



## Tackling corruption in India's logistics sector

Time to revisit your anti-corruption  
compliance programme?

December 2023



# Overview

The Indian freight and logistics market size, currently estimated at ~US\$ 280 billion, is expected to cross US\$ 400 billion by 2029 during the forecast period (2023-2029)<sup>1</sup>. In addition, the seventh edition of the World Bank Logistics Performance Index (LPI) witnessed a rise in India's ranking from the 44th position in 2018 to the 38th position in 2023<sup>2</sup>. This signals how this sector continues to support the country's fast-paced growth.

The Indian government has also implemented multiple initiatives, such as the *Pradhan Mantri Gati Shakti* National Master Plan and National Logistics Policy, to help push the sector's growth.



**PM Gati Shakti<sup>3</sup>:** Launched on 15 August 2021, *Pradhan Mantri Gati Shakti* National Master Plan is a holistic infrastructure development programme that aims to improve logistics by developing connectivity amongst railways, roadways, waterways, and airways. The programme will also provide a centralised transportation and logistics grid for smoother information flow and expedited project clearance.



**National Logistics Policy (NLP):** Launched in September 2022, the NLP complements the PM Gati Shakti Master Plan. Its objective is to boost the nation's economy and corporate competitiveness by establishing an integrated, seamless, effective, and cost-efficient logistics network that uses best-in-class tools, procedures, and qualified people<sup>4</sup>.

According to the Association of Certified Fraud Examiners (ACFEs) "Occupational Fraud 2022 survey report<sup>5</sup>, corruption was highlighted as the most common fraud scheme in the transportation and warehousing industry by 59 percent respondents. With a figure as high as this, the industry needs to tackle the issue on priority, considering the enormous growth it is witnessing.

## Growth of the logistics sector

The industry has been experiencing exponential growth over the past decade. The following factors have played a critical role in its growth.



### Rise in eCommerce

- Last mile delivery
- Autonomous vehicles
- Crowd shipping models
- Drone deliveries



### Global manufacturing shift

- Focus on "Make in India" initiatives
- Encouraging tax rebates and grants
- Strengthened export and import mechanisms



### Technology advancement

- Internet of Things (IoT)
- Artificial intelligence
- Blockchain technology
- Deep machine learning
- Urban mobility solutions

<sup>1</sup> Source: <https://www.mordorintelligence.com/industry-reports/india-freight-logistics-market/market-size>

<sup>2</sup> Source: [https://pib.gov.in/PressReleasePage.aspx?PRID=1919925#:~:text=India%20improves%20in%20the%20Logistics,Performance%20Index%20\(LPI%202023\)](https://pib.gov.in/PressReleasePage.aspx?PRID=1919925#:~:text=India%20improves%20in%20the%20Logistics,Performance%20Index%20(LPI%202023))

<sup>3</sup> Source: <https://www.india.gov.in/spotlight/pm-gati-shakti-national-master-plan-multi-modal-connectivity>

<sup>4</sup> Source: <https://timesofindia.indiatimes.com/blogs/voices/reimagining-indias-logistics-sector/>

<sup>5</sup> Source: <https://acfepublic.s3.us-west-2.amazonaws.com/2022+Report+to+the+Nations.pdf>

## Understanding corruption risks across modes of transport

The Indian logistics sector faces numerous challenges in its quest for efficient and transparent operations. Regrettably, corruption continues to pose a significant threat within this sector, permeating every phase of the service cycle – securing contracts, allocating orders, engaging sub-contractors/intermediaries, conducting vehicle inspections, and ensuring payment clearance.

### 1 Bid rigging in the procurement process



According to the United Nations Office on Drugs and Crime (UNODC)<sup>6</sup>, public procurement is “the process by which the government buys goods, services, and works (construction) it needs to function and maximise public welfare.” Public procurement is also considered one of the most corruption-prone areas in government activities per UNODC. Employees in government undertakings may favour certain logistics service providers while awarding tenders/long-term contracts for personal gains, leading to unfair competition and lack of transparency. For instance, despite robust procurement rules for vendor selection, bid scoring parameters may be drafted in a way that the contract is awarded to their preferred vendor. Similar practices are also prevalent in the bidding processes of private-sector companies (especially in small and medium-scale enterprises).

### 2 Facilitation payments



Frequent and persistent demands for low-value amounts (i.e., facilitation payments) by public officials and individuals in authoritative roles in the private sector are quite common for logistic service providers in India. These payments, prevalent across forms of transport, are usually disbursed to receive some sort of preferential treatment and/or benefit. These could include expediting customs clearance, allowing material overloading, movement of restricted items, and avoiding a fine for a driving violation.

### 3 Licence and permits



Issuing permits and licences is an essential part of the logistics sector, granting companies the legal authority to operate. However, this critical process also faces corruption risks. Offering additional incentives to enable faster processing of routine documents has been accepted as a way of business. For instance, illicit payments by unauthorised/non-compliant vessels have forced compliant and ethical market players to participate in such practices, albeit reluctantly. Unauthorised vessels or operators lacking the necessary qualifications, insurance coverage, or safety standards compromise the integrity of transportation and raise concerns about public safety.



<sup>6</sup> Source: <https://www.unodc.org/e4j/zh/anti-corruption/module-4/key-issues/corruption-in-public-procurement.html>

#### 4 Corruption in vehicle inspection/maintenance



The aviation and marine industries are known to have higher government controls compared with other forms of transport. This is because aircraft and shipping vessels are subject to several mandatory inspections and checks during their lifecycles. These checks include routine inspections to enforce safety and environmental regulations by relevant authorities, third-party surveyors, or insurance companies. Various corruption risks are prevalent when it comes to vessel inspection and maintenance:

-  Bribery of inspectors to overlook safety, security, or compliance issues
-  Falsification of documentation, to deceive inspectors and regulatory authorities
-  Substandard or fraudulent repairs and maintenance
-  Cargo theft and smuggling of goods
-  Lax enforcement of environmental regulations, resulting in damage to marine ecosystems
-  Neglect of safety parameters, endangering lives, and property

#### 5 Risks involving third-party intermediaries/subcontractors

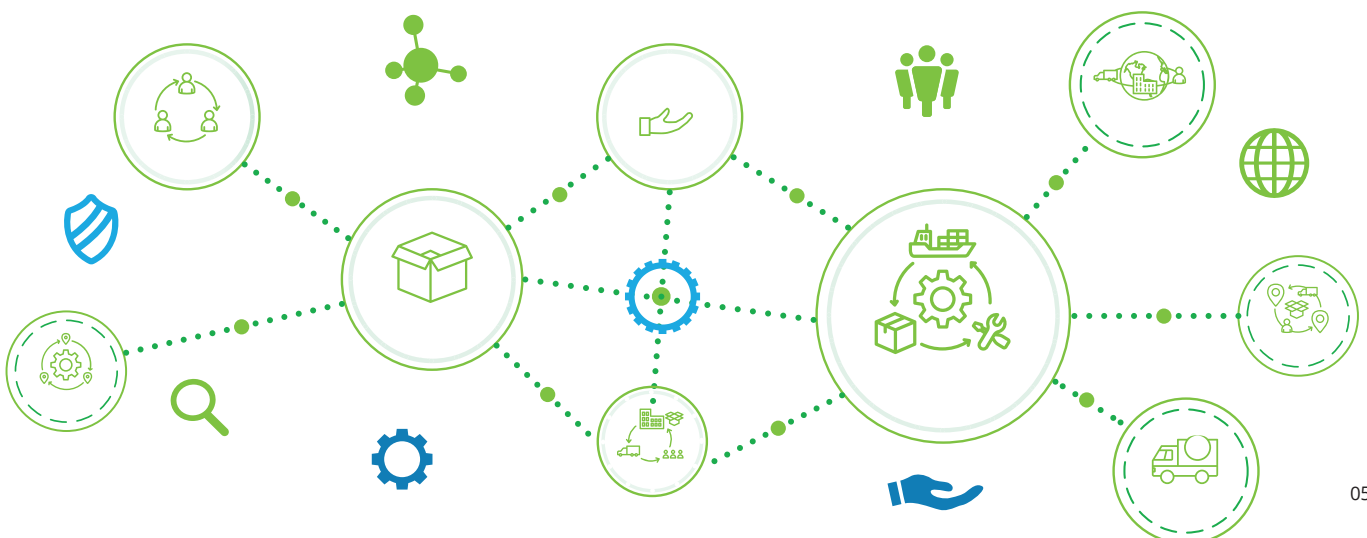


In today's interconnected business landscape, organisations rely on third-party vendors (individuals/entities) to interact with government authorities/officials for/on behalf of an organisation (known as "third-party intermediaries"). To ensure these intermediaries follow no corrupt practices, companies are required to monitor compliance with anti-bribery contractual clauses and have a robust third-party risk management framework. Additionally, transporters hire sub-contractors during the course of their services. For instance, the stevedoring for bulk cargo during port operations requires the involvement of sub-contractors. Shipping companies often receive complaints about pilferage when it comes to the transit of commodities such as coal and coke, limestone, rock phosphate, and iron ore, from ports to their factories.

#### 6 Corruption in infrastructure development



In India, the process of acquiring land for warehouses, terminals, hangars, cold storages, offices, and training centres often encounters issues related to corruption. Logistics companies grapple with issues ranging from land acquisition-related bribery risks to the illicit renting of properties – these can hinder growth and increase operational costs. Corruption in property rentals may involve illegal transactions, inflated rents, or kickbacks to brokers or property owners.



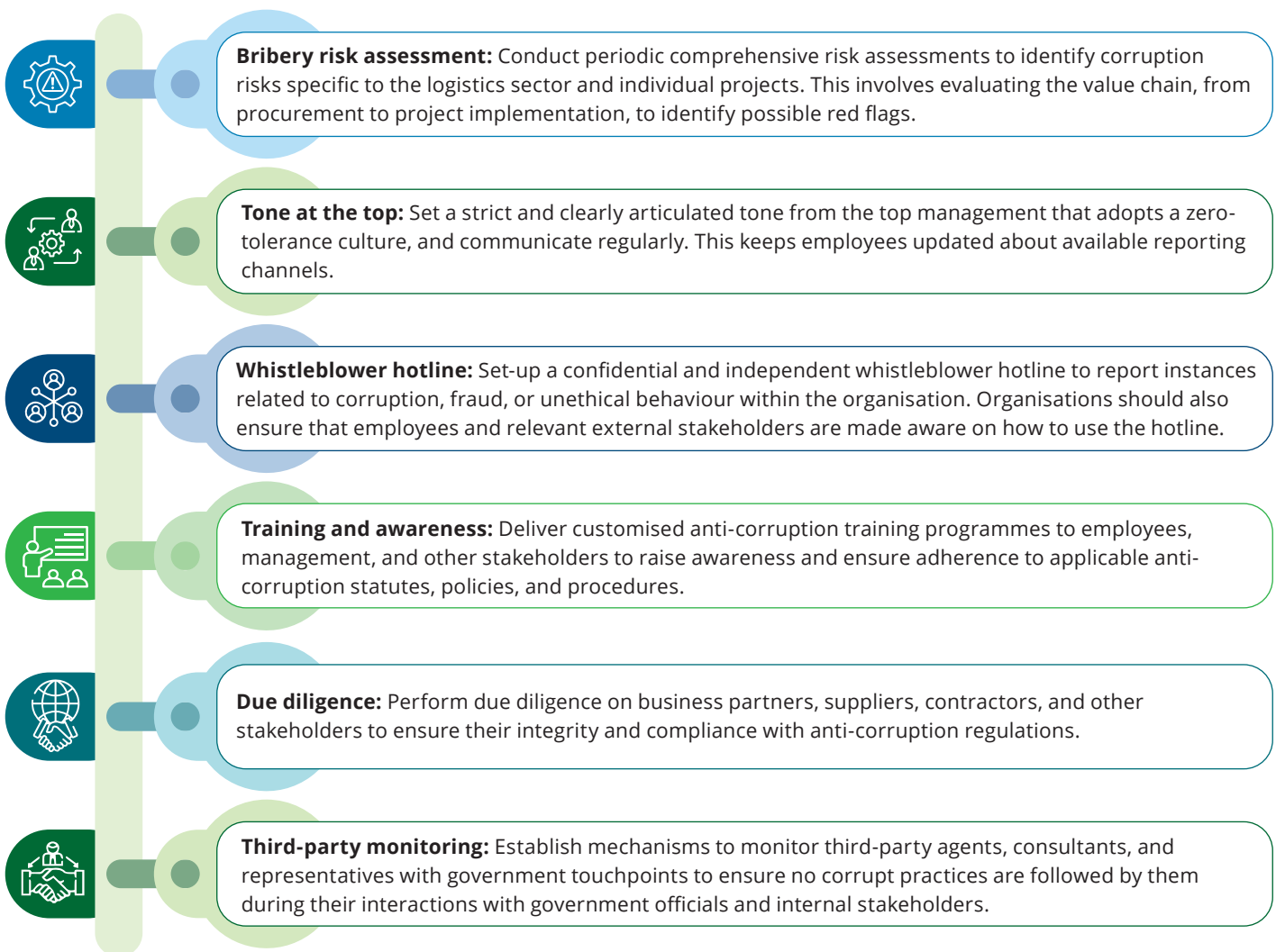
## Suggested best practices

Costs with respect to paying bribery and/or facilitating an act of corruption, can significantly add to transaction cost. Additionally, as a consequence, companies can incur major reputational losses and hefty penalties.

Companies can mitigate such losses by designing and implementing a robust anti-corruption compliance programme customised to their needs and local regulatory requirements. This includes developing a robust code of conduct and anti-bribery/corruption compliance framework, and devising strong anti-bribery and corruption controls in existing processes aligned with industry best practices.

Ethics and compliance professionals have also begun evaluating the need to get the ISO 37001 certification, as a proactive measure to enhance their anti-bribery management system and get assurance on their compliance frameworks.

### Organisations should inculcate some of the following best practices:



Under Section 9 of the Prevention of Corruption (Amendment) Act, 2018, a commercial organisation can be held liable “if any person associated with the commercial organisation gives or promises to give any undue advantage to a public servant” with an intent to obtain or retain business or any advantage for that commercial organisation. Such a person and commercial organisation shall be punishable with a fine or imprisonment, as prescribed in the Act.

On similar lines, the next few years are likely to see ongoing enforcement of the Prevention of Corruption Act, Foreign Corrupt Practices Act, and similar statutes across the world. Hence, for businesses looking to expand their operations, compliance needs to be a constant; one that involves a new way of thinking and includes regularly revisiting the programme to assess risk, upgrade technology, and incorporate best practices as they become available.

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