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Scams in India: Concerns and Lessons

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Abstract

The paper discusses various concerns arising from multiple scams that have come to light in India. In this context, it argues that the political leadership in India should note that citizens are speaking up through votes and rewarding only those who perform.

Last week, there was news of yet another scam in India. The Central Bureau of Investigation (CBI) arrested several senior officers of the Life Insurance Corporation (LIC) of India and some Government-owned banks. These officers had allegedly helped grant real estate loans to fictitious entities and individuals. Funds had mysteriously moved from these accounts to accounts of several real estate firms who were then using these funds as free equity. Presumably, the loans would be treated as non-performing assets (NPAs) over time.

This revelation is the latest in a series of major corruption allegations that have surfaced in the media and in the public. It started off with allegations about the misuse of funds in the recently concluded Commonwealth Games, followed by a major housing scam in Mumbai, and then the furor over the Comptroller and Auditor General (CAG) report on the losses of public funds in the misallocation of 2G spectrum licenses, followed soon after by the revelations of bank frauds. The Supreme Court has demanded an explanation from the Prime Minister's office. The

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ruling United Progressive Alliance (UPA)-II coalition has been on the back foot, unable to defend itself against allegations of corruption. The incumbent telecommunications minister was forced to resign recently, as was the Chief Minister of Maharashtra.

The first concern is voiced by the opposition – that the Prime Minister has not been able or is unwilling to say anything about the sequence of events and whether such events occurred without his approval, or in spite of his misgivings. This has been a serious blow to the image of Prime Minister Dr Manmohan Singh, and he is appearing to be weak and ineffective. The Congress party, while closing ranks against the onslaught of the opposition, has been somewhat slow and guarded in its defence of Dr Singh. In fact, during the recent Congress party conclave, there was no mention of corruption in Government, a fact that a number of newspapers have been quick to point out.

The second is the series of conversations revealed in the *Outlook* magazine – an English weekly enjoying extensive readership between corporate lobbyists, ministers and major corporate houses. These conversations clearly point to a nexus between politicians and corporate houses, attempting to bend and twist policies to suit their individual needs. Not surprisingly, the two major chambers of industry in India, the Federation of Indian Chamber of Commerce and Industry (FICCI) and the Confederation of Indian Industry (CII) have been very guarded in their comments, as it appears that a number of their members are involved in these allegations.

In the media, the anger and frustration of the average citizen is evident, as show after show focused on the inability of the Government to act and to set things right. As one revelation follows another, the earlier events move to the background and there is a feeling of deep distress and perhaps, a sense of resignation on what is happening.

The consequences of these events are likely to be serious. At the level of the citizen, there is a strong disenchantment with the politicians and with the bureaucracy, which could feed existing resentments. The Naxalite movement in several states, at its roots, is a protest against exploitation and against the dictates of the state. Maintenance of public order has become a concern in several states, and the Kashmir riots were perhaps an expression of frustration against lack of development and economic opportunities. In reaction, the political class is drawing on itself and its supporters and political parties are seen to be indulging in creation of support groups that are bordering on the criminal. In short, if there is no improvement in governance, the citizen may lose faith in the state and the order that it can bring.

The businessmen perhaps see the problem as an opportunity as well as a threat – an opportunity to cash in on access to Government concessions, and a threat that the business environment needs to be managed to their advantage. There are several business houses, known for their

ethical track records, which have started investing overseas rather than pursue business opportunities in India, even though returns from the domestic markets are far greater. These companies have plans to see their revenue generation from external operations growing substantially as a percentage of total revenues. As much as inward capital flows, there is evidence of outward flows, both as investments and as savings, that is denying the Indian economy of capital formation opportunities. Overseas investors are viewing these developments with concern.

Amidst all the gloom, there are significant streaks of light. The elections in Bihar have demonstrated that the average citizen is looking for a government that is concerned about welfare and development. The success of the Nitish Kumar Government has been due to improvements in governance and in law and order, and the voters have rewarded him for these successes. The recent local body elections in Gujarat have once again demonstrated the trust of the citizenry in the governance policies of the ruling Narendra Modi government. At the same time, it is clear that the days of the Karnataka government, assailed with allegations, are numbered. In short, the citizens are speaking with their votes in the state and local body elections, and those that can perform are being rewarded. This is a very healthy sign, and one that the politicians at the central level are likely to heed.

More importantly, the entrepreneurial spirit is still buoyant. Wherever there are opportunities, there are people to invest and grow in the various states. There are only a few who seek growth from the grant of government concessions. Thousands are forging their own paths and the newspapers and stock markets are full of their success stories. The 8.0 per cent growth in Gross Domestic Product (GDP) is almost accepted as a given, and the opportunities that it generates are likely to far exceed the concerns that these scams cause. Interestingly, these groups are more concerned about looking ahead, not looking back.

Of course, the pressure to punish those who transgress is growing, preferably through the ballot, and not with a gun.

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