communities.

## Prospects for Progress

India's government has made a few attempts at the federal level to combat corruption. The [2005 Right to Information Act](#) allows citizens to request access to any public record and, if approved, receive it within thirty days. The law, which can penalize noncompliance and requires authorities to digitize records, has been hailed as a pivotal achievement in the fight against corruption. The government is also considering moves to strengthen the national [antigraft law](#) [PDF], potentially [introducing changes](#) that would punish corporate failure to prevent bribery.

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An increasingly activist judiciary has also taken a stronger stance against corruption; in early 2011, the Supreme Court asked all trial courts in the country to [fast-track](#) corruption cases. The next year, it limited the amount of time the government had to decide whether or not to [prosecute a public official](#) for corruption. And in July 2013, the [top court ruled](#) that it was illegal for politicians convicted of crimes to continue holding office, although, in a highly controversial move, Singh's cabinet [withdrew the decree](#) in October. Modi announced [in an August 2014 speech](#) that his government will initiate tough initiatives to battle corruption, likening the problem to a "disease."

Technology has also helped. Some states like Gujarat have implemented online systems for state contract bids, allowing for greater transparency. Others have also put land records and death certificates online, while websites like [IPaidABribe.com](#) expose graft associated with common public services. The government is also devising an [electronic ID system](#), which would allow poor citizens to avoid intermediaries and receive aid directly through a bank account.

But technology can only do so much, says [Jennifer Bussell](#), assistant professor of public policy at the University of California, Berkeley. Bussell notes that technology's most important contribution has been granting citizens greater access to information. "Some combination of administrative reforms and local-level technology initiatives to help bring corruption to light—in addition to efforts by organizations like the Comptroller and Auditor General, which is exposing corruption at the highest levels of government—would help. You need all of these things."

## Additional Resources

[Transparency International India](#) offers statistics and reports about the current state of corruption in India.

[Accountability Initiative](#) offers reports and policy briefs using publicly-available data collected from the Right to Information Act.

This [CMS India Corruption Study](#) [PDF] breaks down corruption statistics by state and public service.

This [U4 Anticorruption Resource Center report](#) gives an overview of India's corruption problem and efforts to address reform.

This [Fair Observer article](#) asks whether computerization of public service transactions could help curb petty corruption in India.

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