



Transparency International India

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the coalition against corruption

PRESS RELEASE

Business must counter corruption to foster economic sustainability

Indian companies bribe public officials while doing business abroad

New Delhi, September 23, 2009: India boasts some of the world's largest markets yet they are regarded by their peers as among the most corrupt when doing business abroad. Thirty per cent of the respondents in Transparency International's 2008 *Bribe Payers Index* indicated that companies from India are likely to bribe low-level public officials in order to 'speed things up'.

The Global Corruption Report 2009: Corruption and the Private Sector (GCR) that was released worldwide today reports that Indian and Chinese companies play active role in global business but they routinely engage in bribery when doing business abroad. Competition Act enacted in 2002 which promotes and sustains competition in markets and protects the interests of consumers has remained a non starter in India.

" *Transparency International India (TII)* has had some measure of success with public sector companies with the use of Integrity Pact, a tool to check corruption in procurement and tendering, we have not been able to generate similar interest among the private sector, yet", said TII Chair, Admiral R H Tahiliani this morning.

The GCR shows how corrupt practices constitute a destructive force that undermines fair competition, stifles economic growth and ultimately undercuts a business's own existence. In the last two years alone, companies have had to pay billions in fines due to corrupt practices. The cost extends to low staff morale and a loss of trust among customers as well as prospective business partners.

The Report addresses the concern that Corporate governance in Indian companies have not yet come of age, although way back in 1998 the Confederation of Indian Industries (CII) put forward a voluntary governance code based on international best practices to help enhance governance . The code's key recommendations included more independence for boards, audit committees with greater independence and financial expertise, the certification of key results and processes by key executives, and enhanced disclosure. However, only a handful of larger firms adopted this voluntary code.

India has witnessed stock market fraud by brokers in collusion with corporations that aim to cheat investors and circumvent the regulator, the Securities and Exchange Board of India (SEBI). Consent orders are one of the ways in which SEBI aims to tackle fraud and corruption . Companies can pay monetary fines for financial crimes rather than going through drawn out litigation. There are concerns, however, that consent orders are being given too freely, with serious crimes being excused for as little as US\$2000.

Strong economic growth in the recent years has resulted in the proliferation of educational institutions for technical education in the country but their conduct is not always above board, is another highlight of this report.

Another concern addressed in the report is how the sheer economic power of some companies and business sectors translates into disproportionate and undue leverage on political decision-making. Failure to regulate such influence lays the foundation for kleptocratic systems and stunted growth. Lobbying efforts often lack transparency and tend to fall outside the system of checks and balances that firms rely on for strategic decisions. "Companies have no clear cut guideline on regulating and

making transparent political contributions. Corporates report high level strategic commitments to anti corruption but they do not always report on the necessary support systems required to meet these commitments” said Anupama Jha, Executive Director of TII.

Research in the report also shows that half of international business executives polled estimated that corruption raised project costs by at least 10 per cent. Ultimately, it is citizens who pay: consumers around the world were overcharged approximately US \$300 billion through almost 300 private international cartels discovered from 1990 to 2005.

Revolving doors between public office and the private sector, another practice documented in the report, provide a smooth path to deceitful public procurement deals where non-competitive bidding and opaque processes lead to immense waste and unreliable services or goods.

Many of the countries found at the bottom of TI's yearly *Corruption Perceptions Index* which measures perceived levels of public-sector corruption in over 170 countries are not only victim to unscrupulous governments but to major firms that are more than willing to enter into corrupt deals with these governments. These intricate webs, involving more than simple bribes, are possible because companies believe that they can get away with such criminal practices.

Corporate integrity pays. Companies with anti-corruption programmes and ethical guidelines are found to suffer up to 50 per cent fewer incidents of corruption and to be less likely to lose business opportunities than companies without such programmes. The tools for corporate anti-corruption action are broadly and readily available but companies must pick up the pace in applying them. The dearth of confidence in corporate ethics highlighted by the present economic crisis makes the need to promote anti-corruption mechanisms, as an integral part of a company's operations, all the more urgent. “Integrity Pact can be used by the private sector companies to gain trust of people within the country but also outside”, added Admiral Tahiliani. Forward thinking CEOs are already acting forcefully against corruption and reducing risks in an effort to secure sustainable business growth with integrity at the core of their operations.

Corporate integrity is about more than sustainable earnings or returns on investment. When reckless companies engage in corruption, the consequences can be devastating. From water shortages, exploitative work conditions or illegal logging to unsafe medicines and poorly or illegally constructed buildings that collapse with deadly consequences, corruption can bring about unprecedented harm. The private sector has a crucial role to play in preventing these outcomes, by operating with transparency and accountability wherever there is a profit to be made.

About the Global Corruption Report:

Transparency International's *Global Corruption Report 2009: Corruption and the Private Sector* (GCR) features more than 75 experts examining the scale, scope and devastating consequences of corporate corruption. This is complemented by 46 in-depth country reports along with best practices and practical recommendations. The GCR is a flagship yearly publication from TI that compiles expert research and analysis from around the world with a thematic focus related to corruption.

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