Democracy, Corruption, and Human Development

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...If the poor go to the police station to accuse a richer man, he is afraid: my accusation may turn out in favour of the rich and against me. But if we are equal, I may have justice”.
Dashour Village, Egypt

1. Introduction
In most countries, corruption has been a common phenomenon for centuries. But it was not until the aftermath of the Cold War that corruption entered the political agenda and was associated with issues such as good governance, democratisation, and poverty alleviation. In 1989, corruption was a topic in the UNDP for the first time, and in the middle of the 1990s, the World Bank, IMF, and other international organisations and development donors also began to give attention to corruption (UNDP 1997; World Bank 1997). Danida indirectly mentioned anti-corruption measures as means for creating accountable and transparent public administration in the Strategy for Development Assistance in 1994 (Danida 1994: 77), but has lately confronted the issue more overtly in the forthcoming strategy, Partnership 2000 (Danida 2000b: 47 and 50).
Recently, the interest in democracy as a means to enhance development has also increased (see for instance Sen 1999; Danida 2000b: 71). However, there is no clear consensus on what type of democracy, or which democratic institutions are most favourable. Of course, we do not intend to settle matters here, but merely propose that the existence of democracy per se does not suffice to improve development. Rather, in order to have an effect democracy needs to be consolidated.
The aim of this paper is to explore how corruption is linked to human development and democratic consolidation. Figure one illustrates how we expect these links to be at an overall level.

Fig 1.

Relations Between Human Development, Corruption, and Democratic Consolidation

1 Cited from *Voices of The Poor*, World Bank (2000).
Although it is clear that the interplay between the variables is complex, we do not intend to scrutinise all the connections, but limit ourselves to examine how corruption affects human development, and how consolidation influence corruption – that is, arrow a) and b) in the figure. We anticipate the first association to be negative - that is; we expect rising levels of corruption to lower human development. Secondly, we expect democratic consolidation to lower corruption – thus, the association between these two variables is also negative.

As the figure indicates, we are aware that the causality between democratic consolidation and corruption and between corruption and human development may not be straightforward. It is very likely that rising levels of corruption also influence the process of consolidation by undermining the legitimacy of democracy (UNDP 1997: xiii). The level of human development may also affect the degree of corruption in a society, because a general lack of awareness of political rights, and constraints on access to the judiciary possibly inhibit the poor from holding politicians and civil servants accountable (Human Development in South Asia 1999: 100). However, we will not analyse these relationships in detail in this paper, but assume that the causality is clear-cut.

In sum, this leaves us with two hypotheses: 1) higher levels of corruption correspond with lower levels of human development and 2) the process of consolidating democracy lowers corruption.

In section two, which is theoretical, we elaborate on the proposed hypotheses. Section three tests the hypotheses statistically and in section four we go into greater detail and examine the hypotheses using the cases of Bolivia and Nicaragua. In section five we sum up and draw conclusions.

**Research Design**

This paper employs a combination of quantitative and qualitative analysis. The combination of these two methods enables us to test our two hypotheses in depth, because the two methods supplement each other and compensate for the respective deficits. The advantage of the statistical method is of course that it tests hypotheses at a general level and proscribes *sui generis* explanations. Another reason for employing this method is that most recent studies in the development literature have used comparative analysis and case studies. The result has been an accumulation of detailed knowledge about specific countries, but at the price of generating little general knowledge. In order to generalise, a large number of cases are necessary and ideally, all developing countries should be included in the sample. Unfortunately, it has been very difficult to find the necessary data to perform such an analysis and as a consequence our sample is restricted to comprise 94
countries for the test of the first hypothesis and 84 countries for the test of the second one. Both samples represent countries from all regions of the world.

The qualitative method provides us with the means to test the hypotheses in greater detail and bring down the level of abstraction to show that democratic consolidation and corruption not only is important in a statistical sense, but also for the life of ordinary people. We thus intend to point at different features that actually affect the level of democratic consolidation, corruption and human development. The reason why we employ the qualitative analysis is also to show which way the causality goes between democratic consolidation, corruption and human development, which can be difficult to examine statistically.

2. Theoretical Perspectives

Hypothesis One: Corruption and Human Development

What is corruption and how is it to be defined? In the literature definitions range from minimal conceptions of corruption as deviation from legal norms to broader perceptions, which include corrupt behaviour that may not be illegal according to legal standards but violates norms and moral standards. An even broader approach sees corruption as a fundamental feature of all patrimonial states, whereas economic approaches define corruption as the ability for individual state actors to derive (economic) rents. Thus, definitions differ widely and subsequently no clear consensus on what corruption is has been established\(^3\) (see Lancaster and Montinola (1997), Philp (1997)). Cutting through the ambiguity, we chose a commonly used definition and define corruption as the misuse of public power for private benefits\(^4\).

In addition, it is common to distinguish between ‘grand’ and ‘petty’ corruption. The former refers to situations where highly placed politicians and senior officials use their position to extract large bribes from large investors or to transfer money from the public treasury to private accounts. Petty corruption refers to low-level public officials extorting small payments in return for cutting ‘red tape’ or for doing what they are supposed to do any way (Rose-Ackermann 1996).

\(^2\) For interesting discussions of comparative and statistical methods, see Lijphart (1975).

\(^3\) Discussions of the defining features of corruption may seem an academic ordeal, but is indeed relevant: people of “flesh and blood” are convicted and imprisoned for engaging in corruption. As such, defining corruption is certainly important and relevant.

\(^4\) This definition is broad and obviously the term misuse is likely to be interpreted and understood differently in diverse (cultural) contexts. This may be a weakness as measurements of corruption in different countries based on assessments of the level of corruption may diverge and render cross-country comparisons difficult. However, choosing this definition may also be an advantage, as it does not limit its range to corrupt behaviour in a narrow legal understanding of the word.
Development is often defined simply as achieving economic growth or wealth. We believe this conception is too narrow, as it builds on the simplistic assumption that economic growth trickles down and benefits the entire population (Martinussen 1998: 37). Accordingly, we choose a broader definition and define human development as having four components: equity, sustainability, productivity, and empowerment (ul Haq 1999: 16).

**Equity** in opportunities is decisive for human development as it enables people to enlarge their choices and benefit from them. Equity in political and economic opportunities is thus a basic human right. **Sustainability** is important because future generations deserve the same opportunities as we have. This is both a question of human, financial, economic and environmental capital. **Productivity** and investment in all forms of capital (such as human and economic) are essential in order to accomplish the potentials of human development. This regards an enabling economic environment and human capital, which are both important as a means to and an end of development. **Empowerment** concerns whether people can and have the capabilities to influence their own lives (ul Haq 1999: 16-19). It thus requires participation of the citizens, political freedom and civil rights (Sen 1999: 5; ul Haq 1999: 20 and 67).

In sum, human development puts people at the centre of concern and sees the promotion of human capabilities and an enabling environment as the most important features of development. Economic growth is part of human development, but what counts is not growth *per se* but the quality and the management of the growth.

**Relations Between Corruption and Human Development**

There is widespread agreement that corruption has considerable and devastating political, economic, and social costs (Mauro 1998; Doig 1995; Robinson 1998; Lambsdorff 1999, and World Development Report 1997). However, only very few studies have analysed the consequences from a human development perspective.

We intend to analyse the consequences of corruption in the light of the pillars in the human development Paradigm (equity, sustainability, productivity and empowerment) as described by ul Haq (1998: 17). This distinction is merely made for analytical purposes, and we are aware of the interplay between the four pillars. We emphasise the equity and sustainability components, as they seem to be the areas where corruption affects human development the most. Sustainability and empowerment are not dealt with separately.
**Equity**

Corruption has a considerable and biased impact on the poor when it comes to equity because often they do not have the resources to avoid the consequences of corruption. This implies that they are constrained compared to the wealthy in the access to opportunities and to enlargement of choices. First of all, they are affected directly by the lack of access to different services and by the lower growth in income. Secondly, they are influenced indirectly by setbacks in income growth and inequality caused by corruption.

Petty corruption by lower public officials is a big problem, especially for the poor, because they often demand bribes for services, which were originally free of charge. This is a problem in the health sector (Degnbol-Martinussen and Engberg-Pedersen 1999: 348; Oxlund 2000: 6) but also in cases where the supply of services is not limited, such as authorisation of passports, driver’s licences, and permits (UNDP 1997: 6). Likewise corruption at the judiciary is very common (Buscaglia 2000: 6; UNDP 1997: 31). Corruption thus inhibits the enlargement of choices and opportunities and in so doing the overall possibilities of development.

The influence of corruption on income inequality and poverty is considerable: high corruption is positively associated with high income inequality. The impact is substantial, as a worsening of the corruption-index by one standard deviation is associated with an increase in the Gini-coefficient of about 4.4 points (Gupta, Davoodi, and Alonso Terme 1998).

**Productivity**

In order to increase people’s choices and opportunities, investments in human capital and in the creation of an enabling economic environment are necessary (ul Haq 1998:19). However, economic growth is a not a sufficient condition for human development. It is not the quantity but the quality of the growth and the political policies made by the government that are important. Exceptions are seen when human development has been pursued without economic growth for example in the former communist countries, in Sri Lanka and in the Indian state of Kerala (Sen 1999: 48). However, one could raise doubt as to whether the development, especially in the former communist countries, was sustainable. Everything else being equal, without economic resources it is difficult to promote material components of human development. Even though economic growth is not decisive it creates favourable opportunities to fight poverty and is statistically associated with a higher rate of poverty.

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5 As measured by the Gini-coefficient, at a 100 point scale, where zero indicates total equality and 100 total inequality.

6 In comparison, a reduction of the average secondary schooling of 2.3 years produces the same change in income equality.
reduction. (Gupta, Davoodi, and Alonso Terme 1998: 6). Corruption thus seems to be an obstacle for productivity and sustainable human and economic development. Therefore, we firstly want to scrutinise the impact of corruption on growth. Secondly, we will elaborate on the consequences of corruption on the allocation of government spending and the incentives to produce wealth in highly corrupt societies.

Corruption lowers growth and incentives to invest, and is therefore indirectly an impediment for human development. In highly corrupt societies, it seems plausible that both foreign and domestic actors are more careful to invest if it is necessary to pay bribes in order to invest and get an output. In these cases corruption acts like a tax on investment and lowers the demand (Rose-Ackermann 1996: 369; Mauro 1998: 12). This is especially the case because of the poor transparency, secrecy and insecurity to whether the bribe taker will live up to the bargain. In a multiple regression analysis Mauro finds that a country that improves its corruption score by one standard deviation (say from 4 to 6 in a score from 0 to 10) would increase the level of investment by four percentage points and the annual GDP per capita growth rate by 0.5 percentage points (Mauro 1997: 7; 1998: 12).

Buscaglia argues that entrenched corruption decreases future productivity and efficiency because it fosters inequitable social systems where the allocation of resources is perceived to be independent of rights and obligations (Buscaglia 2000:8). Citizens who cannot, or are not willing to pay bribes, will be excluded from the provision of public goods. Therefore, the demand for public good and the perceived misallocation will decrease the incentives for producing goods and paying taxes. Altogether, entrenched corruption promotes an environment of mistrust in which it is accepted to engage in illegal transfers.

Thus, corruption has implications for the sustainability of economic resources and availability of resources for other purposes conducive to human development. Consequently, corruption has negative implications for equity, sustainability, productivity and empowerment.

Productivity not only concerns economic investments. In fact, human capital is the cornerstone of human development. Without it, it will not be possible to benefit and extract the potentials from the economic capital. Mauro suggests that the composition of government expenditure is affected by corruption so that less resources are used on social programmes (Mauro 1997: 7). This seems plausible because it is easier to extract economic rents from big investment projects than from transfers and other social expenditures. Therefore, politicians may be more inclined to buy air fighters and engage in big investment projects than to use money on education and health, despite the fact that the latter may promote higher economic growth than the former (Mauro 1998: 12).

Different studies find that corruption influences the resources spent on education. Mauro finds that corruption is negatively associated with government expenditure on education and health (1997).
Likewise it is shown in another analysis that corruption fosters education inequality, lower secondary schooling and a more unequal distribution of land, even when controlling for GDP (Gupta, Davoodi and, Alonso Terme 1998).

In sum, from a theoretical perspective it seems plausible that corruption not only reduces overall growth but also diminishes social spending with dire consequences for human development. Lower social spending on education damages productivity and sustainability by constraining the use of economic capital and leaving an uneducated population to produce cheap and primary products.

**Hypothesis Two: Democratic Consolidation and Corruption**

We choose to define democracy broadly. In addition to presence of elections and electoral contestation, democracy entails that there are no reserved domains of power for any actors who are not accountable to the citizens, that there exists an element of horizontal accountability between office holders to constrain executive power, and finally, that political and civic interests and values are allowed to be expressed and compete in an ongoing process between elections (Diamond 1999a: 10-13). In other words, this definition of democracy not only encompasses vertical accountability between office holders and electorate but also includes a horizontal dimension of accountability as well as including a range of political and civic rights and freedoms.

Definitions of democratic consolidation range from Merkel’s comprehensive model comprising four levels of consolidation (1998) to Przeworski’s suggestion that consolidation does not occur at all (check formulation), as democracies are likely to die at any age (1996). Nevertheless, since the mid 80s Linz’ and Stepan’s definition has been the most prevalent understanding of consolidation. It describes a situation in which democracy as an intricate system of institutions, rules, and incentives has become “the only game in town” (1997:15). This definition suggests that no political agents question that democracy is the best form of government, leaving no alternatives to assuming power other than through democratic elections. Thus, consolidation from this perspective is a matter of diminishing the risk of democratic breakdown or erosion (see also Huntington 1997).

However coined, we find this concept of consolidation too narrow. Democratic consolidation not only refers to a situation where democracy is protected from eroding or regressing to pre-democratic forms of government, but should also embrace the broadening and deepening of democracy. This entails a democratic regime characterised by institutionalised checks and balances, participation, and democratic citizens. At the same time, consolidation is a question of institutionalising the right set-up of

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7 See also Lijphart (1968), Diamond (1994b), Higley and Gunther (1992) for further discussion.
institutions (O'Donnell 1994) and of promoting that these institutions and practices become part of the political culture among politicians and civilians.

From this broader, positive point of view, the concept of consolidation can be separated into three components: an institutional, an attitudinal, and a performance component. At an institutional level, consolidation can be said to occur when political institutions (the administrative system, the institutions of democratic representation and governance, the judiciary, etc.) work effectively and in accordance with their intention; parliament is not just acting as a rubber stamp for the president, and the judiciary is independent of the executive and other governmental organs, etc. Thus, consolidation at this level is not a matter of choosing the right institutional set-up from a blueprint, but rather of ensuring that the present ones do work. This implies taking the context into consideration: the impact of institutions is to a great extent dependent on traditions, on socio-economic, cultural, and historical differences and particularities (see for instance Shin 1994; Horowitz 1990).

From an attitudinal perspective consolidation requires citizens – both masses and elites - to possess a certain democratic political culture. But what constitutes a democratic political culture? The perhaps most important element is that citizens believe that they have the possibility of influencing the political process, not only by voting but also through participation in various forms of political action. In other words, citizens must have self-confidence and be convinced their political actions do produce a change in policy (Diamond, 1994a: 14). Another important element is the existence of a feeling of mutual or interpersonal trust between citizens, which is essential to the formation of secondary associations, which again is a necessary condition for effective political participation to take place (Inglehart, 1990: 23; Almond and Verba 1963). Finally, an important aspect of democratic political culture is citizens’ tolerance of minority groups (for instance religious and ethnic groups) and groups or individuals promoting extreme political or religious causes (Booth and Seligson 1993; Putnam 1993).

The third component of consolidation is democratic performance. If a democratic regime over time is unable to deliver the political ‘goods’ in terms of upholding political and civil liberties, holding free and fair elections, securing rights of minorities, reducing poverty, and producing economic growth etc., levels of support may decline reducing political stability, and in the end jeopardise democracy.

However, declining performance or even crises may not instantly lower support. If the regime has performed well for a longer period of time, a certain reservoir of support and good will may have been established – making citizens more likely to support the system in a diffuse or abstract manner.

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8 See Inglehart for a treatment of the connection between levels of trust and stable democracy in advanced, industrialised countries (1990: chapter 1).
independent of actual performance (see Easton 1965; Svensson 1996). Thus, good performance over time not only creates short-term stability but also leaves room for periods of bad performance without jeopardising democracy. This notion is supported by a series of surveys conducted in Korea, South Africa, and in Central and Eastern Europe. They show that the most powerful predictors of positive assessments of democracy in general, were how democratic the country was perceived to be, and how satisfactorily democracy was seen to be working (see Diamond 1999a: chapter 5).

Thus, achieving consolidation involves a certain democratic performance but once consolidation has occurred performance may be of less importance to democratic stability.

The three components should not be seen in isolation, but as reinforcing each other. Not only are institutions important to the process of consolidation by themselves but also, in a longer-term sense, through their interaction with citizens, in which they are shaping the political culture. A corrupt and opaque bureaucracy may over time influence citizens’ attitudes towards using bribes as a normal means in the political process. However, although institutions affect attitudes, they do not determine them - individuals can also influence and change institutions. Also, the political will of certain powerful actors may work against the intentions of institutions and undermine their integrity where these are weak and the political culture incoherent. Thus, in less consolidated societies strong actors may have a lot of influence.

Further, if citizens due to tradition and habit see nothing wrong in politicians at the same time pursuing universal and particularistic goals, then corrupt behaviour in institutions is likely to persist no matter the institutional set-up. Therefore the political culture may also influence the performance of the regime. If corrupt behaviour in institutions is tolerated, economic and social output is likely to disfavour the poorest groups in society just as economic performance in itself is likely to be lower. In other words, performance cannot be seen independently of the institutional and attitudinal components, because it, to a certain extent, is a product of the interaction between these two. Outcomes by themselves are important not only to ensure the stability of the political system, they also feed back on citizens’ perceptions of democracy.

In the statistical analysis we construct and use an index of democratic consolidation comprising all three components. In the case study, however, we concentrate primarily on the institutional and cultural components.

9 It can be argued that women should be considered a minority group in terms of representation and participation.
Relations Between Democratic Consolidation and Corruption: A Question of Accountability, Participation and Political Culture

In this section we will analyse the connection between corruption and democratic consolidation using the concept of accountability. Accountability in the political system is vital for a successful effort to limit corruption because it ties politicians to citizens and gives the former incentives to behave honestly. However, there are many forms of accountability. According to Diamond (1999a) liberal democracy contains two kinds of accountability: horizontal and vertical (cf. our definition of democracy). Horizontal accountability encompasses the institutional components of consolidation, the interplay between these, and the political culture of politicians and the civil servants. Contrary, vertical accountability relates to a greater extent to the attitudinal and behavioural component of consolidation and comprises the interaction between institutions and citizens – see fig. 2. The importance of performance is implicitly integrated in the analysis of vertical accountability, as it is regarded to impact the legitimacy of the political system.

At different levels the dimensions of horizontal and vertical accountability deals with providing incentives for the politicians to behave accountable, responsively, and to engage in transparent political processes. This process is reinforced if institutions promote an active political culture. Together the dimensions of vertical and horizontal accountability lead to the institutionalisation of checks and balances, good governance, and efforts to fight corruption (Diamond 1999b: 1).

**FIG. 2**
Components of Democratic Consolidation and Accountability
Horizontal Accountability

Horizontal accountability basically depends on the existence and interplay of certain institutions such as anti-corruption laws, the judiciary, the bureaucracy, parliament, and independent oversight agencies. These institutions have to be characterised by democratic and transparent procedures and be legally empowered to take actions from routine oversight to criminal sanctions and impeachment (O'Donnell 1998: 117). Other prerequisites are that political actors have to possess political will to use the powers, that institutions are adequately endowed with resources to perform their functions, and that they are sufficiently autonomous from the political system (Diamond 1999b: 2).

In order for the legal framework to prevent corruption and the judiciary to investigate allegations of corruption, laws have to prohibit all forms of nepotism and bribery, and discourage corrupt practices by making the expected costs of detection higher than benefits (UNDP 1997a: 59). Likewise the judiciary must be political independent to ensure its integrity.

Empirical evidence indicates that the bureaucracy has to be rule and merit based in order to curb corruption (World Bank 1997:105; World Bank 2000: chapter 3). Parliament is important because it is intended to limit the power of the executive and scrutinise his and the government’s actions. However, the parliament in many countries acts like a rubberstamp where it legitimises the policies without discussing them (O'Donnell 1998:120). In some cases this is due to the excessive powers of the president, but in other cases corruption is the cause (UNDP 1997a: 30). Representation of women in parliament is also a feature that affects the functioning of the parliament as a check and balance on the executive. In a cross country survey Dollar, Fisman and Gatti find an association\(^\text{10}\) between the proportion of women in parliament and the level of corruption (Dollar, Fisman and Gatti 1999: 2). Thus, the promotion of gender equality is not only important in itself, but also as an instrument to lower corruption.

Last, but not least, independent watch-dog agencies, like The General Audit, the Ombudsman and Anti Corruption Agencies like the ones in Hong Kong and Botswana are important to ensure horizontal accountability (Doig 1995: 159; UNDP 1997a:48).

Seen together effective horizontal accountability is a product of a myriad of mutually and interdependent institutions committed to upholding the law (O'Donnell 1998:119). If these institutions are political independent and adequately endowed with resources, they are assumed to institutionalise political will to fight corruption. If the political will lacks the fight against corruption is not credible.

\(^{10}\)The association is statistically significant even when controlling for other variables such as economic development and civil liberties (Dollar, Fisman, and Gatti 1999: 3)
**Vertical Accountability**

Vertical accountability is an important check and balance on the actions and behaviour of the government and is hence important for inhibiting corruption and promoting economic and human development. A cornerstone of vertical accountability is participation by citizens at different levels: the national elections, the local elections and in civil society. The efficiency of vertical accountability therefore depends on two elements: an institutional environment promoting participation and the political culture.

The first and most common component of vertical accountability is electoral accountability at the national level through transparent, competitive, free and fair elections (Diamond 1999b: 3).

The second dimension concerns democratic decentralisation, where checks and balances protect the use and sharing of power and thus promotes accountability (OECD/DAC 1997: 23). Thus, decentralisation in this context is not only about fiscal decentralisation, but also accountable political institutions. However, poverty, illiteracy, and gender discrimination are obstacles, but with these problems in mind, we argue that meaningful representation at local level enhances the deepening of democracy and lowers opportunities for corruption.

Democratic decentralisation is likely to enhance general accountability and transparency, because it is easier for the citizens to obtain information and monitor the political process and use of resources at the local level (World Development Report 2000:18). Progress is likely, as it becomes easier to confront local politicians with local problems and accusations of misuse of funds. Thereby democratic decentralisation may lower prospects of corruption compared to a centralised system. This is supported by the finding of a strong negative relation between fiscal decentralisation and the level of corruption (Fisman and Gatti 1999: 3). However, decentralisation is no panacea in combating corruption and promoting human development. There are several pitfalls like local capture and lack of local administrative capacity (World Development Report 1997: 1).

The existence of a free press and a vibrant civil society is the third important component of horizontal accountability (Diamond 1999b: 3). The function of civil society is among other things to make demands, to set boundaries for the state, and to scrutinise and monitor its actions (Diamond 1994a: 7).

Active participation, where stakeholders influence the decisions that affect their lives, is assumed to generate empowerment, but depends on the institutional framework (OECD 1995: 8; Danida 2000: 11-13; World Bank 2000a: chapter 3). Participation, empowerment, and the question of demanding efficiency and accountability are thus questions of creating an enabling institutional environment and of
changing the political culture. The former is a necessary condition for the latter as it provides incentives and opportunities, but it is not a sufficient condition and it is a very long process. Likewise a high level of corruption might impede the process of empowerment if the citizens become alienated from the political system and refuse to participate, or if they do not believe in the possibility to influence political processes because of corruption and negative performance by the political system.

**In Sum**

To sum up, democracy by itself is not sufficient to combat corruption, it needs to be consolidated. Achieving this is not easy, as consolidation depends on deepening democracy by assuring meaningful participation at all levels in the political process. This is both a questions of generating a participatory political system and of creating an active political culture. Together these two dimensions decrease the opportunities and incentives for corruption, but they cannot eliminate corruption totally: Firstly, to change behaviour in highly corrupt societies is a very long process and secondly, corruption also depends on political will of actors independent of institutions.

**Other Explanations of Corruption**

Before we go on to test our hypotheses, we outline some of the established explanations of corruption found in the literature. This we do not only to set our hypotheses into a theoretical context, but also in order to have a set of control variables for the analysis.

One set of explanations perceives corruption partly as a cultural phenomenon, where elements such as historical background, religion, and political attitudes are important determinants. Societies dominated by informal and institutionalised client-patron relationships where personal ties, rather than formal rules, govern “things” are more likely to be corrupt. Morriss (1997) shows how the system of personal ties ruling South Korean politics can be traced back to an underlying, hierarchical Confucian culture stressing social and familial relationships, demanding a certain type of behaviour from both subordinates and superiors. Superiors vested with authority are obliged to secure the welfare of their subordinates, just as they are expected to obey those of higher authority. Thus, in general cultures emphasising personal ties and patron-client systems are more likely to nurture corruption.

In general, religion may also contribute to explain levels of corruption. It can be argued that religious systems that are highly hierarchical impede development of civic engagement and participation – factors that in theory should lower corruption – influencing levels of corruption (La Porta et al 1997; Paldam 1999). Furthermore, the presence of hierarchies that are not related to religion, but are cultural
phenomena may by themselves contribute to corruption again by reducing participation among citizens (Lambsdorff 1999).

Another cultural aspect that may influence corruption is the level of trust among people in a society. La Porta et al (1997: 336) argue that levels of corruption are affected by trust because higher levels of interpersonal trust facilitate co-operation between bureaucrats and between bureaucrats and citizens.

A different approach sees corruption as closely linked to the level of economic development and the properties of the economic system. The transition hypothesis suggests that corruption is a characteristic of less developed or “traditional” societies that is reduced when modernisation in terms of economical growth is achieved. The argument is that modern societies are efficient countries and therefore need fast and transparent transactions. Corruption slows transactions and makes them more inefficient. Thus, modernisation creates incentives for non-corrupt behaviour. Economic “chaos” in terms of failing policies, shocks, and high inflation may cause redistribution of wealth to be more arbitrary. This may lower public “morale” rendering growth of corruption likely (Paldam 1999: 4-5).

An additional cause related to the economic system, is the possibility of rent seeking. Availability of rents grows when the level of state intervention and regulation in a society is high and discretionary control of financial resources and decision-making is left with bureaucrats and politicians. This creates incentives for public officials and private individuals to extract bribes. Furthermore, if the public officials are poorly paid incentives to engage in corruption is expected to be even greater (Heywood 1997; Mauro 1998; Rose-Ackerman 1996). That the scope of government intervention influences corruption suggests that extensive fiscal decentralisation may lower corruption. In support of this, Fisman and Gatti (1999) find a consistent association between decentralisation and a measure of corruption. However, in general the relationship between the two variables is not unambiguously established in the literature.

An often-suggested solution to the problem of rent seeking is neo-liberal reforms reducing state interventionism but paradoxically, reforms intended to slim the state by themselves may create opportunities for extraction of bribes. Because reducing governmental influence through reforms is an operation accomplished by the state itself, state intervention is likely to increase during the elaboration and implementation of market reform—and thus increase opportunities for corruption. Evidence that reforms do not correspond with declining corruption comes from Latin America where levels of corruption in Argentina, Brazil, and Ecuador have increased during periods of economic reform (Weyland 1998).

\footnote{Sayingly, Weyland quotes a Brazilian bureaucrat remarking that state interventionism allows officials to criar dificuldade para vender facilidade (1997).}
Openness of the economy may also influence the level of corruption: open economies with many small firms which are not sheltered from foreign competition, tend to be more competitive inducing less corrupt behaviour (Ades and Di Tella, 1997). The size of the country may also matter. If large countries take advantage of economies of scale in provision of public services producing a low rate of service outlet per person, citizens may use bribes to “get ahead in the queue”. On the other hand, larger countries may easier than small countries lower corruption by implementing decentralised fiscal systems (Fisman and Gatti 1999: 5).

In conclusion, a number of factors explaining corruption have been established theoretically and empirically. We now turn to the empirical analysis.

3. General Analysis

We now test our hypotheses statistically. First, however, we describe how the concepts of human development, corruption, and democratic consolidation are operationalised along with the control variables depicted above.

Measuring Human Development

Several indices may be appropriate objective measures of human development. The two most frequently used are the Human Development Index (HDI) and the Physical Quality of Life Index (PQLI). We choose not to utilise the PQLI, as it focuses exclusively on social dimensions of development and thus misses the synergy between economic and social progress. Instead we prefer to use the HDI because it covers both economic and social dimensions.

The HDI measures development through three variables: longevity, knowledge, and standard of living. These variables are operationalised as life expectancy at birth, a combined score of the adult literacy rate and enrolment ratio, and adjusted per capita GDP (Human Development Report 1999:127).

The three components have the same weight in the index. The strength of the index is its simplicity ensuring valid and reliable data making cross-country comparisons possible. However, the simplicity may also be a weakness as one can argue that the three variables together only constitute a very limited indicator of development in comparison with the theoretical definition above.


Other similar indices try to refine the measurement of development. Among these are the Gender Development Index (GDI) which adjusts the HDI for gender inequalities, and the Human Poverty Index for developing countries (HPI-1) covering four dimensions of poverty: long and healthy life, knowledge, economic provisioning, and social inclusion (Human Development Report 1999: 130-132).
Measuring Corruption

We believe that if the goal of research on corruption is to establish general hypotheses about the causes of corruption and testing these empirically, the best way to measure corruption is by using cross-country surveys. As a consequence we choose Transparency International’s Corruption Perceptions Index (CPI) as our measure of corruption\textsuperscript{14}. The 1999 CPI is a composite index covering 99 countries from all regions of the world and consists of data from 17 different sources (from ten independent institutions), where business executives and financial journalists were asked to rank countries according to their perception of the level of corruption (TI 1999).

The CPI defines corruption as the misuse of public power for private benefits (a definition in accordance with the one applied in this paper). Although the sources, respondents, and methodologies of the index changes slightly from one year to the next, we assess the overall reliability of the CPI to be satisfying considering that the index combines multiple surveys which in some form use the same definition of corruption and all seek to measure the degree of corruption in the given country. In addition, the correlations between the different surveys are high (pearson’s $r$ around 0.8), suggesting that they measure the same dimension of corruption (TI 1999). The index runs from 0 to 10; countries with low scores have high levels of corruption and vice versa. To make the index more intuitive, we choose to invert the scores, such that high scores correspond to high levels of corruption.

Measuring Democratic Consolidation

As a measure of democratic consolidation we construct an additive scale consisting of the following variables:


b) Electoral turnout: average of turnout at parliamentary and presidential elections held in the 1990s (IDEA 1997)

c) Percentage of women in parliament 1999 (WDI 1999)

d) Law and order (ICRG 1999)

Using a scale enables us to include all three dimensions of consolidation in one measure. Variable a) is intended to be an indicator of how well institutions are performing, b+c) are indicators of political culture, and c+d) measures democratic performance. Despite the Freedom House Index does not explicitly assess institutional quality it is concerned with freedom and fairness of a number of
institutions such as the executive, parliament, political parties, the media, etc. Therefore we take it as a somewhat crude but nevertheless fair institutional indicator (see Gastil (1992), Freedom House (1999) for a description of the index). Electoral turnout is used as an indicator of political culture from the notion that the level of turnout reflects citizens’ will to participate and their political efficacy in general\(^\text{15}\). In addition, we use the percentage of women in parliament as a proxy for both political culture and performance: if women are represented in parliament it can be taken as a sign that citizens are aware of rights of minorities and wish to ensure that these are enforced\(^\text{16}\). Further, the percentage can be seen as an indicator of performance: if women are represented it is likely that democracy may also be performing well in other areas of society. The ICRG measurement of law and order is also taken as a performance indicator.

To test if the variables in the scale measure the same dimension, an item-item and item-scale analysis is performed along with an Alpha test of reliability. A reliable index should have a score around 0.7. We obtain an Alpha score of 0.67, which must be said to be satisfying taking the crudeness of some of the variables into consideration.

**Control Variables**

As an approximate measure of culture we employ a categorisation developed by Paldam (1999) in which countries are divided into six groups:

- WE: OECD countries of West European type
- LA: Latin American countries
- OC: Former communist countries
- AF: African countries south of Sahara including South Africa
- O: Oriental countries from a “Chinese” cultural sphere (including Japan)
- RE: Residual group of countries, which cannot be placed in any of the above groups.

\(^{14}\) Contrary to Degnbol-Martinussen and Engberg-Pedersen (1999), who do not find the CPI appropriate for statistical use

\(^{15}\) This is based on the assumption that a turnout as high as possible is desirable. However, this need not be so: it is possible to have “too much” turnout. It can be argued that a very high turnout rate is indeed a totalitarian trait and that democracies should display well below 100 per cent turnout reflecting that citizens are allowed not to vote and participate\(^\text{Rose 1997}\). We are also aware that in some of the countries (for instance, Peru and Bolivia) in our sample voting is mandatory and as such the turnout rate is not reliable.

\(^{16}\) Unfortunately measurements of political attitudes across regions are not in stock yet leaving us no choice but to use these proxies. Measurements of attitudes can be found in the 1981 and 1990 World Value Study, New Democracies Barometer 1996, and Latinobarometro 1996. Unfortunately it has been impossible to construct a reliable scale from these. Besides only very few African, Asian and Arabic countries are included in the surveys.
We employ two direct measures of economic progress (cf. the transition hypothesis): GDP per capita (1997) and an average of the annual growth in GDP for the period of 1990-97. We also employ the degree of urbanisation (per cent of population living in urban areas) as another indicator of economic development. Two commonly used measures of government intervention are total government expenditures as a share of GDP, and transfers and subsidies as a share of total expenditure or of GDP\(^{17}\). We considered using both, but decided employing the Index of Economic Freedom (IEF), which probably is the most comprehensive attempt to construct a measure of regulation (see Gwartny and Lawson (1997)). The IEF includes both of these measures along with six other dimensions including the level of inflation – cf. the possible connection between economic “chaos” and inflation.

As a measure of openness of the economy we use the share of import of GDP (1996). The size of the country is simply denoted by the number of inhabitants.

**Testing Hypothesis One: Human Development and Corruption**

To test hypothesis one, we first examine the simple correlation between CPI and HDI. Table one reports the result; as expected, the association is negative and significant suggesting that higher levels of corruption do lower human development.

<table>
<thead>
<tr>
<th>Human Development Index 1997</th>
<th>Pearson’s r</th>
<th>Sign</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>CPI 1999</td>
<td>-.684</td>
<td>0.000*</td>
<td>94</td>
</tr>
</tbody>
</table>

*Correlation is significant at the 0.01 level

\(^{17}\) The latter perhaps being more precise as government expenditures also include payments on foreign debts etc, which do not relate to the scope of regulation.
Furthermore the correlation is quite strong: Pearson’s $r=0.684$ indicates that corruption explains more than 68 per cent of the variance on the HDI. A scatterplot of the two variables confirms the negative association. See figure three.

However, this result should not be taken at face value, as other variables are likely to explain human development. Thus, in order to qualify the result we include our measure of democratic consolidation, a measure of government spending on education and a measure of economic growth in a multiple regression analysis with HDI as dependent variable. See table 2, model 1. As we only have data for spending on education for 39 countries we also perform another analysis without this variable (model 2).
Table 2

**OLS Cross Country Estimates. Dependent Variable Corruption: HDI 1997.**

<table>
<thead>
<tr>
<th>Human Development Index</th>
<th>Model 1</th>
<th>Model 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>CPI</td>
<td>-.655</td>
<td>-3.269</td>
</tr>
<tr>
<td>Democratic Consolidation</td>
<td>.268</td>
<td>1.542</td>
</tr>
<tr>
<td>Avg Growth</td>
<td>-.190</td>
<td>-1.460</td>
</tr>
<tr>
<td>GDP</td>
<td>-.418</td>
<td>-3.298</td>
</tr>
<tr>
<td>Public Spending on Education</td>
<td></td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>39</td>
<td>81</td>
</tr>
<tr>
<td>R²</td>
<td>.638</td>
<td>.546</td>
</tr>
</tbody>
</table>

*Correlation is significant at the 0.05 level
**Correlation is significant at the 0.01 level

Model 1 shows that the CPI still is a significant predictor of human development along with spending on education. Further, the association between CPI and HDI is negative and strong. In model 2 CPI is still significant and negatively associated with HDI. When the education variable is left out, consolidation becomes significant. These results indicate that the association between corruption and development is robust and thus supportive of hypothesis one.

The included variables explain more than fifty percent of the variance in HDI (R² >0.5), which is a good result, but the result still suggests that other important predictors of development have not been included.

However, the association between corruption and development may be due to a strong connection between corruption and economic development (see above). To ascertain this expectation, we construct a new variable for development (HDI2) without GDP per capita and use GDP per capita as an independent predictor along with the variables in the analysis above. The results are shown in table 3.
Indeed, the relationship between corruption and development now seems to disappear, as CPI is insignificant in both models. We infer from this that the association mainly is due to the economic component of human development. This does not rule out the possibility that corruption may have a lagged effect on the other components of HDI (education and longevity) – indeed, it is very likely that the effects of growing corruption does not have an immediate effect on longevity. However, using time-series data, which is not within the scope of this paper, best reveals these effects. As the level of GDP is an important part of human development this finding does not compromise our hypothesis. In sum, the results support the expectation that higher levels of corruption lead to lower development.

**Testing Hypothesis Two: Corruption and Democratic Consolidation**

Having established the connection between corruption and human development, we now go on to test hypothesis two – that democratic consolidation lowers levels of corruption. To this end we perform multiple regression with corruption as dependent variable. Along with our measure of democratic
consolidation we include measures of economic development, government intervention, openness, and culture. This we do not only to test how consolidation performs relatively to these variables, but also to see what happens to the established explanations when consolidation enters the picture. First we inspect the association graphically, and indeed, the relationship seems negative. See figure four.

**FIG. 4**

*Scatterplot of Democratic Consolidation and Corruption*

Now we go on to find the simple correlations between each of these variables and CPI. If the correlation is insignificant, the variable is excluded from the analysis. The results are shown in table 4.

**TABLE 4**

*Correlation Matrix for Corruption Perceptions Index and Independent Variables*

<table>
<thead>
<tr>
<th></th>
<th>GDP per capita</th>
<th>Avg growth</th>
<th>Urbanisation</th>
<th>IEF</th>
<th>Openness</th>
<th>Size of country</th>
<th>Democratic consolidation</th>
</tr>
</thead>
<tbody>
<tr>
<td>CPI</td>
<td>r</td>
<td>-.876</td>
<td>-.206</td>
<td>-.566</td>
<td>-.673</td>
<td>-.220</td>
<td>.112</td>
</tr>
<tr>
<td>Sign.</td>
<td></td>
<td>.000**</td>
<td>.047*</td>
<td>.000**</td>
<td>.000**</td>
<td>.034*</td>
<td>.275</td>
</tr>
<tr>
<td>N</td>
<td>95</td>
<td>94</td>
<td>96</td>
<td>84</td>
<td>93</td>
<td>97</td>
<td>83</td>
</tr>
</tbody>
</table>

* Correlation is significant at the 0.05 level.
** Correlation is significant at the 0.01 level.

Except for size of country all variables correlate with CPI at a five per cent level. Thus, except for size of country, we keep all variables in the analysis along with the dummies for culture. Table 5 reports the result of the multiple regression including these variables.

**TABLE 5**

**OLS Cross Country Estimates. Dependent Variable: Corruption Perceptions Index 1999**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Stand. Beta</th>
<th>T-value</th>
<th>Sign.</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP per capita</td>
<td>-.330</td>
<td>-2.200</td>
<td>.031*</td>
</tr>
<tr>
<td>Avg. Growth</td>
<td>.006</td>
<td>.072</td>
<td>.943</td>
</tr>
<tr>
<td>Urbanisation</td>
<td>-.104</td>
<td>-1.202</td>
<td>.234</td>
</tr>
<tr>
<td>Openness</td>
<td>-.073</td>
<td>-1.273</td>
<td>.208</td>
</tr>
<tr>
<td>Economic Freedom</td>
<td>-.192</td>
<td>-2.013</td>
<td>.048*</td>
</tr>
<tr>
<td>Dem. Cons.</td>
<td>-.276</td>
<td>-3.264</td>
<td>.002**</td>
</tr>
<tr>
<td>WE</td>
<td>-.050</td>
<td>-.320</td>
<td>.750</td>
</tr>
<tr>
<td>LA</td>
<td>.172</td>
<td>2.032</td>
<td>.046*</td>
</tr>
<tr>
<td>OC</td>
<td>.144</td>
<td>1.301</td>
<td>.198</td>
</tr>
<tr>
<td>AFR</td>
<td>-.039</td>
<td>-.485</td>
<td>.629</td>
</tr>
<tr>
<td>OR</td>
<td>.154</td>
<td>2.019</td>
<td>.048*</td>
</tr>
</tbody>
</table>

N 74

R² .832

*Correlation is significant at the 0.05 level
** Correlation is significant at the 0.01 level

As expected higher levels of GDP are negatively correlated with corruption: higher GDP leads to lower levels of corruption. Thus, economic development remains a powerful predictor of the level of corruption and the ‘transition hypothesis’ seems difficult to refute. Moreover, and as we expected, the Economic Freedom Index is significant and negatively correlated with corruption, indicating that larger
public sectors and more government intervention lead to higher levels of corruption. Also, the Latin American and Oriental culture dummies are positively correlated with corruption, suggesting that these cultures are significantly more corrupt than others. Last, but not least, the index of democratic consolidation is negatively correlated with corruption, indicating, as expected, that more consolidated democracies are less corrupt. The included variables explain no less than 83 percent of the variance in corruption ($R^2 =0.83$), suggesting that no essential explanatory variables have been omitted from the analysis.

In sum, our second hypothesis that democratic consolidation lowers corruption is clearly supported by the analysis. The analysis reveals further that not only is consolidation a significant predictor, it is also a strong one: it explains almost as much as GDP per capita (the Beta coefficients for both variables lie around 0.3). This result is interesting taking into consideration the attention economic explanations are given in literature. For instance, Paldam (1999) found that economic development was by far the best predictor of corruption, and democracy to be insignificant when using Freedom House scores as measure of democracy$^{18}$. This confirms our expectation that it is not democracy in itself but consolidation that is important in connection with corruption, and also underlines the importance of how concepts are defined and measured.

**In Sum**

Both our hypotheses are supported by the analysis: corruption lowers human development and democratic consolidation lowers corruption. The first analysis also revealed that consolidation is significantly correlated with human development. From this we cannot determine the causality, but if human development does have a positive impact on consolidation, corruption, development, and consolidation may reinforce each other and possibly create a downward spiral where growing corruption may lower development, which again may impede consolidation, which enhances possibilities of corruption etc.

We do not pursue this further, but go on to examine in more detail our hypotheses by using the cases of Nicaragua and Bolivia.

4. **Case studies of Bolivia and Nicaragua**

In this section we test the hypotheses in order to get a more detailed picture, but also to be able to determine the causality of the hypotheses. The first part of the analysis will deal with the negative
relation between corruption and human development. The second part of the analysis further examines the second hypothesis that the level of consolidation has a negative impact on the level of corruption. However, it is not our intention to analyse all aspects of the democratic consolidation in Bolivia and Nicaragua rather it is to scrutinise some important institutional changes and their interplay with the political culture. Again, the clandestine nature of corruption does not allow us to draw firm, causal conclusions but only to suggest possible associations. The data used is a mixture of official documents, local newspaper articles, and papers from NGOs. This variety of data-sources is important, because it diminishes the risk of making a biased analysis.

Choice of countries
There are several reasons for choosing Bolivia and Nicaragua. First, they are both poor countries in terms of economic and human development and they are both deeply affected by corruption, which makes it possible to scrutinise the first hypothesis. Second, Bolivia and Nicaragua are both ranked as “free” by Freedom House (1999) but the question remains whether they are consolidated or not. Third, both countries have undertaken extensive economic reforms and structural adjustment programmes, turning their economies from closed and monopolistic economies with high state regulations to open and liberal economies with low state regulations (PNI 1999, CIA Factbook 1999)19. These economic changes may diminish the opportunities for clientelism, rent seeking and corruption (Paldam 1999: 3; UNDP 1997: 53), rendering it possible to omit economic explanations of corruption and focus on consolidation.

Another reason for choosing Bolivia and Nicaragua is that they are both Danish programme-countries and thus receive a fair share of Danish development assistance. Part of the assistance goes to “democratisation” and good governance. The former includes support to the civil society, participation, and empowerment (vertical accountability), while the latter supports explicit anti-corruption measures such as an efficient, accountable, and democratic public administration (horizontal accountability) (Danida 2000b: 47). In Bolivia, Danida is planning to support an institutional reform including a Civil Service reform and comprehensive anti-corruption measures (Danida 2000a: 109) and in Nicaragua Danida has supported the General Audit.

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18 Paldam employs the FHI without devoting much attention to the definition of democracy, which may be a flaw.
19 For a further examination of the economic reforms in Bolivia and Nicaragua see (Roca 1996)
Testing Hypothesis One: Corruption and Human Development in Bolivia and Nicaragua

Bolivia and Nicaragua are highly corrupt countries\(^20\) (see table 6). Bolivia has a higher HDI ranking than Nicaragua, but the difference is not very big and can probably be explained by the fact that Bolivia has a higher economic development than Nicaragua. We thus treat Bolivia and Nicaragua as equal regarding their level of corruption and the level of human development. The fact that the GDP per capita is 50% higher in Bolivia than in Nicaragua, which has a lower level of corruption, indicates that other variables than the economic development are important for the level of corruption.

Table 6
Comparison of Bolivia and Nicaragua

<table>
<thead>
<tr>
<th></th>
<th>CPI</th>
<th>FH-index</th>
<th>HDI 1997</th>
<th>GDP per capita 1997</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bolivia</td>
<td>1998: 2.8</td>
<td>1/3 &quot;free&quot;</td>
<td>0.652</td>
<td>2880</td>
</tr>
<tr>
<td></td>
<td>1999: 2.5</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nicaragua</td>
<td>1998: 3.0</td>
<td>2/3 &quot;free&quot;</td>
<td>0.616</td>
<td>1997</td>
</tr>
<tr>
<td></td>
<td>1999: 3.1</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


Overall, Bolivia and Nicaragua both have high levels of corruption and modest levels of human development, which is in accordance with our statistical findings of a negative association between corruption and human development.

The high levels of corruption in Bolivia and Nicaragua correspond to how citizens perceive corruption. In 1998, the five biggest Bolivian newspapers published 260 articles about corruption in the public sector (CEDIB 2000), which demonstrates the scope of the problem. A 1996 survey revealed that corruption was perceived to be one of the biggest problems in Bolivia. Two years later a similar but bigger national survey revealed that the perception of corruption as a problem had risen significantly and was perceived to be the biggest problem in Bolivia and 79% of the respondents found corruption to be "very grave" (PNI 1998: 7-8).

\(^20\) Bolivia is ranked 80, Nicaragua 70 of 99 in TI’s 1999 survey.
The picture is much the same in Nicaragua where the population in two country surveys in 1996 and 1998 respectively, indicated that they were highly concerned with the substantial level of corruption (Seligson 1999: 62). In a similar survey made by the National Institute of Statistics in 1999, 89% of the respondents answered that they were affected by corruption (CCER 2000: 36). Thus, corruption is certainly of concern to the populations in Bolivia and Nicaragua. We now go on to analyse the impact of corruption on human development using ul Haq’s components.

**Equity**

In Bolivia corruption seems to affect the poor the most as a larger proportion (10% points) of the poor communities than the well-to-do communities state that corruption is either “a grave” or “a very grave problem” (PNI 1998: 8). This is in accordance with our theoretical arguments that the poor being the most affected. The most corrupt and least trustworthy institution in Bolivia is the police, followed by local authorities and licence issuing authorities (PNI 1998: 8-9). The police are reported to extract bribes for performing its duties, to act with impunity, and to favour those who pay the highest bribes (The Economist 1999a; PNI 1998). The situation is much the same in Nicaragua where the police is perceived as the most corrupt institution as well followed by the Mayor’s office. Thus, these results indicate that the police and the local authorities in general are the most corrupt institutions in Bolivia and Nicaragua. The police and the local authorities being corrupt affect the poor in two ways: first they are less able to pay bribes and second they are vulnerable because they often lack the knowledge of their rights and fact that corruption is illegal.

**Productivity**

A conducive macro-economic environment is important for the pursuit of human development. Bolivia and Nicaragua are the two poorest countries in Latin America, but in 1998 they experienced real GDP growth rates of four per cent. Nevertheless, none of the countries significantly have diminished the level of poverty (World Bank 2000b). One reason could be a skewed income distribution. Measured by the Gini-coefficient, the income distribution is more biased in Bolivia (0.42) than in Nicaragua (0.53) (World Bank 2000b). Corruption could be another reason or obstacle for the missing poverty alleviation. The difference between Bolivia and Nicaragua in terms of the level of corruption and skewed income distribution is consistent with the findings by Gupta, Davoodi and Alonso Terme, who also report a negative association between corruption and income distribution (1998).
The annual report in 1999 by the General Audit (La Controloría) in Bolivia revealed that corruption had caused the government a loss of US$ 14.2 mill. (La Razon 1999). Only a third of this loss was recaptured through investigations and criminal lawsuits. Several examples exist where officials have misused their position for private gains: in 1999 the Mayor of La Paz signed a contract for the creation of a software system for US$ 1.8 mill. which only cost US$ 200.000 (Bolivia Press 2000). Other examples include the former Vice-president’s brother, who allegedly augmented the costs of a bridge by US$ ½ mill. for his own gain (La Razon 1999).

Nicaragua has experienced similar corruption scandals, involving several ministers, civil servants and even president Alemán. In May 1999 it was revealed that the Mayor of Managua had installed private electricity, sanitary facilities and telephones using public funds (CCER 2000:37).

These corruption scandals seemingly confirm the theoretical expectation that rent seeking is common in big investment projects. Further, Bolivia and Nicaragua, being more corrupt than the average of Latin American, exhibit higher proportions of military expenditures and use less resources on social and welfare expenditures than the average country in Latin America (see table 7), contrary they have higher military expenditures. Bolivia spends very little on health compared to Nicaragua and the average Latin American country, whereas Bolivia and Nicaragua both spend more resources on education than the average Latin American country. Bolivia and Nicaragua also proportionally spend less on social security and welfare than the average in Latin America. In sum, this indicates that the high level of corruption in Bolivia and Nicaragua might have a negative impact on the level of general social spending and welfare, which is in line with the findings of Mauro (1997).

Table 7

Social Expenditures and Corruption in Bolivia, Nicaragua, and Latin America

<table>
<thead>
<tr>
<th></th>
<th>Health (% of GDP) 1993-98</th>
<th>Education (% of GDP) 1993-98</th>
<th>Military expenditures 22 (as % of combined education and health expenditures) 1990-91</th>
<th>Social security and welfare (% of GDP) 1993-98</th>
<th>Level of Corruption (CPI) 23</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bolivia</td>
<td>1.1</td>
<td>4.9</td>
<td>57</td>
<td>5.7</td>
<td>2.50</td>
</tr>
<tr>
<td>Nicaragua</td>
<td>4.4</td>
<td>3.9</td>
<td>97</td>
<td>4.8</td>
<td>3.10</td>
</tr>
<tr>
<td>Latin America</td>
<td>3.3</td>
<td>3.6</td>
<td>47 (*)</td>
<td>7.4</td>
<td>3.65 (*)</td>
</tr>
</tbody>
</table>

Source: World Bank 2000b (World Development Indicators 2000)

21 The mayor excused himself by stating that his annual salary had decreased to US$ 4 mill. and paid the money back after public pressure.
22 ul Haq (1998: 261)
23 Corruption Perceptions Index, Transparency International 1999 (0: highest; 10: lowest corruption)
In sum, substantial economic losses are generated by corruption. For comparison the estimated losses found by the General Audit in Bolivia in 1998 almost equals the Danish support to empowerment and participation projects from 1990 to 1998. In other words corruption causes great economic damage and thus lowers the resources available for social spending and human development in general. Corruption in Bolivia and Nicaragua is perceived to very high and damaging, and the analysis shows that it possibly impedes human development. This is so because corruption induces unequal access to public services, lowers the quality of services, causes delays, constrains sustainable development and lowers the human and financial capital. It thus supports our first hypothesis.

**Testing Hypothesis Two: Democratic Consolidation and Corruption in Bolivia and Nicaragua**

In this section our intention is not to perform a genuine comparative study of the consolidation process in Bolivia and Nicaragua, but rather to emphasise important features in the process. After a short introduction to current institutional reforms in Bolivia and Nicaragua, we analyse important progress and setbacks related to the level of corruption. In the case of Bolivia we emphasise the development in vertical accountability because the new institutional reforms in this area show the interaction between corruption, institutions and political culture. Contrary, we accentuate horizontal accountability in the case of Nicaragua because the recent political development displays the interplay between corruption, institutions and political will.

Bolivia and Nicaragua are both poor countries with big debt burdens. Therefore they have engaged in institutional reforms in co-operation with the World Bank and international donors like Danida in order to make the state more efficient, transparent and accountable. Both countries have organised National Integrity Workshops and established National Integrity Plans to fight corruption (World Bank 1999: 3; PNI 1998, NIP1999), and it thus seems as if there exists a political will to fight corruption. However, we shall attempt to inspect whether the commitment is genuine and credible, or whether the reform proposals are merely rhetorical to please the donors and the World Bank.

24 The net loss was estimated at US$ 8.7 mill. (La Razon 1999) and the Danish support was DKK 69.5 mill. (Danida 2000a: 101)
Horizontal Accountability in Nicaragua and Bolivia

As previously discussed, consolidation of democracy requires mutual independent checks and balances committed to uphold the law and to investigate the actions of state agencies. If these institutional features are absent or mistrusted, efforts to fight corruption and uphold legitimacy may not be successful.

Below we analyse the legal framework, the bureaucracy, the role of the parliament, the judiciary, and the status of autonomous watchdog agencies in their connection to the political will.

The legal framework

Both countries are developing legal frameworks that attempt to inhibit incentives for corruption. In 1990 Bolivia passed a Civil Administrative Law, intending to promote efficiency and accountability in the civil service (PNI 1998: 23) and to ban any kind of bribery. However, it has not yet diminished the level of corruption in the bureaucracy (PNI 1998:18), which displays the difficulties in changing the political culture of the bureaucrats. The current reform-process though has established a more profound legal framework to fight corruption (PNI 1998: 28), so overall Bolivia is perceived to have a conducive legal framework to fight corruption.

Contrary to Bolivia, Nicaragua has not yet implemented a proper legal structure to fight corruption but the National Integrity Plan proposes to upgrade the existing framework into a modern and efficient legal system (NIP 1999:10). These reform proposals are similar to those in Bolivia as they recommend simplifications of procedures, bidding systems for procurements, service contracts of public agencies, and incentive mechanisms that provide the civil servants with personal responsibility (NIP 1999:11). However, apparently none of these reform proposals have yet been implemented and so far no politicians or civil servants have been convicted for cases of corruption (Confidencial 2000). Contrary to this, Bolivia has experienced many corruption lawsuits that have led to convictions (La Razon 1999). This difference give Bolivia and Nicaragua different possibilities for curbing corruption because it is of great importance to convict some prominent political leaders or senior officials in order to change the political culture. Convicting “big fish” is seen as a sign of “democratic performance”, in the sense that the system does not accept corruption. A possible consequence of this deficit is that the political system is not very legitimate in Nicaragua (Seligson 1999:55), which impedes a positive change of the political culture. The political will to fight corruption is hence the big difference between Bolivia and Nicaragua.
The nature of patronage politics in the political systems of Bolivia and Nicaragua is a major problem, as it gives rise to nepotism, inefficiency, and corruption (Gamarra 1997: 275, PNI 1998: 15). These problems arise as civil servants, judges, prefectures and many other public employees are appointed due to their political affiliation and not solely due to their professional qualifications. Furthermore, most of the bureaucracy is changed after the inauguration of a new government. Thus, such a system of recruitment does not enhance incentives for honest behaviour and threatens the credibility of decisions at many levels.

The Paz Zamorro administration in Bolivia attempted to introduce merit-based recruitment in the bureaucracy in the beginning of the 1990s, but it did not succeed because the political interests working against the initiative were too strong (Mayorga 1997a: 154).

In sum, since the political systems of Bolivia and Nicaragua are deeply penetrated by patron-client networks, it seems doubtful that the proposed reforms will work and influence the behaviour of civil servants. Certainly, politicians and civil servants do not enjoy trust in the population, which is leading to a vicious circle of legitimising bribery, making it difficult to change the political culture. In Nicaragua, the perceived level of corruption has fallen slightly from 1996 to 1998, but perceptions of dishonesty among politicians and civil servants remain (Seligson 1999: 49).

Bolivia and Nicaragua have both had political pacts between different parties in the 1990s. This has been an advantage in so far that it has generated political stability and efficient governance that has allowed widespread political and economic reforms. The negative implication however has been that the majority coalitions have turned parliaments into a “rubberstamp”, that have legitimised policies without previous political discussion (Mayorga 1997b: 119; O’Shaughnessy and Dodson 1999: 124).

The pact in Nicaragua has seemingly had negative consequences for the political will to fight corruption as it has paralysed parliament’s ability to check the government (Rasmussen 1999). Consequently, the democratic consolidation in Nicaragua is dubious. In fact, Nicaragua has experienced a democratic set back with political pacts making questionable constitutional amendments and politicising the state-powers. Together this has decreased the accountability and undermined the autonomy of state powers (CCER 2000:31). It is thus doubtful whether the initiatives to strengthen the National Assembly will have the intended impact on the accountability and the level of corruption.
The constitutional amendments introduced in 2000 imply that it will be very difficult to suspend the immunity of the president because the required percentage in parliament is changed from absolute majority to qualified majority of 2/3 of the parliament (CCER 2000:32). This amendment is very convenient for President Alemán, because he is currently facing serious allegations of corruption including three lawsuits by the General Audit. Alemán is accused of having sold attractive public soils to his family below the market price. Also, he is alleged of having enriched himself in different ways as Mayor in Managua and President (his personal fortune thus increased by 900% from 1990 where he was elected as mayor in Managua until he was elected as president in 1996 (CCER 2000:37, Rasmussen 1999)).

Independent Judiciary and Watch Dog Agencies

An independent and efficient judiciary system and trustworthy autonomous watchdog agencies are cornerstones for curbing corruption and providing the political system with legitimacy and credibility (Diamond 1999a). The judicial systems in Bolivia and Nicaragua are weak and have caused mistrust in the population. However, Bolivia has made progress by improving access to the judiciary, by creating an independent council in charge of appointments, a public ombudsman, and a constitutional tribunal chosen on a merit basis (Danida 2000a: 98-99; PNI 1998:15; The Economist 1999). According to USAID, the judicial system is becoming more transparent, independent and reliable (USAID 2000). The horizontal accountability mechanisms in Bolivia are thus likely to be in a better position to fight corruption in the future.

This is not the case in Nicaragua. In 1999 the Supreme Court of Justice cancelled a corruption trial against the director of a public enterprise, which had build five wells at the President’s haciendas, using public funds (CCER 2000:38). This case is only one among several that exposes the great problem of impunity of civil servants.

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25 Two of the former Supreme Court judges in Bolivia are now under investigation, accused of taking bribes (The Economist 1999)
Nevertheless, the government has politicised the judicial system further by the constitutional amendments that increase the number of politically chosen members of the Supreme Court of Justice and The Supreme Election Court. According to the government this enlargement is intended to strengthen institutions but is in reality established in order to provide patronage posts for the two parties in power (CCER 2000: 33). This enlargement and the further weakening of judiciary’s independence raises the question of the validity of the separation of powers, and it will possibly damage the horizontal accountability mechanisms that should prevent and investigate cases of corruption. The prospects for diminishing the impunity and the level of corruption in Nicaragua are thus modest.

The aim of The National Integrity Plan of Nicaragua is to reinforce the autonomy of the political institutions and to support citizen participation (NIP 1999: 22), but in stead of strengthening the institution the government has done the opposite. The General Audit in Nicaragua has thus been through a turbulent period the past year. The General Auditor, Augustin Jarquín, has raised several lawsuits against President Alemán and these lawsuits have led to several confrontations between the president and the General Auditor. These problems culminated on the 8 of November 1999 when Augustin Jarquín was imprisoned on the basis of allegations of corruption and fraud (Rasmussen 1999). In the spring of 2000, the situation worsened as Alemán changed the composition of the General Audit by a constitutional amendment (CCER 2000: 33; Rasmussen 2000a). The implication of this amendment is that the institution has practically lost its autonomy, as a collegial body of five represents chosen by the Congress will lead it. These questions have been discussed at the Consultative Group26 meeting in Washington in May 2000, and the Swedish representative expressed great concern to whether there exists genuine commitment to curb corruption and punish the corrupt politicians (Rasmussen 2000b).

The institutional development in Nicaragua is an example of the consequences of a lack of political will and commitment to fight corruption. Rhetorically the government has condemned corruption, they have held National Integrity Workshops, and worked out a National Integrity Plan, but if the genuine commitment lacks, it is difficult to curb corruption.

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26 A CG-meeting is an annual meeting between the international development donors and the local government, where the recent development in the country and the future development aid is discussed.
To conclude, Bolivia and Nicaragua still lack important features to broaden horizontal accountability. Bolivia faces problems with the political culture of civil servants, politicians and citizens. The judicial system lacks efficiency and parliament functions like a rubberstamp. However Bolivia has made progress regarding the autonomy of the horizontal accountability mechanisms. Nicaragua experiences important democratic deficits in terms of inadequate laws to prevent corruption and watch-dog agencies with decreasing autonomy. This is in contrast to the National Integrity Plan that emphasises strengthening of these institutions. Consequently, both countries have difficulties in diminishing the level of corruption at the national level of the political system.

Vertical accountability in Bolivia and Nicaragua

This section examines whether vertical accountability exists in Bolivia and Nicaragua and thus how far away the countries are from the objectives of their National Integrity Plans. We focus on the popular participation at the municipal level, the overall level of decentralisation, and its interplay with the political culture. The big difference between Bolivia and Nicaragua is that while Bolivia has undertaken a widespread decentralisation process Nicaragua is still a highly centralist country without mechanisms promoting local participation.

Decentralisation, Popular Participation and Accountability in Bolivia

Bolivia initiated a reform process in 1993 with the enactment and implementation of the Law of Popular Participation\(^\text{27}\) (LPP) and the Law of Administrative Decentralisation in 1994. The LLP aims at deepening the democracy and supplementing the representative democracy by some forms of direct democracy, where the whole population is allowed to participate and to enter the judicial, political and economic life of the country (LPP 1994). The tool for this is the legal recognition of Grassroot Territorial Organisations (GTO) and the creation of local oversight committees (OC) (Comités de Vigilancia).

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\(^{27}\) For an examination of the LPP see (VPPFM 1998; Andersson, 1999; Svendsen and Monsted 1999)
The different GTOs in a municipality are entitled to be parts of the local municipal planning by making demands to the annual budget of the municipality (Plan Annual Operativo) and to choose members to the local OC. The legal recognition is a huge step towards inclusiveness as it allows traditionally excluded actors, such as indigenous groups, not only to participate but to be protagonists in shaping their own future. The purpose of the OCs is among other things to make sure that the local politicians comply with the annual plan and budget, and to secure that they do not misuse public funds (LPP 1994). In other words, the task of the OCs is to generate transparency, accountability, and to curb local corruption.

According to the theory of decentralisation participation generates social capital, whereby citizens and civil society are empowered to make demands and hold politicians accountable (OECD / DAC 1995: 8 and 23). Overall, the LPP is thus assumed to promote active participation, empowerment, and accountability, and it is therefore highly praised by international donors as a showcase without precedent (Danida 2000a: 97). Several studies show that participation has increased in civil society as a result of the LPP (Svendsen og Monsted 1999: 26-28; VPPFM 1998: chapter 2) but the question is whether or not civil society and the OCs are able to hold politicians accountable?

According to a national evaluation of the LPP the OCs only function as intended in one out of eleven selected municipalities (VPPFM 1998:139). These problems probably derive from a lack of capacity and the close affiliation with local politicians.

First of all, the members of the OCs are usually peasants who have never taken part in political life. Consequently they lack political experience and technical knowledge to control a budget (Mertz 1995: 6). The same problem of a lack of experience applies to the citizens. They are assumed to be empowered by participating in the GTOs and thus demand transparency and accountability of the politicians, but it takes time to change a passive political culture. For decades they have been excluded from the political systems and therefore they do not see the politicians and political parties as important (Ortuste and Custode 1997: 54-57), and the civil organisations have never prior to the LPP been used to contact the local authorities. However, a survey of political culture shows that even though the political systems lacks legitimacy citizens are becoming more active and now turn to the local authorities when they are facing problems (Ortuste and Custode 1997: 20 and 92).
The traditional élitist political culture of the local authorities who have not been used to consult anybody, has also implied a negative attitude toward the existence of an outside control-agency. Therefore the élite in many communities has tried to prevent the OCs from doing their job (Metz 1995, p.10). An attitudinal change is thus necessary for the efforts to curb corruption. Furthermore, the members are not paid for their work, and this lowers the incentives for being member of the OCs and controlling the politicians (VPPFM 1998: 140). The problem of resources thus makes the peasants, usually living in poverty, easy victims for accepting bribes.

An additional circumstance obstructing the work of the OCs is the close relationship with local authorities (Mertz 1998). This makes the OCs look like an extension of the state in stead of an autonomous body holding politicians accountable (Laura 1998). The members of the OCs have often been captured by the clientelist political system in stead of controlling the action of local authorities. This possibly explains why the level of corruption is not falling (OECD 1998:202) Some even argue that decentralisation channels corruption to the local level (Andersson 1999: 6).

This example of a participatory institutional set-up to fight corruption and fraud shows that the civil society and the created institution have to be endowed with resources and strengthened institutionally in order for them to perform their “duties”. It also shows how the political culture of the politician élite and the population affects the outcome of the reform, by impeding its objective. Nevertheless, if the GTOs and the OCs are strengthened, the LPP has a great potential to accomplish its objectives of promoting participation, empowerment and accountability. The institutions are thus necessary but not sufficient to generate these social capabilities.

**Decentralisation, Popular Participation and Accountability in Nicaragua**

Nicaragua is a very centralist country without institutionalised participation by the civil society at the local level. In the Stockholm-declaration from 1999, the government committed itself to pursue a process of decentralisation**28** but has never approved the decentralisation law and seems unwilling to transfer resources to local authorities (CCER 2000: 26).

These facts are contradictions to the National Integrity Plan that aims at promoting participation by the citizens and mandating responses to the demands of the civil society through active public watch-

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28 Nicaragua is one of the most centralist countries in Latin America and the subnational spending compared to the total government spending in 1995 is as low as 5.2% (OECD 1998, p.104)
dog agencies (NIP 1999:7). If the Law of Popular Participation is to be enacted, Nicaraguans are likely not to face the same problems as in Bolivia because the political culture is more active and tolerant than in Bolivia. A survey on political culture in Nicaragua thus shows that the Nicaraguans participate almost to the same degree as the citizens of Costa Rica, which is an old democracy (Booth and Seligson 1993: 112). In addition, a higher proportion of Nicaraguans than Costa Ricans opposes restrictions of civil liberties.

As discussed previously interpersonal trust is a fundamental requisite to build stable democracies. If Bolivia and Nicaragua do not diminish the level of corruption, the support for democracy might erode. Surveys from Nicaragua indicate that experiences of corruption affect the system support negatively and that the higher the level of perceived bribery, the lesser is the interpersonal trust (Seligson 1999: 54-57). The level of corruption hence is a sign of negative democratic performance and has a negative impact on the political culture and the legitimacy of the democracy.

Both Bolivia and Nicaragua officially pursue active participation of citizens, but only Bolivia has implemented such a reform. Despite good intentions and conducive participatory institutions, the accountability mechanisms still do not function as intended in Bolivia. This is partly because it takes time to change the political culture, but also because civil society and the new OCs have not been strengthened and endowed with resources. These problems imply that the OCs and civil society have not yet been able to hold politicians and civil servants more accountable and thereby to diminish the widespread corruption in the municipalities. In Nicaragua the prospects for attaining decentralisation are not favourable, as it seems as if the government lacks the political will to enact the laws and initiate a genuine decentralisation process. If enacted optimally, such a process would empower the citizens to hold the politicians accountable and thereby decrease the level of corruption at the sub-national level. Likewise, the political parties in power and the President are obviously not committed to fight corruption through the instalment of independent institutions. Even though President Alemán speaks about the need to diminish the level of corruption in order to win the fight against poverty (Rasmussen 2000b) it seems difficult to change the situation because his actions raises doubt to whether the institutions are impartial. Another important problem is that the government does not send clear signals that corruption will not be tolerated. Together the presidential rhetoric and the lack of action might further decrease the legitimacy of democracy in Nicaragua and make it more difficult to fight corruption. Nevertheless, the political culture does not seem to be a big problem in Nicaragua because civil society is not alienated from the political system as in Bolivia.
For different reasons neither Bolivia nor Nicaragua can be classified as consolidated democracies and it seems reasonable that the democratic deficits have implications for the level of corruption and the possibilities of diminishing it. Consequently, we cannot reject our second hypothesis.

The case studies support our statistical analysis and show that the causality goes from democratic consolidation to corruption because the institutional set-up and its interplay with the political culture influences on the level of corruption and the possibilities to diminish it. The relationship is thus not only a statistical correlation. Conducive institutions that institutionalises horizontal and vertical accountability is important in combination with an active political culture. The case studies have thus supplemented the statistical analysis in pointing towards in which ways democratic consolidation affects corruption. However, genuine political will to fight corruption determines whether or not the efforts are successful.

5. Conclusion
We set out by hypothesising that 1) higher levels of corruption correspond with lower levels of human development and 2) the process of consolidating democracy lowers corruption. In sum, the main findings of this paper are firstly that corruption indeed seems to impede human development. Secondly, along with economic development, state intervention, and a measure of culture, democratic consolidation is significant and lowers the level of corruption.

Performing a statistical analysis, we find that corruption is an important predictor of human development when measures of democratic consolidation, educational spending, and the growth rate of GDP are included in the analysis. However, this association is mainly due to the link between corruption and economic development, which stresses that economy, is still an important part of human development. However, one should not underestimate the indirect effect of corruption on elements of human development through the economic variable. But on the other hand, it is important to keep in mind that the main reason why economic development assumes such importance is the simple fact that our measure of human development (HDI) is very crude and cannot cover more profound aspects of human development.

We compensate for this inadequacy by examining the relationship in more detail through case studies of Bolivia and Nicaragua - countries which both display high levels of corruption and modest levels of development. These studies support our main finding and show that the association is not only
statistical. They also show how corruption constrains human development by preventing access to public services, by lowering social expenditure, and by causing economic inefficiency. The economic loss caused by corruption in Bolivia in 1998 thus equals the level of the Danish development aid to empowerment and participation in the period from 1990 to 1998.

The statistical analysis also supported our theoretical advance that democratic consolidation lowers the level of corruption; short of economic development, consolidation is the most decisive predictor of corruption. In light of the meagre attention given to democracy and democratic consolidation in literature on corruption this finding is very interesting. As with human development, our measure of democratic consolidation is quite crude but a more thorough analysis through the case studies of Bolivia and Nicaragua show the importance of democratic consolidation. The analysis of horizontal and vertical accountability demonstrates that none of the countries can be considered consolidated democracies.

Firstly, the institutional mechanisms for horizontal and vertical accountability exist in Bolivia but do not work as intended. Conversely, in Nicaragua some of the core features of both horizontal and vertical accountability are missing along with a lack of genuine political willingness to fight corruption. Secondly, in both countries the political cultures are not fully democratic and do subsequently not reinforce the political institutions. These shortcomings means that the institutional reforms in Bolivia have not yet decreased the level of corruption in the bureaucracy and at local levels. At the same time Nicaragua has not been able to decrease the level of corruption and still face difficulties in doing so.

In this paper we have only dealt with two links between human development, corruption, and democratic consolidation. But as we indicated in the introduction, others are likely to exist and need scrutiny. If human development also influences

This paper has shown that corruption is a big problem with serious consequences for the socio-economic improvements and overall human development in developing countries. Also, we have stressed the importance of democratic consolidation to lower the level of corruption. These findings imply that the “new democracies” in the developing world have to be supported by a further capacity building at the levels of the state and civil society. In this way the democracies can be deepened and broadened. Also, the fight against corruption has to be strengthened. Further, development aid to anti-corruption measures is highly recommended as corruption causes economic inefficiency, impedes

29 This finding does not reject that the relationship can also be reverse
Human Development and constrains the legitimacy of the democracy. However, if the political will to fight corruption is missing, it raises questions to whether the level of development aid should be sustained.
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