

Towards a Corruption-free India¹

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I had the privilege of watching Dr. Sarabhai from a distance and listening to him when he was the Chairman of the Indian Institute of Management - Ahmedabad, and I was a rookie systems programmer at the computer center there. He was a world-class scientist, a superb leader, and a rare visionary. His contribution to Indian Science through his founding of Physical Research Laboratory is well-known. His founding of the Indian Institute of Management was a watershed event in the history of Indian management education. His most important contribution is the use of space technology to the economic well-being of the country through his founding of the Indian Space Research Organization.

His belief in such economic upliftment was reflected in his statement: "But we are convinced that if we are to play a meaningful role nationally, and in the community of nations, we must be second to none in the application of advanced technologies to the real problems of man and society." The best tribute we can pay to such a patriot is by redeeming his dream of making India a better place for all. Such a goal cannot be achieved unless India's governance becomes largely corruption-free. Therefore, I will speak on the importance of fighting corruption.

The India of today is very different from the India of 1971, the year in which Dr. Sarabhai died. We have come a long way from being considered a poor, pitiable, and weak country to an important global economic power. Our GDP growth rate is the second highest in the world. Our exports are flourishing. Our stock exchanges are on fire. Foreign direct investment is galloping. Our cricketers have become top performers. India has more billionaires than Japan. Bollywood music and Indian cuisine are known throughout the world. Our software industry is the talk of the whole world. Our youngsters have done so well that President Obama keeps talking

about how Bangalore will take away jobs from Buffalo. I never thought India would be feared as a job snatcher from the most powerful country in the world - the US! His words are, in essence, an acceptance of India's importance in international trade.

However, this is not the whole story. There is another India that has not participated in this happy story of India's phenomenal economic progress. Our Prime Minister keeps exhorting us to make this impressive economic progress an inclusive one. He is right because India has the largest mass of poor in the world - over 350 million are earning less than Rs. 40 per day. We have the largest mass of illiterates in the world - about 400 million. We have more than 250 million Indians not having access to safe drinking water. We have more than 750 million Indians not having access to decent sanitation. More than 50% of our rural primary schools do not have a teacher for every class. The list goes on.

Unless we create hope and confidence in the future for every Indian, our progress will not be sustainable. This is an onerous responsibility that rests on the shoulders of every one of us, in general, and our youth, in particular. This is where role models like Sarabhai can instill courage, confidence, discipline, honesty, sacrifice and hard work in every one of us to wipe the tears off the eyes of every Indian child - from Nagaland to Rajasthan, and from Kashmir to Kerala.

If we want to achieve inclusive growth, we have a long journey ahead to continue this growth and make our economic progress truly sustainable. Such a dream of bringing inclusive economic growth mandates that we make our economic progress all-pervasive and sustainable over a long period of time to touch every citizen.

Secondly, we must create decent livelihood opportunities for our illiterates and semi-literates in large numbers. We have to move people from dependence on agriculture to manufacturing and

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services so that our agriculture can indeed provide better per-capita income to our people and elevate their lifestyles. This is possible only by enhancing contribution of manufacturing, particularly low-tech manufacturing, and low-tech services to our GDP. The number of people below the poverty line is estimated to be about 350 million. Unless we make the lives of these 350 million people and the other citizens of India better, we would fail as a nation.

How do we do it? First, we have to create at least 80 million such jobs in the next five years. Second, we have to provide decent access to education, healthcare, nutrition and shelter at affordable prices to every Indian. Third, we have to make their already-not-so-pleasant life better by ensuring that they are not harassed for bribes to obtain simple services like ration cards, gas cylinders, driving licenses and obtaining land records from the public governance system.

To create 80 million jobs through low-tech manufacturing and services, we have to improve our infrastructure by building enough roads, ports, power plants and other such infrastructure for industrial activity. Given that this would require huge investments, we have to attract large Indian and foreign investors who will use India as a base for domestic and export-oriented manufacturing. Such large scale domestic and foreign investment will require three factors that create trust in investors. They are: a quick response and investor-friendly bureaucracy; transparency of rules and regulations; and a corruption-free decision-making regime in the government. Here I will cover only the issue of reducing corruption to accelerate our inclusive economic growth.

Nowadays, it is impossible to open a newspaper in India and not see umpteen references to corruption in the country. "There is governance and ethical deficit, admits Chidambaram", "2G spectrum scam: Former telecom minister A Raja arrested", "Senior Maharashtra government official burnt to death by oil mafia", "Indian bureaucracy ranked worst in Asia: Survey", "One in three Indians 'utterly corrupt': Former CVC", "In MP, babus sleep on bed of cash", "Nothing moves in government departments without money: Supreme

Court on corruption", "8 of 16 former Chief Justices of India corrupt: Former Law minister", "Free run for illegal mining, fake permits, fraudulent exports" are some of the clippings from recent newspapers.

Washington-based Global Financial Integrity, a think tank, recently released a report that India lost a staggering US\$ 462 billion in illicit financial flows abroad due to tax evasion, crime, and corruption, post-independence. However, the highly-respected Indian economic journalist, Mr. Swaminathan Iyer, argues that most of the black money is in India itself and not abroad.

A study of 160 small companies in Bangalore, Mumbai and Ahmedabad has showed that 30% of these companies paid bribes of at least Rs. 5,000 per month to a plethora of government inspectors. A study by ASSOCHAM has said that 40% of the price of electricity in India is due to theft and corruption. A study by EXIM Bank has showed that the so-called "transaction cost", a polite term for bribes, raises the cost of exported goods by as much as 25%.

Ramesh Ramanathan, Swati Ramanathan and Raghunandan Thoniparambil of Janaagraha have done extensive work on corruption and on how to reduce it. In their paper titled, "Corruption overview and I Paid A Bribe approach", they talk of two types of corruption - Wholesale and Retail. Wholesale corruption refers to big ticket items of corruption that emanate generally from direct or indirect interaction between business entities and governments. I have already given several examples of Wholesale corruption. I will talk about Retail corruption later. Let me continue with Wholesale corruption.

Let me quote from an article on corruption in <http://www.india-post1947.com> to give you a few more examples of Wholesale corruption. A few snippets from that article are: "Officials often steal state property. In Bihar, more than 80% of the subsidized food aid to poor is stolen. In cities and villages throughout India, Mafia raj 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. Many state-funded construction activities in India, such as road building,

are dominated by construction mafias which are groupings of corrupt public works officials, materials suppliers, politicians and construction contractors.

Shoddy construction and material substitution (e.g. mixing sand in cement to reduce the quantity of cement used in actual construction and submitting expenses for full quota of cement) result in roads and highways being dangerous, and sometimes simply washed away when India's heavy monsoon season arrives". The 2G scam, Commonwealth Games and Adarsh Society scam are clear examples of Wholesale corruption.

While Wholesale corruption touches the lives of the rich and affects corporations, Retail corruption affects the daily lives of common people and it involves the over-the-counter transactions between citizens and government officials. People tell me that even such routine transactions as obtaining a gas cylinder, getting a death certificate, being given a bedpan in a hospital to an immobile patient, getting a driving license, registering one's land, and obtaining an approval for one's house plan all require bribes to be paid.

My own experience in buying medical prescription in India, including a recent purchase, is that unless I am very careful about the shop, these drugs are often fake and do not cure the ailment at all. In Government hospitals, corruption is associated with non-availability of medicines, getting admission, consultations with doctors and availing diagnostic services. The annual bribe paid by rickshaw pullers in Delhi to the police is estimated by Ms. Madhu Kishwar to be Rs. 480 Crores! 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. Transparency International estimates that truckers pay annually \$5 billion in bribes.

Garibi Hatao, the famous slogan introduced by Mrs. Indira Gandhi, has just remained rhetoric even after forty years. Dr. Manmohan Singh's dream of "Inclusive Growth" has not gained momentum, thanks to our corrupt citizens. This is the sorry state of affairs that we have come to in the last sixty years after independence. The opinion of most common people I have talked to

is that it is impossible to live in India unless you submit to the regime of corruption. Of course, the rich, the powerful and the elite do not agree with this since they substitute nepotism for corruption, or pay bribes through service agents.

Janaagraha has created a website called "I Paid A Bribe (IPAB)" where citizens can input their experience with corruption. They collect data in three buckets - I paid a bribe; I did not pay a bribe; and I did not have to pay a bribe. The purpose of this exercise is to help citizens understand this hydra-headed monster called corruption and help citizens and the governments to fight it. Their data shows that of the 11,583 people from 409 towns and cities that have posted their experiences, 10123 people or 86.65% paid a total bribe of Rs. 39.13 Crores; 1165 people (9.96%) got the job done even after refusing to pay any bribe; and 395 (3.39%) of the people were not even asked to pay bribe!

Robert Klitgaard explains the root cause of corruption in a simple yet elegant formula, $C=M+D-A$. In simple words, corruption equals monopoly plus discretion minus accountability. Wherever these conditions are present, be it in the public or private sector, corruption tends to grow. It must be recognized that corruption is all pervasive in India and covers public and private governance systems. However, it is the public governance system that requires our attention here since the amounts spent in this system and its impact on the society are huge and it affects the poor much more than the private governance systems. The returns on reforming the public governance systems are very high. Fortunately, the private governance systems have market competition as a deterrent force to keep errant industrialists under check. In public governance systems which are monopolistic, there is no such force.

Why is combating corruption so important at this stage? This is the first time in the history of India in the last 300 years that we have received some recognition from the world. This is the first time in this period of 300 years that Indians have moved confidently towards economic progress and have created a hope that we may indeed solve the problem of poverty in India. This is the first time that foreigners have shown an interest in India as an investment destination. Our software industry has

become a world-leader and is expected to grow to US\$ 300 billion in the next 10 years. That means most Fortune 2000 corporations will do business with Indian software firms and visit India often.

We have become a member of G-20. India has a decent chance of joining the Security Council. Most thinkers that I have spoken to in India and abroad feel that this window of opportunity, if not used well, is unlikely to come again in the near or medium future. If the world forgets India now, it is unlikely that we will be back on the front burner of people's mind for a long, long time. To seize these wonderful opportunities that I mentioned, India will have to be a nation that engenders trust in the mind of leaders outside.

There is a large body of literature on the negative impact of corruption on economic growth and investment in a country. Corruption results in non-merited and wrong choices, inefficiencies, delays and uncertainties. Economists have established that corruption is likely to reduce GDP growth rate by 0.5% to 1.5%. According to these economists, corruption inflates expenditure and reduces return on capital. Purchases of goods and services will be based on who gives the highest kickback rather than who provides the best value-for-money to the public.

In such environments, the experts believe that large programs will be designed to generate huge illegal income to politicians and bureaucrats rather than to improve the quality of life of people. In other words, only countries with low corruption can enjoy efficient returns on public investments and bring faster and more efficient economic growth. This is particularly true for countries that aim to bring inclusive growth that our Prime Minister wants. Given that we need huge investments to create such inclusive growth, we must be seen as a highly desirable destination for investment, trade, tourism and education. We must be seen as trustworthy, honorable, investor-friendly and hospitable people who will take quick and transparent decisions in the interest of our nation. We must compete with the best of governments in enhancing the confidence and comfort of global business people in doing business with us. These transformations require that we remove corruption from public and private governance.

Now, let me get to the issue of reducing both Wholesale corruption and Retail corruption. Before I go into any specific methods to combat corruption at these two levels, let me talk about an important primal condition necessary for a sustained change in the mindset of people towards a better India. While institutions, systems and rules, and strict implementation of these rules are very important to create a decent and honest society, I am not sure we can achieve any worthwhile progress in creating a corruption-free society unless we have a critical mass of leaders in every aspect of life - politics, bureaucracy, business, academia, military and civil society - who believe in honesty, decency, investor-friendliness, civility, rule of law applicable to everybody irrespective of power and pelf, putting the interest of the country above their personal interest, and pride in the nation.

It is important that our leaders are not just honest but are also courageous to take tough and quick actions against errant people and publicize these actions. Once we build a culture of meeting out quick and heavy punishments far outweighing the gains these culprits have made from corruption, I believe that we will see a gradual snowballing of movement towards a corruption-free India. I believe that compliance by common citizens to rules and norms of a community gains momentum and enthusiastic acceptance when leaders demonstrate their compliance with such rules, regulations and values.

Looking at the state of the country today, this appears to be a tall order but we have to remain optimistic. We should not believe people who tell us that it is not possible to pick a small number of honest politicians and bureaucrats to run our country from among a billion Indians.

The institution of Lokpal when fortified and populated by honest and courageous people is a good instrument for fighting Wholesale corruption. This is where all of us must support the efforts of the government of India and Shri Anna Hazare in arriving at a strong Lokpal Bill which will indeed be able to build a culture of honesty in public governance and in the interface between business leaders and public officials.

I will not go into the details of the various clauses of Jan Lokpal such as whether the Prime Minister must come under the purview of Lokpal, and whether CBI and CVC must work within the ambit of Lokpal. These issues are under discussions among experts and a suitable solution will be found in time. It would have been nice if an all-party committee and a few representatives from the civil society had gone into all aspects of the Bill and come to a quick and good conclusion. On the issue of whether an "unelected group" of people can force the government to do good things is to be judged in the context that the "elected" have not passed the Lokpal Bill for over 43 years! Therefore, it is time for the masses to work with the government to do good things.

Lokpal Bill alone will not be sufficient to reduce corruption. We have to improve merit, transparency and accountability in financial matters, public procurements, public-good auctions, and in appointing key officials. We have to simplify our laws, particularly our direct and indirect tax laws, to improve compliance. Decentralization of power, involvement of the civil society in reviewing complaints about and the progress of a government function, and transparency and accountability of politicians and officers in dealing with the civil society are extremely important to reduce corruption.

It is not just sufficient to pass laws but the central and state governments must be enthused to use these laws to reduce corruption. For example, India passed the Benami Transactions Prohibition Act in 1988 but no government in India has used this act to seize Benami property. It is very important that we start to use this act at least after 23 years! This will serve as a disincentive to corrupt people.

Our economic policies should not encourage corruption. A classical example is the adulteration of diesel with petrol, thanks to differential pricing. This is where direct subsidy to the poor using their unique ID of the UIDAI is a good idea.

We have to devise a finance system for election that addresses three objectives: corruption scandals, rising campaign costs, and equal opportunity for political participation, as pointed out by Mr. E. Sridharan. He

also notes that the thrust of political finance reform in democracies worldwide have four main characteristics: limits on expenditure including sub-limits on particular expenditures; limits on contributions from individuals and organizations; public funding, full or partial, of elections and/or parties; and reporting and disclosure of election, party and candidate finances in a suitable form as an administrative pre-requisite for implementation of any or all of the above.

In my opinion, public funding of elections, as has been done in many developed nations of Europe, is an extremely important step. Audited accounts of political parties must be available for public disclosure within 90 days of the closure of the financial year. Any adverse comments by auditors must result in office bearers being banned from holding any public office for ever.

The punishment for the wholesale bribe taker in India is very light today. We must introduce a rule that recovers at least 2 times the bribe amount plus interest on the bribe amount from the bribe taker, his family and his assigns. The guilty person must be sent to imprison at least for 15 years. We must strengthen our courts to speed up the process of judging the corruption cases and punishing the guilty. We must strengthen institutions and governance processes to improve judicial independence and impartiality, judicial integrity, judicial accountability and judicial transparency.

Management is about progress while administration is about status. Therefore, we have to orient the mindset of bureaucracy towards management from the current administrative mindset. We can do this by linking the increases in salaries and bonuses for senior bureaucrats, ministers and legislators to a few important macro parameters like: GDP growth, improvement in human development index, reduction of number of people below poverty line, net exports, job creation, and improvement in global rankings like those by the Transparency International. The lower level bureaucracy can be incentivized by bonuses linked to clear, objective, measurable progress parameters of their own departments with focus on speed of response, transparency, honesty and accountability.

There have been several suggestions to reduce Retail corruption. In my opinion, use of e-governance systems

to separate the point of delivery of services from the point of decision-making is a good tool to reduce corruption. If the governments can outsource the point of delivery to at least a couple of competing private sector companies, and monitor their performance before renewing the contract, it may help reduce corruption.

Janaagraha has proposed a Token system to reduce deliberate delays in responding to the requests of citizens for services. This is a good suggestion and will perhaps work in most cases. However, there are cases when bureaucrats raise unnecessary and meaningless queries if the parties do not agree to pay bribe. In such cases, your token position is lost. Let me give an example. In 1984 when we imported a computer at Bangalore, the customs officer rejected our concessional duty certificate issued by a Joint Secretary of the Department of Electronics without any rhyme or reason other than that we were unwilling to bribe him. We offered to pay for his telephone call to the Joint Secretary in Delhi and even for the travel of his assistant to Delhi to verify the certificate. In fact, the Joint Secretary called the Bangalore officer, verified the authenticity of the certificate, and reissued the certificate. All went in vain. It took us 10 years to get back the unjustly-levied customs duty!

Dr. Kaushik Basu, a well-known Economist from Cornell University and the current Chief Economic Advisor to the Government of India, has proposed a law to make bribe giving, at least certain classes of low-amount, harassment bribe giving, legal. He believes that, today, post the bribing act, both the bribe giver and the bribe taker are guilty and, therefore, have incentive to keep it secret.

On the other hand, if bribe giving and not taking is made legal, then the bribe giver can co-operate with the authorities post the act to expose the bribe taker. This is akin to the bribe giver turning an approver under the current system and escaping punishment. This sounds an interesting idea and should be tried. The only possible issue with this idea is that the rest of the community of bribe takers may shun the bribe giver, and future transactions of the bribe giver with this community of officials may get affected.

I suggest that every office that offers public governance services is encouraged to install the Token system and a workflow system which details the processes and steps involved and the official involved in each of the steps of the service delivered by the concerned office to citizens. This system must be made completely transparent to the public so that the public knows how long an application for a service is waiting at a given step with a given officer.

In each town or village, there should be a civil society committee formed by the government to review the status of the applications for services once a month. This committee can question the official involved in delayed cases and expedite the process. In addition, it is best that the delivery points of service requests be separated from the decision-making points and given over to at least two competing private sector providers.

In the end, it is all about the value system of people in a society that determines how proper and correct they are in their actions whether they join public or private service. It is also about the pride of our country. This is where "walk the talk" by our leaders becomes extremely important. Studies by experts have shown that societies which have embraced meritocracy and performance orientation are better able to handle problems of corruption. In such societies the aspiration of public servants is to get ahead in their career by hard work, performance and honesty. My hope is that every Indian will work hard, smart and honest to make this country a corruption-free country.

Two major curses against this country are our apathy and our singular hatred of speed. We are probably the slowest country in the world in actionizing our intent. What takes a month in most other countries takes years in our country. It is extremely important that all of us - the government, opposition parties, bureaucracy, corporate leaders, academia, media and the civil society - come together and take quick action to remove corruption from this country. I am positive that it will happen.

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Mr. Murthy articulated, designed and implemented the Global Delivery Model which has become the foundation for the huge success in IT services outsourcing from India. He has led key corporate governance initiatives in India. He is an IT advisor to several Asian countries. He serves on the boards of many companies as well as business schools. The Economist ranked Narayana Murthy among the ten most-admired global business leaders in 2005. He topped the Economic Times list of India's most powerful CEO's for three consecutive years: 2004 to 2006.

He has been awarded the Padma Vibhushan by the Government of India, the Legion d'honneur by the Government of France, and the CBE by the British government.

He is the first Indian winner of Ernst and Young's World Entrepreneur of the year award and the Max Schmidheiny Liberty prize, and has appeared in the rankings of businessmen and innovators published by India Today, Business Standard, Forbes, BusinessWeek, Time, CNN, Fortune and Financial Times. He is a Fellow of the Indian National Academy of Engineering and a foreign member of the US National Academy of Engineering. He has about 25 honorary doctorates from universities in India and abroad.