

SWACHH BHARAT IS A RECIPE FOR INDIA'S GROWTH: INDIA IMPROVED A SHARP 108 POSITIONS IN BRIBERY INDEX FOR 6 YEAR ENDED 2020

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The report released by TRACE (Nov-20), puts India is at 77th position in a global list that measures business bribery risks of 2020. It is quite impressive to note that over the years India's position in bribery risk ranking has improved significantly. In 2014, India was ranked 185th position out of 197 countries. We believe that India has made such an impressive progress primarily due to Government's mandate to remove corruption and bribery from all sections of society. In 2018, Government has amended the 'Prevention of Corruption Act, 1988' after 30 years to introduce a number of new provisions, including criminalising the act of giving a bribe in addition to taking it, and at the same time putting in place an effective deterrence for such actions by individuals as well as corporate entities.

The trend in total number of actions taken by Central Vigilance Commissions (CVC) from 2008 to 2019 suggests that the number of complaints has declined since 2014 to only 32,579. The number of punishments carried through own investigations by CVC is also declining. This clearly shows general public is having more faith in cleaner administration now as compared to earlier and hence outside complaints are declining. This also shows over the years, leveraging of technology and adoption of latest technological initiatives like e-tendering, e-procurement and reverse auction has helped in bringing transparency in governance and this should be continued with gusto.

Does such reduction in corruption have had an impact on economic growth? Our cross country analysis between 2010 and 2018 shows that countries like India, UK, Egypt, Greece, Italy, etc. that succeeded in reducing the corruption level by improving their overall rank in corruption perception index (as published by Transparency International) has also achieved a positive GDP growth. India has stood tall among rest of the developing countries by improving its overall rank from 94 in 2012 to 78 in 2018.

We however have a small suggestion. Even though the corruption act has been rightfully modified in 2018, some radical amendments can banish the idea of corruption altogether (was suggested in 2011 also). The central idea is that we should declare the act of giving a bribe as legitimate activity. In other words the giver of a harassment bribe should have full immunity from any punitive action by the state. But the person, taking the bribe should be punished. Thus when a person gives a bribe, he/she will try to keep evidence of the act of bribery so that immediately after the bribery he/she can turn informer and get the bribe taker caught. The upshot of this is that the bribe taker will never take the bribe in the first place. In this way, we can actually achieve a Nash Equilibrium (commonly called in economic parlance) with an optimal payoff for the society. We can also find the idea of such Nash equilibrium in relation between Banks and Corporates post AQR.

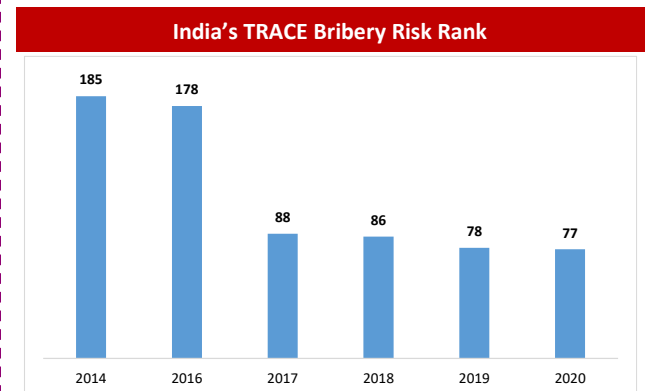
The other alternative is to penalize the bribe taker of more stringent action than the bribe giver and make a clear distinction between the motives!

BRIBERY INDEX: THE REALITY

- The report released by TRACE (an anti-bribery standard setting organisation, measures business bribery risk in 194 countries, territories, and autonomous and semi-autonomous regions) in Nov-20, puts India is at 77th position with a score of 45 in a global list that measures business bribery risks of 2020. The overall country risk score is a combined and weighted score of four domains: Business Interactions with Government; Anti-Bribery Deterrence and Enforcement; Government and Civil Service Transparency; and Capacity for Civil Society Oversight, including the role of the media. The domain scores are derived from nine subdomains.
- It is quite impressive to note that over the years India's position in bribery risk ranking has improved significantly, especially post 2014. In 2014, India was ranked 185th with an overall score of 80, out of 197 countries. This rank has improved significantly by 97 notches to 88 in 2017 (from 185 in 2014) but after that the progress is growth at margin. During 2017-2020 (4-years), India has shown an improvement of 11 notches to 77 in 2020 from 88 in 2017.
- We believe that India has made such an impressive progress solely due to Government has mandated to remove corruption and bribery from all sections of society. In 2018, Government has amended the 'Prevention of Corruption Act, 1988' after 30 years to introduce a number of new provisions, including criminalising the act of giving a bribe in addition to taking it, and at the same time putting in place an effective deterrence for such actions by individuals as well as corporate entities. The new act aims at checking corruption in big places and striking hard against corporate bribery. It seeks to establish a vicarious liability so that the actual bribe giver is also exposed.

TRACE Bribery Risk Matrix						
Rank	Country	Risk Score	Domain 1: Interactions with Government	Domain 2: Anti-bribery Deterrence and Enforcement	Domain 3: Governmental and Civil Service Transparency	Domain 4: Capacity for Civil Oversight
9	UK	14	12	25	12	13
15	Singapore	17	2	20	7	53
21	Japan	19	18	14	19	26
23	US	20	22	35	13	15
61	South Africa	41	51	60	29	24
77	India	45	50	53	36	40
90	Brazil	47	60	53	36	31
114	Turkey	52	40	64	49	66
126	China	54	38	57	55	80
127	Russia	54	50	71	45	60

Source: SBI Research; Score: Low is Better



Source: TRACE; SBI Research

DECLINE IN CORRUPTION NUMBERS

- ◆ The trend in total number of actions taken by Central Vigilance Commissions (CVC) from 2008 to 2019 suggests that the number of complaints has declined since 2014 to only 32,579, though some significant rise in the year 2016 & 2018. The number of punishment carried through own investigations by CVC also declining. This clearly shows general public is having more faith in cleaner administration now as compared to earlier and hence outside complaints are declining.
- ◆ This also shows over the years, leveraging of technology and adoption of latest technological initiatives like e-tendering, e-procurement and reverse auction has helped in bringing transparency in governance and this should be continued with gusto.

CORRUPTION & ECONOMIC GROWTH: THE PERCEPTION

- ◆ Will reducing corruption in a country translate to Economic Growth? Past research suggests, *“while the direct link between corruption and GDP growth is difficult to assess, corruption does have significant negative effects on a host of key transmission channels, such as investment (including FDI), competition, entrepreneurship, government efficiency, including with regards to Government expenditures and revenues, and human capital formation”* (OECD research Report).
- ◆ To establish the above argument, we did a cross country analysis, to examine how major developed/developing countries are performing in corruption parameter since 2012 and does the improvement in the rank over the years translated in improving the GDP growth and vice versa?
- ◆ The adjacent table explains that between 2012 and 2018, countries like India, UK, Egypt, Greece, Italy, etc. that succeeded in reducing the corruption level by improving their overall rank in corruption perception index (as published by Transparency International) has also achieved a positive GDP growth. India has stood tall among rest of the developing countries by improving its overall rank significantly from 94 in 2012 to 78 in 2018.
- ◆ Interestingly, countries like Russia, South Africa, Brazil, Turkey, China have slipped in the overall ranking have faced a lower economic growth.
- ◆ Apparently, the improvement in corruption level in India has translated into FDI inflows. Data shows there has been a significant improvement in foreign investor confidence towards India. Net FDI inflows to India has increased by 263% in the last decade (\$11.8 billion in FY11 to \$43.0 billion in FY20). During FY12 to FY18, net FDI has increased by 37%. In the current year so far (Apr-Nov, FY21, Net FDI has grew by 27.5% to \$34 billion compared to last year.

Central Vigilance Commission Actions

Year	Own Investigations				Outside Complain	
	Prosecution		Punishments		Complaints received	
	Number	% YoY	Number	% YoY	Number	% YoY
2008	138	-	2511	-	10142	-
2009	225	63.0	2204	-12.2	14206	40.1
2010	262	16.4	2720	23.4	16260	14.5
2011	183	-30.2	2312	-15.0	16929	4.1
2012	199	8.7	2507	8.4	37039	118.8
2013	176	-11.6	2680	6.9	31432	-15.1
2014	133	-24.4	2144	-20.0	62362	98.4
2015	132	-0.8	3592	67.5	29838	-52.2
2016	154	16.7	3296	-8.2	49847	67.1
2017	152	-1.3	2589	-21.5	23609	-52.6
2018	108	-28.9	2145	-17.1	29979	27.0
2019	76	-29.6	1508	-29.7	32579	8.7

Source: Central Vigilance commission

Changes in Corruption Rank and Economic Growth from 2012 to 2018

Countries, where		Change in Rank (2018/2012)	Change in GDP (2018/2012) in bps	GDP Growth (2018)
Corruption Decline/ Growth Increase	India	-16	100	6.5
	Egypt	-13	310	5.3
	Ukraine	-24	320	3.4
	Paraguay	-18	390	3.4
	Austria	-11	170	2.4
Corruption increase/ Growth decline	Mexico	33	-140	2.2
	Russia	5	-150	2.5
	South Africa	4	-140	0.8
	Thailand	11	-300	4.2
	Turkey	24	-180	3.0
	Brazil	36	-60	1.3
	China	7	-110	6.8

Source: SBI Research; For India 2012=FY13 and 2018=FY19

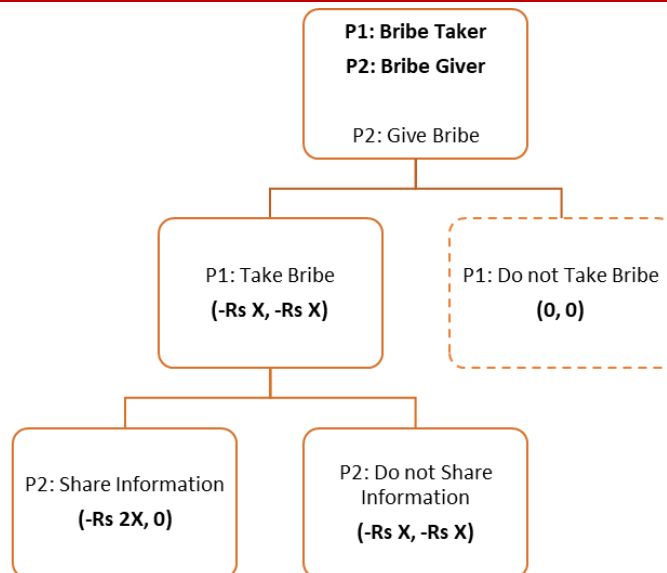
Net Foreign Direct Investment (\$ bn)

Source: RBI, SBI Research

IS THERE A FURTHER NEED TO AMEND THE PREVENTION OF CORRUPTION ACT: THE A TWO-PERIOD GAME IN THE CASE OF BRIBERY

- ◆ Interestingly, Dr Kaushik Basu in its 2011 paper titled, *“Why, for a Class of Bribes, the Act of Giving a Bribe should be Treated as Legal”*, had put forward a small but fairly radical idea of how we can take one step towards cutting down the incidence of bribery (particularly the harassment bribes, i.e. bribes that people often have to give to get what they are legally entitled to). The central idea is that we should declare the act of giving a bribe as legitimate activity. In other words the giver of a harassment bribe should have full immunity from any punitive action by the state. But the person, taking the bribe should be punished.
- ◆ The idea behind this radical idea was that the bribe giver if he is immune from the law, will always share the information about the bribe given to the briber taker and this will be always beneficial to the society in terms of benefits. This could be nicely explained through the application of a 2 period Sub Game Perfect Nash equilibrium.
- ◆ Under the current circumstances let us assume that both the bribe giver and the bribe taker are fined Rs X each for the act of bribe. However, what we suggest is that the bribe taker be fined 2X and the bribe giver 0, as then only the bribe giver will share some useful information with authorities. If the bribe giver is unable to share information then both the bribe giver and the bribe taker will be fined Rs X each.
- ◆ Under our proposed law, when a person gives a bribe, he will try to keep evidence of the act of bribery so that immediately after the bribery she can turn informer and get the bribe taker caught. The upshot of this is that the bribe taker will never take the bribe in the first place. In this way, we can actually achieve a Nash Equilibrium with a optimal payoff for the society.

A Two-Period Game in the case of Bribery



Source: SBI Research; Payoffs are in Brackets for player P1 and player P2

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