UNDERSTANDING THE RELATIONSHIP BETWEEN HUMAN DEVELOPMENT INDEX (HDI) AND CORRUPTION PERCEPTION INDEX (CPI) FOR NEPAL

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Table of contents

List of Tables

List of Charts

List of Figures

List of Abbreviations

ADB: **A**gricultural **D**evelopment **B**ank

B.S.: **B**ikram **S**ambhat (*Nepalese year counting system*)

CIAA: **C**ommission for the **I**nvestigation of the **A**buse of **A**uthority

CPAA: **C**ommission for the **P**revention of **A**buse of **A**uthority

CPI: **C**orruption **P**erception **I**ndex

FDI: **F**oreign **D**irect **I**nvestment

FNCCI: **F**ederation of **N**epalese **C**hambers of **C**ommerce and **I**ndustry

GDP: **G**ross **D**omestic **P**roduct

GNI: **G**ross **N**ational **I**ncome

GNP: **G**ross **N**ational **P**roduct

HDI: **H**uman **D**evelopment **I**ndex

HIE: **H**igh **I**ncome **E**conomy

INGO: **I**nternational **N**on **G**overnment **O**rganization

LIE: **L**ow **I**ncome **E**conomy

MIE: **M**edium **I**ncome **E**conomy

NGO: **N**on **G**overnment **O**rganization

NVC: **N**ational **V**igilance **C**enter

OECD: **O**rganization for **E**conomic **C**o-operation and **D**evelopment

PPP: **P**urchasing **P**ower **P**arity

RCCC: **R**oyal **C**orruption **C**ontrol **C**ommission

TI: **T**ransparency **I**nternational

UNDP: **U**nited **N**ations **D**evelopment **P**rogram

WB: **W**orld **B**ank

Abstract

1990 United Nations Development Program (UNDP) devised an indicator for measuring development using composite of 3 dimension of development viz. Health Education and Living standard collectively called Human Development Index (HDI). Transparency International argues that corruption whether frequency or amount-is to a great extent a hidden activity that is difficult to measure, which is aptly summated in Corruption Perception Index (CPI).

This research aims in identifying factors affecting relationship between corruption and development from stakeholders' perspective. An extrapolation of this study contributes to understand variations occurring inter relationship of HDI and CPI. This research is an explorative study. It attempts to explore the relationship between HDI and CPI. In doing so, this research also explores factors affecting rise and fall of HDI and CPI using findings from primary survey.

Our statistically significant values for correlation between HDI and CPI are suggestive of that we reject Null Hypothesis. Based upon our findings, we cannot reject Alternate Hypothesis[a]. Based upon our findings, we cannot accept Alternate Hypothesis[b]. However, taking Nepal as a case we witnessed that the relationship was negative. All of our respondents perceived that corruption has increased in the past six years. They all blamed weakening of rule of law, political party lacking ethical behavior, quick rich mentality and culture of silence, non-transparent flow of money and Interim setup of government to be driving forces behind this increasing trend.

This research has examined the relationship between Human Development Index and Corruption Perception Index. This research identifies a "W" shape correlation trend between HDI and CPI based on past inferences. The relationship between HDI and CPI in case of Nepal was found to be statistically negative.

Keywords: HDI, CPI, Development, Corruption, Asia, Nepal.

CHAPTER I

INTRODUCTION

1.1 Background:

Development has been an ever evolving concept; the changes in concept of development have flip-flopped over past four decades. During 1950-60s development was measured in terms of increases in Gross National Product (GNP), Gross Domestic Product (GDP) and income per capita. According to Heymans and Lipietz (1999) the underlying assumption of this concept was that economic growth "trickles down" to improve personal wealth across the population, to create opportunities and employment and to reduce poverty. During 1970s development was defined in terms of better quality of life for large population-creating opportunities and eliminating inequality, poverty and unemployment. Later in 1990 United Nations Development Program (UNDP) devised an indicator for measuring development using a composite of 3 dimension of development viz. Health (longevity, as measured by the life expectancy at birth), Education (educational attainment, as measured by an index evaluating a combination of adult literacy (two-thirds weight) and the combined gross primary, secondary and tertiary enrolment ratio) and Living standard (standard of living and access to resources, as measured by an index calculating real GDP per capita in terms of purchasing power parity) collectively called Human Development Index (HDI). The HDI sets a minimum and a maximum for each dimension calling it goalposts and thus shows the position of country based on these two goal posts-expressed as value between 0-1.

Corruption is viewed in two different ways: "greasing" or "efficiency enhancing". Leff (1964), Huntington (1968), Friedrich (1972) and Nye (1967) argue corruption greases the wheels of business and facilitates economic growth and investment. Thus, increasing efficiency or greasing economy wheel. However, corruption is also viewed as "sanding" or "efficiency reducing". McMullan (1961), Krueger (1974), Myrdal (1968), Shleifer and Vishny (1993), Tanzi and Davoodi (1997) and Mauro (1995) claim that corruption slows down wheels of business and hinders economic growth and investment. Thus, impairing efficiency or sanding economic wheel. Despite all popular debates on roles, Transparency International (TI) defines corruption as "the abuse of entrusted power for private gain (encompassing corrupt practices in both public

and private sectors". TI argues that corruption whether frequency or amount-is to a great extent a hidden activity that is difficult to measure, which is aptly summated in Corruption Perception Index. Minima and maxima for CPI are 0-10 (0=corrupt country, 10=virtually corruption free country).

Corruption has been at the center-stage of development agenda because of its frustrating effects and its wild fire expansive nature. In addition to that war against corruption has already started or at least hatred is pervasive. Bilateral or multi-lateral funding decisions have also swayed with-how well does a country do on CPI, which can be explained for two basic reasons: primarily because it undermines democracy and good governance by breaching or even subverting formal processes. Second, corruption weakens environment for achieving expected targets and promotes exclusions (of various forms).

Gerald E. Caiden (1988, 4-6) asserts that "as so often occurs in science, the more attention a subject receives, the more complicated it becomes. Corruption comes in too many forms to permit easy generalization". He further adds "there is high level and low level corruption and there is predominantly political and predominantly bureaucratic corruption….". In the table below, we have listed forms of corruptions which ultimately create trouble to permit easy generalization:

Table 1: Forms of corruptions

Non-performance of duties; desertion; parasitism
Treason; subversion; illegal foreign transactions; smuggling
Kleptocracy; privatization of public funds; larceny and stealing
Misappropriation; forgery and embezzlement; padding of accounts; diverted funds; misuse of funds; unaudited revenues; skimming
Abuse and misuse of coercive power; intimidation; undeserved pardons and remissions; torture
Deceit and fraud; misrepresentation; cheating and swindling
Perversion of justice; criminal behavior; false evidence; unlawful detention; frame-ups
Bribery and graft; extortion; illegal levies; kickbacks
Tampering with elections; vote-rigging; gerrymandering
Misuse of inside knowledge and confidential information; falsification of records

Unauthorized sale of public offices, loans, monopolies, contracts, licenses and public property
Manipulation of regulation, purchases and supplies; bias and favoritism
Tax evasion; profiteering
Influence-pedding; favor-brokering; conflicts of interest
Acceptance of improper gifts and entertainment; "speed" money; blackmail
Protecting maladministration; cover-ups; perjury
Black market operations; links with organized crime
Cronyism; junkets
Misuse of official seals, stationery, residences and perquisites
Illegal surveillance; misuse of mails and telecommunications

Caiden in the same paper further argues that there are certain universal generalizations regarding corruption see Table 2. According to him "these generalizations are also indication that corruption can be reduced and contained through appropriate counter-measures, but as long as the underlying causes persist, corruption is unlikely to be eliminated altogether."

Table 2: Universal generalizations regarding corruption

S.N.	Statements
1.	Corruption has been found in all political systems, at every level of government and in the delivery of all scarce public goods and services.
2.	Corruption varies in origin, incidence and importance among different geographical regions, sovereign states, political cultures, economies and administrative arrangements
3.	Corruption is facilitated or impeded by the societal context (including international and transnational influences) in which public power is exercised.
4.	Corruption has multitudinous causes, assumes many different patterns and guises and cannot be accurately measured because of its often indeterminate and conspiratorial nature.
5.	Corruption is deeply rooted, cancerous, contaminating and impossible to eradicate because controls tend to be formalistic, superficial, temporary and even counter-productive

6.	Corruption is directed at real power, key decision points and discretionary authority. It commands a price for both access to decision-makers and influence in decision-making.
7.	Corruption is facilitated by unstable polities, uncertain economies, mal-distributed wealth, unrepresentative government, entrepreneurial ambitions, privatization of public resources, factionalism, personalism and dependency
8.	Corruption favors those who have (over those who have-not), illegal enterprises, underground economies and organized crime.
9.	Corruption persists substantially as long as its perpetrators can coerce participation, public attitudes towards it vary widely and it greatly benefits a privileged few at the expense of the disadvantaged mass.
10.	Corruption can be contained within acceptable limits through political will, democratic ethos, fragmented countervailing power, legal-rational administrative norms, inculcation of personal honesty and integrity and effective enforcement of public ethics although its complete elimination is still beyond human capability

The problem with corruption is that this is a phenomenon that seems to be very "sticky" (Rothstein and Uslaner 2005). In plain language, most empirical research shows that "once the system gets there, it stays there". Understood in a game theoretic framework, once corruption becomes systemic and the existence of widespread corrupt practices becomes "common knowledge", we seem to have a case of an extremely robust inefficient equilibrium. To use Bardhan's expression: "corruption represents an example of what are called frequency-dependent equilibria and our expected gain from corruption depends crucially on the number of other people we expect to be corrupt" (Bardhan 1997, p. 1331). As Douglas North has argued, it is a puzzle why not countries "that have institutional frameworks that are inhospitable to economic growth simply adopt the frameworks of the successful economies" (North 1998, p. 493). He also argues that we should realize that "efficient institutions" are the exception and that, contrary to earlier functionalist reasoning, we have to accept the fact that "history is not efficient" in the sense that ineffective institutions will be weeded out by increased competition which was the thought by functionalist type of economic reasoning (North 1998, p. 494).

Rothstein argues the reason for sticky nature of corruption problem is that none of the "players" in this "game" have reasons to change their strategy (to pay or demand bribes). This is so, even if they all realize that they as a collective stand to lose from the ongoing corruption and even if most agents morally condemn corrupt practices (Karklins, 2005). Agents at the bottom of a corrupt system, such as the "street level" tax bureaucrats, policemen or public health physicians, have no incentive to refrain from corrupt practices because even if they as individuals start behaving honestly, nothing will change as long as most of their colleagues do not change their behavior (Rothstein, 2005). In such situations, collective action for the common good is impossible to establish, at least as long as the majority of the players act so as to maximize their expected utility. This was nicely captured by the Swedish Nobel laureate Gunnar Myrdal already in 1968 in his important work about what he labeled the "soft state" problem in Asian countries. According to Myrdal, the ordinary "street level" official would reason like this: "well, if everybody seems corrupt, why shouldn't I be corrupt" (Myrdal 1968, p. 409). As is well known, it makes no sense to be the only honest player in a rotten game because that will not change the game. The implication is that a corrupt system usually cannot be changed "from below".

Interestingly, country case like Singapore and Hong Kong provides us with evidence that they can be successfully fought from above (Root 1996). However, both of these country was not a democracy when their anti-corruptions campaigned were launched. Surprisingly it was autocratic leaders who installed effective measures against corruption. Montinola and Jackman 2002; Sung 2004 claim that democracy seems to be curvilinear related to the level of corruption. Some of the worst cases of corruption have appeared in newly democratized countries, such as Peru (under former president Fujimoro) (McMillan and Zoido 2004).

When Mahbubul Haq (1990) had the purpose "to shift the focus of development economics from national income accounting to people centered policies", little did he know that Human Development Indicator would soon be overarching over other measures of well-being. Countries would find themselves busy discussing their "progress report" and be mesmerized by the fact that despite of satisfactory economic progress their climb on HDI would often be sluggish. This is where our concern lies. If the sole purpose of development indicators is to reflect the well-being of humanity, why doesn't annual increase in one indicator leads to annual rise in another closely linked indicator? After all, development in one sector affects (positively or negatively)

the progress of another sector (for e.g.: higher literacy rates leads to reduce fertility rates). Thomas et. al (2000:147) identifies the effects of corruption on poverty through a variety of channels.

Table 3: A synthesis matrix: corruption and poverty

"immediate" causes of poverty	How corruption effects "Immediate" causes of poverty
Lower investment and growth	Unsound economic/institutional policies due to vested interests Distorted allocation of public expenditures/investments Low human capital accumulation Elite corporate interests capture laws and distort policymaking Absence of rule of law and property rights Governance obstacles to private sector development
Poor have smaller share in growth	State capture by elite of government policies and resource allocation Regressiveness of bribery "tax" on small firms and the poor Regressiveness in public expenditures and investments Unequal income distribution
Impaired access to public services	Bribery imposes regressive tax and impairs access and quality of basic services for health, education and justice Political capture by elites of access to particular services
Lack of health and education	Low human capital accumulation Lower quality of education and health care

1.1.1 A brief review of development in Nepal

Nepal is the oldest sovereign country (with sovereign history of more than 500 years) in South Asia which is partly attributed to its high altitude land locked geography. Excitingly, its economy is not locked! Nepal occupies only 0.03 % of world and 0.3% of total land area of Asia. Nepal is sandwiched between two economic and nuclear power giants: China and India. Nepal has extreme topography and climate variation which makes it suitable for home of the diversified flora and fauna of this world. At present the country is divided into five north-south administrative development zones: eastern development region, central development region western development region Midwestern development region and far western development region. The country is further divided into 75 administrative districts. Moreover the districts are further divided into smaller units called village development committees (VDC = total 3915) and Municipalities (58). The VDC are rural areas, whereas municipalities are urban areas of the country.

According to preliminary report of population census 2011 the annual growth for population is 1.40 % and the total population of the country is about 26.6 million of which the ratio of male and female is equal to 94.4. The economic growth rate of country by GDP is 3.47 percent per year in year 2010/11. About one fourth of population 25.16 % lives below poverty line as per the Nepal living standards survey 2010/11 and the Gini coefficient which indicates inequality in income distribution is 0.328. According to the Nepal labor force survey there are only 2.1 percent unemployed labors in Nepal (CBS, 2011).

Nepal's performance on the economic development has not been very impressive. In terms of per capita gross domestic product (GDP), Nepal is now where Sri Lanka was in 1960, Pakistan was in 1970 , India and Bhutan were in 1980 (ADB, 2009) Poverty on the other hand has declined from 42% in 1995/96 to 2003/04 (ADB, 2009). In addition to this, a burning concern is for the rise in inequality over the same period from 0.34 to 0.41 in terms of Gini coefficient.

Sandwiched between two Asian economic giants, this economy has never seen a double-digit growth in the past five decades. Nepal has witnessed three long years of depression (1981-1983), a yearlong economic blockade from India (March 23 1989- late April 1990). Despite this, the lowest GDP growth rate was in 1983 (-2.98 percent) whereas, highest GDP growth rate (9.6

percent) was attained in 1984. No growth rate has ever touched this upper value. More troubling is the fact that these growth rates have never been stable. Since 1960, the economy witnessed 19 instances of an increase in GDP growth rate and 25 instances of growth collapses. There are no instances of sustained growth rate of over five percent for three consecutive years. The average growth rate in past five decades was 3.57 percent. Consequences of this instability are numerous. The impacts did not only decrease our credit ratings, scare our Domestic and Foreign Investors but also fuelled many political crises. Most of all it impacted our labor force by putting them not only out of work but making their skills obsolete as result of keeping them away from market and using them in partisan political warfare. But we shall not talk of all those issues and crisis dynamics. But before we do that lets cite a trend of Nepal's HDI in relation with world and South Asia.

Chart 1: Trend of HDI
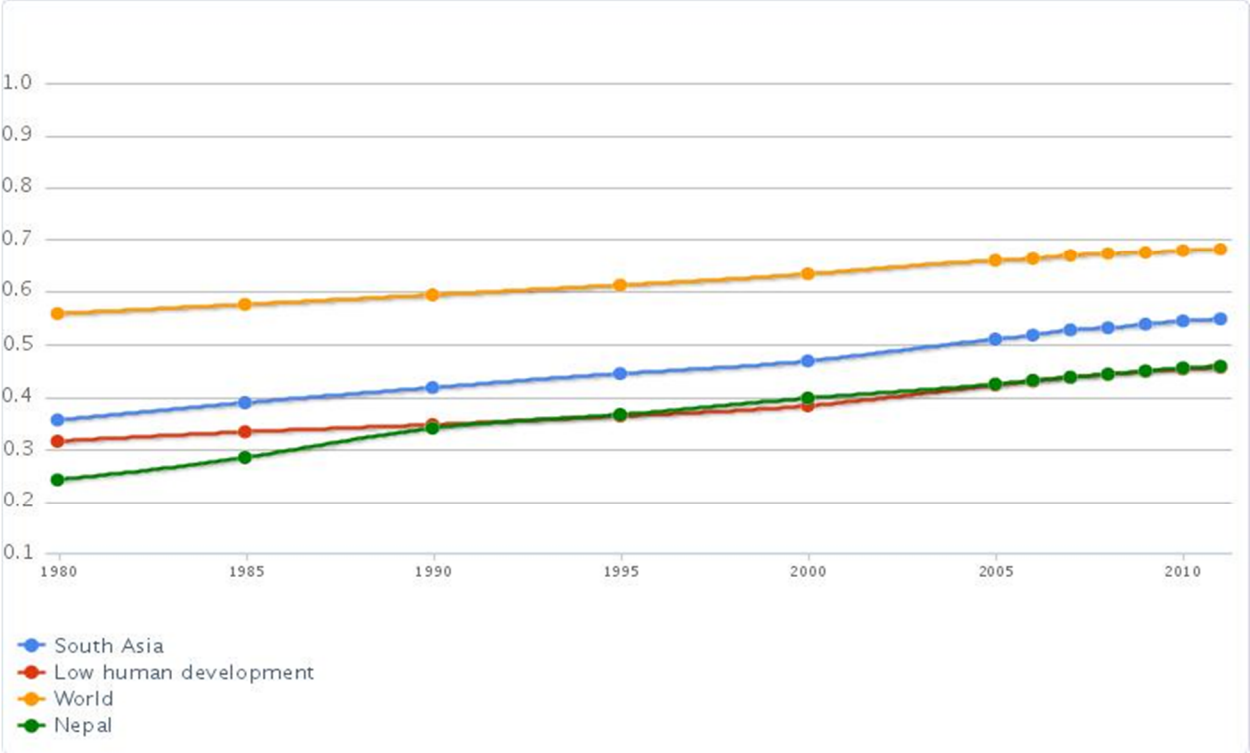
From the above chart we can infer that Nepal has never achieved its regional average index, however from 1990 onwards Nepal has been able to keep up with low human development index score.

A bird-eye view of Nepal's current development indicators:

- **Health (Life expectancy at birth):** 68.8
- **Education (expected and mean years of schooling):** 0.356
- **Income (GNI per capita in PPP in US dollars):** 1,160

Source: UNDP, 2011

National Planning Commission is the constitutional apex body for planning of development activities in Nepal. With the initiation of planned development process, a planning agency by the name of Planning Commission was constituted for the first time in Nepal in 1956 under the Chairmanship of the Prime Minister. To make it more capable and effective, The Yojana Mandal (a planning body) was set up the same year in accordance with the Yojana Mandal Act, 1957. Besides the responsibility of plan formulation, the Yojana Mandal was entrusted with various executive powers. Following the overthrow of the multiparty democratic system in 1960 and with the initiation of Panchyat political system thereafter, Rastriya Yojana Parishad (National Planning Council) under the Chairmanship of His Majesty late King Mahendra was constituted. As the decisions of the Council were treated as equivalent to that of the cabinet, the Council was regarded as the highest authority in the sphere of economic planning and policies. In the beginning, a separate Secretariat was set up to serve the Council. However, with the creation of the Ministry of Economic Affairs in 1962, the Ministry itself carried out the functions of the Secretariat. Various activities relating to development budget and foreign aid were directly brought under the purview of the National Planning Council. In 1963, the National Planning Council was dissolved and a new central planning body, with an identical name, was constituted under the Chairmanship of the Chairman of the Council of Ministers. All the Ministers were designated as Ex-officio members and the Ministry of Economic Affairs was renamed as the Ministry of Planning. In 1968, all the works related to development budget and foreign aid hitherto carried out by the Ministry of Economic Planning was assigned to the Ministry of Finance. The National Planning Council under the Chairmanship of the Chairman of Council of Ministers was replaced by the National Planning Commission, under the Chairmanship of the Prime Minister, and a separate Secretariat was set up to serve it. A comprehensive study on the functions and responsibilities of the central planning agency resulted in the preparation of the report in 1972 and the National Planning Commission was reconstituted accordingly.

Planning activities were carried on in accordance with the Report on Central Planning Agency, 1972. In 1987, some minor changes were introduced in the structure of National Planning Commission. With the restoration of democracy, following the people's movement of 1990 and the establishment of constitutional Monarchy in the country, some changes were made in the structure and organization of National Planning Commission in 1991. The reconstituted Commission was headed by the Prime Minister and consisted of a full time Vice-Chairman and five Members and a Member-Secretary. The Chief Secretary and the Finance Secretary were included as the Ex-officio Members.

Thus, History of planned development in Nepal dates back to 1956 with the First Five year plan (1956-61). So far eleven five years plan has been devised and twelfth is in construction. The list of eleven five years plan is:

1.1.2 First five year plan (1956-61)

According to (Savada, 1993) "Transportation and communications received top priority with over 36 percent of the budget allocations. Agriculture, including village development and irrigation, took second priority with about 20 % percent of budget expenditure. The plan which also focused on collecting statistics was not well conceived and however resulted in actual expenditures of about NRs. 382.9 million when compared with the allocated NRs. 576 million (expenditure was nearly two thirds of the budgeted amount."

1.1.3 Second five year plan (1962-65)

According to (Savada, 1993) "Parliament established under 1959 constitution was suspended in 1960, the second plan failed to materialize on schedule. A new plan was not introduced until 1962 and covered only three years 1962-65. Transportation and communication again received top priority with about 39 percent of budget expenditures. Industry, tourism and social services were the second priority. Targets were missed; there were improvements in industrial production, road construction, telephone installations, irrigation and education. Only organizational improvement area of the target was met. The first two plans were developed with very little research and a minimal database. The plan was not detailed nor contained specific terms (both plans). The administrative machinery with which to execute these plans also was inadequate. The

national planning commission which formulated the second plan noted the difficulty of preparing plans in the absence of statistical data. Further as was the case with the first plan, the bulk of the development budget depended on foreign aid-mostly in the form of grants. The failure of these plans was indicated by the government's inability to spend the budgeted amounts."

1.1.4 Third five year plan (1965-70)

According to (Savada, 1993) "The third five plan 1965-70 increased the involvement of local panchayat. It also focused on transport, communications and industrial and agricultural development. Total planned expenditures were more than NRs. 1.6 billion."

1.1.5 Fourth five year plan (1975-80)

According to (Savada, 1993) "The fourth five year plan 1970-75 increased proposed expenditures to more than NRs. 3.3 billion. Transportation and communications again were the top priority, receiving 41.2 percent of expenditures followed by agriculture which was allocated 26 percent of the budget. Although the third and fourth plans increased the involvement of the panchayat in the development process the central government continued to carry out most of the responsibilities."

1.1.6 Fifth five year plan (1980-85)

According to (Savada, 1993) "The fifth five year plan 1975-80 proposed expenditures of more than NRs. 1980-85proposed an outlay of more than NRs. 8.8 billion. For the first time, the problem of poverty was addressed in five year plan although no specific goals were mentioned. Top priority was given to agricultural development and emphasis was placed on increasing food production and cash crops such as sugarcane and tobacco. Increased industrial production and social services were also targeted. Controlling population growth was considered a priority."

1.1.7 Sixth five year plan (1980-85)

According to (Savada, 1993) "The Sixth Five-Year Plan (1980–85) proposed an outlay of more than Rs. 22 billion. Agriculture remained the top priority; increased social services were second. The budget share allocated to transportation and communication was less than that allocated in

the previous plan; it was felt that the transportation network had reached a point where it was more beneficial to increase spending on agriculture and industry."

1.1.8 Seventh five year plan (1985-90)

According to (Savada, 1993) "The Seventh Five-Year Plan (1985–90) proposed expenditures of Rs29 billion. It encouraged private sector participation in the economy (less than Rs. 22 billion) and local government participation (Rs. 2 billion). The plan targeted increasing productivity of all sectors, expanding opportunity for productive employment, and fulfilling the minimum basic needs of the people. For the first time since the plans were devised, specific goals were set for meeting basic needs. The availability of food, clothing, fuel-wood, drinking water, primary health care, sanitation, primary and skill-based education, and minimum rural transport facilities was emphasized."

1.1.9 Eighth five year plan (1992-1997)

According to (Savada, 1993) "Because of the political upheavals in mid-1990, the new government postponed formulating the new five year plan. The July 1990 budget speech of the minister of finance, however, implied that for the interim, the goals of the seventh plan were being followed." The five objectives of eighth five year plan were : To generate extra income and employment by enhancing inter-relations between productions oriented industrial sector and other economic activities; To develop this sector as an important means of earning foreign currency by improving the quality, productivity and the production of exportable items; To promote medium and large size industries in order to substitute imports and also to fulfill internal demands by improving cottage and small scale industries using the locally available resources; To build necessary infrastructure to identify the mineral resources which may be used commercially in the country; To increase national-production by developing industries based on existing mineral reserve.

1.1.10 Ninth five year plan (1997-2002)

The Ninth five year plan 1997-2002 adopts poverty alleviation as its main objective so as to lessen poverty confronting the whole nation, maintaining the development concept of 20 year perspective planning.

1.1.11 Tenth five year plan (2002-2007)

The main objective of tenth five year plan 2002-2007 was to free the nation from the clutches of existing poverty and to establish a cultured, modern and competent society. Other sector wise-targets were also adjusted with millennium development goals.

1.1.12 Interim three year plan (2007/08-2009/10)

The main objective of Interim three year plan is to generate an experience of a direct feeling of change in the lives of the general public by supporting in the establishment of peace and reducing the existing unemployment, poverty and inequality in the country. This plan has been stretched till date due to interim setup of government/constitution assembly.

Historically, during the Rana period before 1950, Nepal was not interested in foreign aid, as it was viewed as an intrusion. However, since the 1950s, Nepal has opened up to foreigners and recognized the possible benefits of modern technology. The government began to accept foreign aid, and since then Nepal has continued to become increasingly more and more dependent on it. Foreign aid inflow into the country has steadily increased and aid in the form of loans is much larger than grants. In the fiscal year 1998/99, 73.2% of the total aid was in the form of loans. Foreign debt is rapidly accumulating and in the fiscal year 1998/99, Nepal's outstanding external debt reached 49.4% of the GDP. It has been argued by many economists that while Nepal has been receiving foreign aid for more than 40 years, they have not succeeded in alleviating poverty as is indicated by their economic indicators. Indeed, the central constraint on Nepal's development over the last few decades has not been the scarcity of financial resources, but the lack of effective governance and well-functioning institutions, which can adequately perform the vital state functions that are essential for a sound economic and social development process. There are many manifestations of the governance problem in Nepal, including weak institutions and procedures, lack of ownership of development projects and programs, lack of accountability and mismanagement of resources, failure to provide effective delivery of public services, including law and order, and the absence of a well-functioning judicial system, all of which are reflected in increased corruption (Nepal, ?).

Nepal's social, financial, and political conditions prevent it from improving its macroeconomic condition, yet it is apparent that something must be done to take the economy to the path of development. If policies were implemented to restrict immediate focus on water resources and

human resources development together with good governance, Nepal would benefit by improving its economic and social conditions. Such focus would give time for its newly democratic government to stabilize, to work on improving relations with India, and to begin to rely less on foreign aid. Hence, for the development of Nepal, the policy of the government of Nepal should be towards improving the agriculture and power generation sector as well as basic infrastructure including transport and communication.

- The government should make policy for the control of growing corruption.
- The government policy should be directed towards improving the capability of human resources.
- The policy should be made to attract foreign direct investment for the utilization of available huge amount of water resources, which have impact on different sectors (agriculture, power generation, etc.). For this, the attraction should be towards small dam projects, the cost of which is relatively less than that of large dam projects.
- Efforts should be made to improve the basic infrastructures that help the tourism sector, which is the major sector for the foreign exchange earnings of the country.

Thus, with the help of good governance, if the foreign assistance can be utilized effectively in these three sectors (Human Resources, Water Resources, and Tourism); there is a possibility to bring the Nepalese economy to the path of development.

1.1.13 Institutional Arrangements for addressing Corruption in Nepal

King Prithvi Narayan Shah who unified Nepal about three centuries ago had proclaimed that "both the giver and taker of the bribe is the enemy of the country". However, for the consolidation of power, feudalistic Shah Dynasty rulers encouraged various forms of corruption practices. Such a practice intensified after the imposition of autocratic rule by the Jung Bahadur Rana in 1846. As a powerful prime minister, Jung Bahadur monopolized the statecraft. With the rising discontent against Rana ruler he was compelled to announce the enactment of anti-corruption law in 1854. In 1854, the first law code was promulgated, including a section on complaints against civil servants. This provided a mechanism of redress against a civil servant who resorted to collection of bribe from the people. (Khanal, Rajkarnikar and Karki 2007).

Prior to 1953, legal provisions dealing with corruption were scattered throughout various pieces of legislation. With the enactment of the Corruption Control Act, 2009, a separate department was established to address the problem of corruption in the administrative sector. This act was subsequently repealed and replaced by the Corruption Control Act, 2017 B.S. and a Special Police Department (SPD) was established under the Home Ministry to investigate corruption. Prior to 1975, there was no independent constitutional body to deal with corruption. It lacked authority, skill and the co-operation of the political leaders and the higher echelon of bureaucracy as well as lack of capacity in terms of both human resources and physical facilities made it weak institution to control corruption. Therefore, it has been felt necessary to create a powerful body with the authority to investigate cases of corruption against the top bureaucrats and even the ministers and take actions. With the second amendment to the Constitution of Nepal, a Commission for the Prevention of Abuse of Authority (CPAA) was set up to both investigates and adjudicates upon corruption cases

The Constitution of the Kingdom of Nepal, 2047 B.S. established the Commission for the Investigation of the Abuse of Authority (CIAA) that is empowered to investigate corruption and improper conduct on the part of public officials. Mounting public pressure and the work of CIAA led to the enactment of more effective legal provisions. As a result, the Commission for Investigation of Abuse of Authority Act, 2048 B.S. was amended to provide greater powers to the CIAA, and the Prevention of Corruption Act, 2051 B.S. was enacted. This legislation established a National Vigilance Center (*Rastriya Satarkata Kedra*) and provided additional powers to combat corruption. Additionally, the Special Court Act constituted a three-member court to try corruption cases.

The Commission for the Investigation of Abuse of Authority (CIAA) is an apex constitutional organ to curb corruption and its tentacles in the country that is established by the Interim constitution of Nepal, 2063 B.S. Both of these institutions can investigate and file cases against corruption in Special Court. Special court and Supreme Court (as an apex court) have authority to punish to corrupt act to the Judiciary. The Interim Constitution, 2063 B.S. institutionalized the Commission for Investigation against Abuse of Authority as the constitutional organization to promote a society free of corruption and mal practices.

After the Royal takeover in Magh-19, 2061 B.S. (February 1 2005 A.D), The King has formed Royal Corruption Control Commission (RCCC) to control corruption. The then king Gyanendra called this to the press meet that reasons behind the formation this commission was that the failure of CIAA to control corruption. Political Scientists called this like a political vendetta to use against political leaders. Principally, it is against the natural justice, separation of power, rule of law and human rights which incorporate human right document. Because, this commission has been authorized to investigate file, and decide the case in its own court. It has been given to make laws as interest of the Commission. In 2062 B.S., Falgun-1 (February 13 2006 A.D.) the Royal Commission for Corruption control was invalided under the constitution by Supreme Court. As it acted as a court of first instance in the case of corruption, Special Appellate Court was established in the Supreme Court to hear appeal against the decision of the commission.

1.1.14 Commission for the Investigation for Abuse of Authority (CIAA):

The Commission for the Investigation of Abuse of Authority (CIAA) is an apex constitutional body that plays the role of an ombudsman, investigator and prosecutor to curb corruption. It aims to crack down the corruption issues at a national level with system-based approach. It also focuses on detection and punishment of corrupt acts on the one hand and social, cultural and institutional reforms on the other. It functions under Interim Constitution, 2063 B.S. (2007 A.D.), Commission for the Investigation of Abuse of Authority Act, 2048 B.S. (1992 A.D.), and Regulation, 2059 B.S. (2003 A.D.).

CIAA is an independent anticorruption body in South Asia (World Bank, 2004) which is formed by constitution and it has the power to initiate cases against all top officials, including the Prime Minister and his Cabinet members. Since then, there has been a quantum leap in the number of complaints coming to the CIAA as well as in the disposal of cases (CIAA, 2004).

The CIAA investigates and files cases to the Special Court concerning improper conduct and corruption by public officials. Corruption cases filed by the CIAA are prosecuted by the Attorney General's Office. Based on the findings, the Commission may file a case against the persons, alleged to have committed corruption, in the Special court.

Interim constitution of Nepal, 2063 B.S. (2007 A.D.) has empowered CIAA to investigate and probe cases against the persons holding any public office and their associates who are indulged in the abuse of authority by way of corruption and/or improper conduct.

CIAA has absolute right to investigate and initiate proceeding against the public servant who has involved in corrupt practice. However, it has no jurisdiction over any official to whom the constitution itself separately provides for such action like impeachment in parliament and any official to be prosecuted under the Army Act. CIAA functions under the CIAA Act, 2048 B.S. (1992 A.D.) CIAA doesn't have an adjudicated authority. But it has a right to recommend for departmental action. CIAA carries out inquiries and investigation into corruption and improper conduct committed by all public officers from the Prime minister to low-ranking public servant.

If CIAA finds, upon inquiry or investigation that any person holding any public office has misused authority by improper conduct, it may recommendation to the concerned authority in writing for taking departmental or any other necessary action. As well as based on the findings, the Commission may file a case against the persons, alleged to have committed corruption, in the court of law.

The office of the Chief District Officer, the office of the Government Prosecutor and lawyers to which CIAA has delegated its authority to investigate and prosecute corruption and improper activities at the district level. It may make suggestions or recommendations to the government for amending laws or making certain improvements in the government, or part thereof, with a view to enhancing and improving good governance practices in the country. Similarly, the law provides for the CIAA to undertake appropriate awareness, information dissemination and sensitization program to prevent officials of the government and the public at large from indulging in corrupt practices.

As per article 121, of the Interim Constitution of Nepal, 2006, CIAA shall submit an annual report to the Prime Minister on the works it has performed. The Prime Minister shall cause such report to be laid before Parliament.

CIAA is the institution, which has the potential of contributing a lot in controlling corruption. Three separate bills were enacted in August 2002 with a view to make CIAA more powerful. These new Acts are – amendment to the existing CIAA Act, replacement of the existing

Prevention of Corruption Act by a new Act and the Act to establish Special Court for hearing corruption charges.

Besides curative role, CIAA carries out preventive role by sharing and disseminating information, publishing posters, pamphlets, booklets, newsletters and so on. CIAA also organizes interaction programs with the governmental as well as nongovernmental organization and civil society to discuss and find out ways and means to curb corruption, There are a number of other activities, which CIAA carries out to promote good governance in the country, Moreover, CIAA has collaborated with International stakeholders to accelerate anti-corruption activities by sharing experiences and exchanging views in various national and international forum.

CIAA was receiving about 1300 complaints per year on abuse of authority and it has increased to about 4324 in the year 2062/2063 B.S. (2006/2007 A.D.) (CIAA, 2007). The CIAA took departmental action against public servants about 139 and 114 cases has been registered in the Special Court (CIAA, 2007) presented that the CIAA recommended to public offices due to investigate, to departmental action, warning, calling attention to the conduct, or admonishment for the concerned public official under the CIAA Act, 2048 B.S. (1992 A.D.), section 12(1) as well. It suggests the rectification of damages caused by abuse of authority to related public office. There is no any report or information that these all recommendations are implemented or not.

1.1.15 National Vigilance Center (NVC):

More recently, legal provisions for corruption control have been developed, especially since the restoration of multiparty democracy in 1990, and a new Corruption Prevention Act in 2002 through which National Vigilance Center was established under the direct control and supervision of the Prime Minister (Corruption Prevention Act, 2059 B.S. (2002 A.D.) part 4). In addition, as a signatory to UN Convention on Anti-Corruption, a government appointed committee is preparing to fulfill obligations under the Convention.

NVC has intensified monitoring mechanisms of government ministries, departments, offices and public institutions and property disclosure by civil servants is more effectively monitored. Developments also include enhanced arrangements to receive public complaints and grievances, resulting in a growth of complaints. NVC has investigated on different cases e.g. enquiries into a

bridge construction project, revenue losses through illegal imports of mobile phones, drinking water project involving road construction.

The main purpose of creating NVC is to control the incidents of corruption and to creating the awareness against corruption. So NVC organized the regional and district level seminars as well as workshop to raise people's awareness; and partnership initiatives with the Commission for the Investigation of Abuse of Authority. In addition, it is seeking to establish relationships and share experiences with other anti-corruption agencies in Asian and other countries.

The Corruption Prevention Act, 2059 B.S.(2003 A.D.), Section 38 is provide the other functions, duties and powers of NVC are:

a. Collect information on matters related to performances, irregularities and malfunctions to be performed by the government Ministries, Departments and public institutions including;
b. Monitor the property and income submitted by a person holding public post;
c. Arrangement of regular supervision, surprise checks and enquiry at government working places;
d. Provide suggestion to the government on the matters related to reforms in laws, policies and strategies to be adopted for corruption control;
e. Arrangement of complaint boxes in the government and semi-government institutions;
f. Retrieve information from the corruption investigating agencies, and update them; and
g. Forward corruption related information to the concerned agencies.

It has no field offices. It has yet to start its real business of monitoring the ministerial/departmental activities. Therefore, despite its three years of existence, the work of NVC is not yet noticeable.

1.1.16 Judiciary:

In Nepal, as the apex court; Supreme Court and a trial court; Special Court relating to corruption is fundamental institutions to govern the corruption cases. Supreme Court according to constitution can resolve any question of law (CIAA,2059 B.S. (2003 A.D.)) and question of fact as being the independence and competent. Similarly, the Special Court has jurisdiction over the

corruption cases, as the first instance; on which Supreme Court hear the cases as being the appellate that hold the final jurisdiction.

a. **Special Court:**

Special Court established under the section 3 of Special Court Act, 2059 B.S. In pursuance to the Interim Constitution, 2063 B.S. (2007 A.D.), Article 101 (2), Special Court (Tribunal) could be established to hearing special cases. The Special Court comprises members, as a need would be, Government of Nepal appoints member with chief member upon the recommendation with Judicial Council. It acted as a court of first instance in the special cases as corruption (Special Court Act, 2051 B.S. (1995 A.D.), Section 6, 12). Being Special Court, it exercises some specific procedural processes to institute speedy trials in comparison to the regular courts of the country (Special Court Act, 2059 B.S. (2003 A.D.), Section 10). The court could seize the property and passport of culprit during the hearing (Section 8). Additional charges could be possible (Special Court Act, 2051 B.S. (1995 A.D.), Section 9). Previously corruption cases were to be filed by the CIAA through government attorney. According to this Act Special Court has to dispose the corruption case within six months of case filling. Likewise, an appeal against it has to be disposed by the Supreme Court.

b. **Supreme Court:**

The Supreme Court as an appellate court acted to hear appeal against the decision of the Special Court in the corruption cases. In pursuance Interim Constitution, Administration of Justice Act, the Supreme Court Act, Special Court Act, and other relevant laws, the Supreme Court is the apex court of the country. It is mandated to hear final appeal in the corruption cases.

In pursuance to the constitutional provisions, the Supreme Court Act, Special Court Act, and other relevant laws, the Supreme Court is mandated to hear final appeal in the corruption cases.

There are other institutions like office of Attorney General, Judicial Council, Auditor General's Office, Department of Revenue Intelligence and Special Court, which are directly or indirectly involved in corruption control. Additionally, a Political Party Act

was introduced in 2002 with them of regulating the establishment and activities of political parties and also controlling corruption at the political level. The Act has made it mandatory for a political party to show the amount of donations it was receiving and how it would be spent. The "donors" who give more than NRs. 25,000 would have to be named. Its main aim was to control the money being given by smugglers and illegal traders and also ensure financial transparency in the political parties.

In parallel, parliament committees were also active to expose and contain the rising corruption especially during the period 1996 to 2001 A.D. A number of suspected corruption cases were investigated and recommended by the Public Account Committee in 1999, 2000 and 2001 to the CIAA for further investigation and imposing punishment (Khanal, Rajkarnikar and Karki, 2007).

Another milestone in the fight against corruption was made in March 2003 by constituting a Judiciary Inquiry Commission on Property to investigate on the acquisition of property by the senior politicians and administrative officials holding public positions after 1990 A.D. This Commission has prepared a report detailing names and property of thousands of higher level bureaucrats and politicians. Thus, the anti-corruption agenda has been one of the bright spots in Nepal's governance reforms (World Bank, 2004).

Despite this history, legal and institutional arrangements, we are still struggling in corruption perception index and our human development index. Humorous but true, without knowing the relationship between any two of those variables we are following their indications/interpretations frantically. This research aims to analyze the relationship between Human Development Indicator (HDI) and Corruption Perception Index (CPI). Thus, we can follow or discard them with an understanding of relationship between them.

1.2 Rationale:

The logic behind CPI selection is that it is a best measure of corruption perception at the given time and coupled with the fact that it is extremely popular across countries and international agencies. CPI aims at measuring the level of perceived corruption in a particular country based on different surveys. The construction of CPI from complex method aids its validity, reliability and popularity. Nepal made its debut in 2004 on CPI and has been in constant tussles since then.

Whereas, HDI is another indicator derived from complex method and is equally popular. HDI basically aims at measuring three development facets: Life expectancy (can also be understood as Health), Literacy (can also be understood as Education) and Standard of Living (can also be understood as economic and other activities related with pursuit of quality life). Nepal has been included since the first Human Development Report-1990.

There are many studies (Nye, 1967; Mauro, 1995; Tanzi and Davoodi, 1997; Moran, 1998; Mauro, 1995) done to study impact of corruption over per capita GDP growth, ratio of investment to GDP, ratio of public education spending to GDP, ratio of public health spending to GDP, Income inequality (Gini coefficient), Income growth of the poor, tax revenues to GDP, government revenues to GDP ratio, ratio of military spending to GDP, child mortality rate, primary student dropout rate, ratio of public investment to GDP, percent of paved roads in good condition, inflation, economic growth, real exchange rate, foreign direct investment but very few researches have been done to debunk the relationship between HDI and CPI themselves.

Research on corruption is rich; plethora of research has been done to elaborate linkages between economic progress and corruption using various methodologies (simple to complex) (Nye, 1967; Mauro, 1995; Tanzi and Davoodi, 1997; Moran, 1998; Mauro, 1995). Whereas, research in field of human development and corruption are often qualitative and case based in nature. Even though, Nepal was included in CPI ranking since 2004, very little research has been done over the topic of corruption; importantly the national dimension of CPI and HDI is completely missed out in this entire macro picture. This study is an attempt to understand situation in Nepal.

Many researches have also pointed out significant and negative relationship between development aid and corruption, Foreign Direct Investment (FDI) and corruption, health programs and corruption and many other social and economic sectors. According to Cuervo-cazurra (2008) "corruption has a negative impact on foreign direct investment. However, transition economies show high levels of corruption and also high levels of FDI. He argues that it is not the level but rather the type of corruption that affects FDI in transition economies. Pervasive corruption, or corruption, or corruption that is widely present, acts as a deterrent to FDI because it increases the known costs of investing, while arbitrary corruption, or corruption that is uncertain, does not have such a deterring influence because it becomes part of the uncertainty of operating in transition economies. In transition economies, investors prefer to deal

with an unknown evil-arbitrary corruption-rather than a known one-pervasive corruption." Additionally, some researches have also used composite index for human development and corruption thus statistically reviewing their relationship. This relationship study uses only HDI index from UNDP and CPI index from Transparency International, thus making statistical procedure simple and robust. In addition to that this research also aims in identifying factors affecting relationship between corruption and development from stakeholders' perspective. An extrapolation of this study contributes to understand variations occurring inter relationship of HDI and CPI.

1.3 Objectives

1.3.1 General objective

The general objective of this research is to assess potential linkages between Human Development Index and Corruption Perception Index in Nepal.

1.3.2 Specific objective

The specific objective of this research is:

- Assess variations in relationship between HDI and CPI of Nepal for the period of 2005-2011.

1.4 Hypothesis

Null Hypothesis	There is no relationship between HDI and CPI.
Alternate Hypothesis[a]	There is a positive relationship between HDI and CPI.
Alternate Hypothesis[b]	There is a negative relationship between HDI and CPI.

1.5 Significance of the study

This study will contribute to the basic understanding between relationships for two of the most popular indices. This study also uses two widely acclaimed theories to explain its findings therefore, this research is also expected to contribute to the understanding between corruption and development with particular reference to Nepal. This study is also important in outlining the patterns/trend for correlational values of HDI and CPI in doing so a very interesting graph and curve has been discovered. We believe this pattern shall invoke and contribute to greater understanding between relationship of HDI and CPI.

1.6 Scope and limitation of the study

This study will measure the Pearson correlation between Human Development Index and Corruption Perception Index. It will also use qualitative data generated from interview our survey to explain and outline various factors affecting HDI and CPI scores in case of Nepal. This study was conducted from January 2012 and completed in June 2012.

This study accepts HDI and CPI as measure for comparative analysis, by doing this, it also accepts the criticisms of HDI and CPI associated with it. Therefore findings of this study are to be understood in light of limitations of the indexes itself.

1.7 Structure of the study

This study is divided into five chapters with necessary sub headings. A brief structure of the study is as follows:

The First Chapter creates a background for the study, provides rationale for study, outlines objective and hypothesis of the study, significance of the study, operational definitions and scopes and limitation of the study.

The Second Chapter outlines literature review of books and articles which are relevant to corruption and development.

The Third Chapter details methodology of the study.

The Fourth Chapter presents the correlational values for HDI and CPI for all Asian countries based on economic income category and also for Nepal. This chapter also contains cumulative responses from our primary interviews.

The Fifth Chapter concludes the study.

CHAPTER II

LITERATURE REVIEW

2.1 Theoretical perspective

A common theory explaining explicitly about human development and corruption was hard to find. Hence, literature search for a common theory was done by stratification of Development and Corruption. Out of several theories on development e.g. State theory, World system theory, Theory of uneven and combined development, Dependency theory and Modernization theory. I discovered Modernization theory to be aptly describing my research objectives. I discovered, of many theories from corruption: Public choice theory, sanding effect, greasing effect; Public Choice theory to be a best match to describe my research agenda. Therefore, Public Choice theory was selected. Now, a mix of both theories would yield theoretically sound discussions of the findings.

A discussion of both theories is presented herewith.

2.1.1 Modernization theory

In simplest of word, modernization theory of development views corruption as "prevalent in a state in which favorites are rewarded, which ultimately causes the state to suffer in terms of modernization. This can repress the state's economic development and productivity and lead money and resources to flow out to other countries with more favorable investment environments. Such mechanisms slow the process of modernization and lead to the need to sort out internal conflicts so as to aid the process of modernization". Moran (1998) outlines during 1960s modernization theory argued corruption as positively correlated with economic growth argued that corruption was later assumed as corrosive to growth by undermining foundations of stable, rational pubic policies and allocation through markets.

The second major school of thought (Huntington 1968; Scott 1972) perceived corruption as the byproduct of rapid changes in modernizing societies, which I termed as the "modernization approach". It argues that modernization involves extensive changes in values, standards and institutions, which results in uncertainty as to which standards to follow. This is thus a period where officials are least accountable.

Huntington (1968) observed that "corruption… is more common in some societies than in others and more common at some times in the evolution of a society than at other times… [and] its extent correlates reasonably well with rapid social and economic modernization". In explaining why modernization breeds corruption, he pointed out three connections: the change of value system, the generation of new sources of wealth and power, and the expansion of government authority and the multiplication of the activities subjected to government regulations.

Firstly, as Huntington (1968) pointed out, there was a change of basic social values during modernization. The introduction of modern values increased the demand for government responsibility and some traditional behaviors that used to be accepted by the society, some traditional behavior persisted and continued to receive social sanction, such as gift-giving practices and nepotism. Hence, the incidence of corruption increased "not as much the result of the deviance of behavior from accepted norms as it is the deviance of norms from the established patterns of behavior".

He also pointed out that the prevalence of the corruption is also a result of the Puritanical ideals (the ideals of honesty, probity, universalism and merit) and standards in these modernizing societies. According to him, "the ideals of honesty, probity, universalism and merit often become so overriding that individuals and groups come to condemn as corrupt in their society practices which are accepted as normal and even legitimate in more modern societies". Since political activities cannot be completely insulated from the influence of societal interests, established democracies have legitimized many channels of influences, such as campaign contributions. While campaign promises such as building irrigation facilities for the farmers may be perceived just as corrupt as buying votes in an underdeveloped society, similar pledges during elections are perceived as legitimate campaigning in the United States and fulfillment of the promises is regarded as signs of honesty. In this perspective, Huntington right fully pointed out: "when the leaders of military juntas and revolutionary movements condemn the "corruption" in their societies, they are, in effect, condemning the backwardness of their societies".

Similarly, Scott (1972) claimed that much of what is considered corruption is in fact a continuation of traditional values. While practices had remained virtually the same, the imposition of western norms had transformed these traditional practices into corruption. There are two major types of traditional values: gift-giving practices and emphasis on kinship ties and

other parochial loyalties. He pointed out that "the giving of gifts was obligatory in many circumstances and was embedded in an elaborate network of social alliances and status differences. Since a gift carries the expectation of reciprocity, it is likely to result in favors not sanctioned by the legal system. However, some gifts may merely serve the purpose of extending courtesy, respect and hospitality. Thus, labeling all gifts as bribes may exaggerate the extent of corruption. In addition, Scott pointed out that individuals in traditional societies are expected to prioritize the interests of their close kin, clan and the ethnic group. In such a culture, a civil servant, exercising unwarranted liberties with state funds and placing his incompetent friends in office, may at the same time be regarded as a scrupulously trustworthy guardian of the tribal or clan organization. This behavior certainly constitutes corruption, albeit only in a modern sense. Therefore, the clash of modern and traditional values in modernizing societies is an important factor accounting for the prevalence of corruption in these societies. Once these countries modernize and national integration brings forth the identification with and hence loyalty to the nation-state, the level of corruption is expected to abate.

Secondly, Huntington (1968) pointed out that modernization contributed to corruption by creating new sources of wealth and power. Since the traditional establishment of the society would keenly guard their political privileges, these new groups have no choice but to influence policy through their strength in wealth. He observed that "the new millionaires buy themselves seats in the senate or the House of Lords and thereby become participants in the political system rather than alienated opponents of it, which might have been the case if this opportunity to corrupt the system were denied them".

Scott (1972) search for reference also… interpreted corruption as incidences where wealth is used to sway state decisions and argued that this would occur most frequently when wealth power elites are separate. This includes examples of the sale of peerages in England in the seventeenth and eighteenth centuries, the exchange of commercial stakes by Chinese expatriate businessmen for protection from the Thai elites and the campaign contributions by Japanese businessmen to various factions within the Liberal Democratic Party.

Similarly, Girling (1997) pointed out that the civil society is a product of economic development, which always strives for autonomy. Where the rising economic force is contained by the political establishment, it would seek to influence politics through un-institutionalized channels, which

thus leads to corruption. In Indonesia and the Philippines, where the ownership of wealth and control of power are divided, the accommodation between wealth and power is achieved through collusion. In Indonesia, some 80 percent of companies listed on the Jakarta stock exchange were Chinese-owned and the Chinese were treated with acute resentment by the indigenous people as alien wealth and the middle men, who profited on their behalf. Nevertheless, the Chinese businesses were able to seek protection from the military leadership through offers of private aggrandizement. In the Philippines, he observed that the American-fostered democratic political institution ironically provided an efficient mechanism for politicians to accumulate wealth under a two-party system. Successful candidates for the House of Representatives in 1969 were among the country's richest 0.5 per cent. Once in power, the politician provided benefits to all who flocked to him after his successful elections, he disbursed favors from government resources, provided jobs in government departments and agencies and in public works projects. In return for electoral contributions from top export-import firms, manufacturers and landed interest, the politicians promoted favorable protective legislation, provided liberal loans from government banks and financial institutions, awarded government contracts and facilitated appointments to key public offices and corporations.

Thirdly, Huntington argued that modernization encourages corruption through the expansion of governmental authority and the multiplication of the activities subjected to government regulations. Similarly, Scott pointed out that "foremost among the structural factors that encourage corruption in new states is the tremendous relative importance of government in these nations as a source of goods, services and employment" while large public sectors do not necessarily invite more corruption if properly supervised, the expansion of government functions in modernizing countries usually happens too fast in response to new economic activities, which, coupled with the lack of experience, contributes to more incidence of corruption. Nevertheless, this surge in corruption is likely to be a temporary phenomenon in the process of modernization.

Take China as an example. Starr (2001) pointed out that the partial marketization of Chinese economy was a major contributing factor to rampant corruption. According to him, "most decisions about allocating resources are made by the market, but decisions about allocating certain critical resources are still made by party and state officials. The sharp competition among

the state, the collective and the private sector has raised the ante in decisions about who gets what quantity of critical items in short supply, a situation rife with opportunities for corruption".

2.1.2 Public Choice Theory

According to the public choice approach, corruption is a rational behavior of a public official to maximize his personal gains. Hence, it is subject to the cost-benefit analysis. It assumes that public officials are self-interested individuals seeking to maximize private welfare, which is similar to Banfield's "amoral familism". However, morality is not considered the cause of corruption in this perspective, but rather it is the institutional restraints that are keeping these "natural instincts" at bay. One extreme is the kleptocratic regimes in Africa, where the restraints are virtually absent since the government is not much different from what Olsen (2000) termed a "stationary bandit", with a sole purpose to extract wealth from the society. The other extreme is the advanced democracies, where checks and balances among the executive, legislative and judicial branches reduce public official's discretionary power and the free press and the periodic election increase the risk of exposure and the likelihood of dismissal from office. In addition as Rasmusen and Ramseyer (1994) pointed out, the bribes were smaller for each official as the decision-making process became more collective in democratic countries, which thus reduce the incentives for corruption. Therefore, it is assumed that democratic regimes are most conducive to clean and responsible governments.

Nevertheless, authoritarian regimes that are able to impose effective institutional restraints on government officials may also achieve the same goal, though these are rare instances, such as the city state of Singapore, where under the unscrupulous and patriotic leadership of Lee Kuan Yew, corruption was successfully contained by its independent anti-corruption agency. Supposedly, the task would be much more onerous in large countries, where the initiatives from the center could not easily reach the periphery without distortion and are not necessary whole-heartedly implemented. Therefore, in most instances, the bottom-up approach is preferred to the top-down approach, since in the former, officials at all levels will be held responsible when the public are given the sovereignty through periodic elections, whereas in the later, the chance of success is slim as it not only depends on the character of the center but also on the relationship between the center and the regional governments.

The other major cause of corruption, accord to the public choice theorists, is the extent of government intervention in the economy. Rose-Ackerman (1978) regarded corruption as rent-seeking behavior. Rent is the extra normal profit resulting from government regulations restricting access to markets and creating a situation of monopoly. For example, when a government tries to restrict imports by issuing licenses, the licensed companies would be able to participate in rent-seeking activities. Hence, the public choice theory prescribes laissez-faire to reduce the incentives for corruption.

Treisman (2000) tested three hypotheses from the public choice approach: the influences of economic development, democratic development and the level of government intervention in the economy on corruption. He found that the level of corruption was lower in more economically developed countries where economic development is operationalized by the logged Purchasing Power Parity (PPP) GDP per capita. While this confirms the public choice theory that individuals with higher incomes will find corruption less profitable due to higher opportunity costs and less utility gains, he also pointed out that in more well-off countries, population are more educated and literate and there is a clearer division between the public and private spheres. The former contributes to more public scrutiny of official conducts and the latter increases the social stigma of corrupt officials if they are expected to identify with the public interests rather than sectarian interests.

Based on these two theories we have devised a framework (Figure 1) that comfortably uses criterions and statements stated by both theories.

Figure1: Theoretical Framework

Human Development Index	Corruption Perception Index
Modernization theory	**Public Choice theory**
• Change in Values • Generation of new sources of wealth and power • Expansion of government authority	• Corruption is a rational behavior • Corruption increases with the extent of government intervention in economy

Comparing and validating both theories from relationship between Human Development and Corruption using Human Development Index and Corruption Perception Index.

To examine the relationship between two variables used in this study, two theories have been used. We have used Modernization theory to explain corruption from development perspective and Public choice theory to explain development from corruption standpoint.

In this parlance, three major modernization theory's assumption for proliferation of corruption in process of modernization are changes in basic social value, generation of new sources of wealth and power and expansion of government authority all these aspects has been discussed in detail (See: Modernisation theory). Similarly, public choice theory's two core assumptions regarding development from corruption standpoint are corruption is a rational behavior and corruption increases with the extent of government intervention in economy has also been discussed in detail (See: Public choice theory). These theoretical assumptions have been analyzed with our findings in the discussion section.

2.2 Study related literature review

Review of literature in corruption would be incomplete without acknowledging Chanakya - the famous scholar and keen observer of nature from fourth century B.C. in Pataliputra (now in West Bengal, India), He phrased corruption as "just as it is impossible not to taste the honey (or poison) that finds itself at the tip of the tongue, so it is impossible for a government servant not to eat up, at least, a bit of the king's revenue. Just as fish moving under water cannot possibly be found out either as drinking or not drinking water, similarly it is hard to ascertain whether government staff took money for themselves." He even forecasted forty ways of pilfering from national treasury (Igen, 2005). Kautilya says in his Arthasastra: I) Just as it is impossible not to taste honey or poison that one may find at the tip of one's tongue, so it is impossible for one dealing with government fund not to taste, at least a little bit, of the King's wealth; II) Just as it is impossible to know when a fish moving in water is drinking it, so it is impossible to find out when government servants in charge of undertakings misappropriate money; III) Those officials who do not eat up the king's wealth but increase it in just ways and are loyally devoted to him shall be made permanent in service; IV) He who cause loss of revenue eats the King's wealth, (but) he who produces double the (anticipated) revenue eats up the country and he who spends all the revenue (without bringing any profit) eats up the labor of workmen; V) It is possible to know even the path of birds flying in the sky but not the ways of government servants who hide their (dishonest) income; VI) The king shall forgive a trifling offence and be content even if the (net) revenue is small. He shall honor with rewards (those) officials who bring great benefit (to the state) (Srivastava, 2001).

Huntington (1968) noted "in terms of economic growth, the only thing worse than a society with a rigid, over-centralized, dishonest bureaucracy is one with a rigid, over-centralized, honest bureaucracy"

Boycko, Shleifer and Vishny (1995) emphasize that corruption contracts are not enforceable in courts and there is many slips between the bribing transaction and the actual delivery of the good or the service involved. Bardhan (1997) stresses the control rights on the latter are often arbitrary and uncertain, leaving a lot of leeway for the bribe to renege on his understanding with the briber, or to come back and demand another bribe.

Bardhan (1997) notes corruption has its adverse effects not just on static efficiency but also on investment and growth. He further observes "In the process of transition from controlled to market economy in eastern Europe, china and Vietnam it has often been observed that there are some special factors increasing corruption even as income grows because transition economy is on a dual-track system: a part of output is still under obligatory delivery at controlled prices while the rest is allowed to be sold at market prices. This creates all kinds of new opportunities for corruption."

Upon effects of growth process on the extent of corruption Bardhan (1997) remarks that over the last 100 years or so corruption has generally declined with economic growth in most rich countries (and in some developing countries, like Singapore, it is reported to have declined quite fast in recent decades). However, he also assumes historical relationship between economic growth and corruption is thus likely to have been negative in general though he suggests some non-linearities, particularly in some countries with the process of modernization and growth corruption may have got worse for some time before getting better. In a cross-national analysis of corruption and economic growth Tanzi and Davodi (1997) experimented with all four hypotheses to explain four ways in which corruption reduces economic growth. The four hypotheses were: increasing public sector investment (but decreased productivity), reduced government revenues (reducing resources for productive expenditures) lower expenditures on operations and maintenance and reduced quality of public infrastructure. All these factors were found to be inversely correlated with growth in GNP.

Gupta, Davoodi and Tiongson (2000) studied impact of corruption on child mortality rate where they find 1.1 to 2.7 deaths per 1000 live births attributable to corrupt practices. Rijckeghem and Weder (2000) presented effect of pay in the civil service on corruption. They have found that there is an evidence of a statistically and economically significant relationship between relative civil-service pay and corruption in regressions based on cross-country averages, they have concluded that such relationship implies that rather large increase in wages in required to eradicate corruption solely by raising wages. Treisman (2000) looks in to why of corruption, where he analyses several indexes of perceived corruption complied from business risk surveys for the 1980s and 1990s. Six arguments find support, countries with protestant traditions, histories of British rule, more developed economies, and probably higher imports were less

corrupt. Federal states were more corrupt while the current degree of democracy was not significant long exposure to democracy predicted lower corruption. Another article by Goel and Nelson (2010) looking into causes of corruption takes account of factors like history, geography and government. They claim to have answer to two key questions what are the effects of the size and scope of government on the incidence of corruption across countries? How important are historical and geographic influences in affecting corruption? Their answer to the first question is that government does matter in important ways in its impact on corruption. Both the size and scope of government would matter. Regarding the second question their answer is historical inertia of institutions that induce corruption persists as do rent-seeking opportunities in new countries. Some geographic factors on the other hand can mitigate corruption.

Mauro (2002) used a composite index and multiple regression analyses with a sample of 106 countries to show that high levels of corruption are associated with lower levels of investment as a share of Gross Domestic Product (GDP) and with lower GDP growth per capita. Extrapolation of these results by the researcher suggested that if a country were to improve its corruption index from a score of six to eight on a ten-point scale, it would increase the investment rate more than 4 % and annual per capita growth would increase by nearly one-half percent.

Egger and Winner (2006) finds a negative impact of corruption on FDI and they also demonstrate that corruption is important for intra-OECD FDI but not for extra-OECD FDI indicative of observed growth of FDI in non-OECD economies is driven mainly by economic growth and a change in factor endowments and to a lesser extent by corruption and its underlying grabbing and helping hand effects. Interestingly, they also demonstrate that the impact of corruption has declined over the years which according to them suggest that other factors (such as market growth) have become relatively more important than corruption.

Tran (2008) has argued in favor of multi-equilibria (virtuous and vicious) relationship between human development and corruption. The virtuous equilibrium exists in rich countries, while vicious equilibrium occurs in poor countries, thereby limiting their development potential further. He goes further arguing that investment in human capabilities can play a crucial role in preventing corruption, especially after crossing a threshold level of Human Development. His idea is that if at a lower level of income, the corruption effect is rampant, and process of human development suffers. Mo (2001) has reported that even a one percent increase in corruption level

decreases GDP growth by almost three quarters of a percent. Ngozi coordinating minister of economy and minister of finance-Nigeria and former managing director-world bank claims corruption to be estimated at least around $40 billion a year business, he further asserts like a disease-corruption eats away at the foundation of people's faith in government thus undermining stability and security of nations qualifying it for a development challenge in more ways than one: it directly affects development assistance, but also undermines the preconditions for growth and equity.

Quah JST (2001) has listed low salaries, ample opportunities for corruption, low risk of detection and punishment as causes of corruption in colonial Singapore. In the same article he has also listed six lessons to be learnt from Singapore's experience, they are: first, the political leadership must be sincerely committed to the eradication of corruption; second, the anti-corruption legislation must be comprehensive to prevent loopholes and must be periodically reviewed to introduce relevant amendments whenever required. Thirdly, the anti-corruption agency must itself be incorruptible. Fourthly, the anti-corruption agency must be removed from police jurisdiction as soon as possible as its location within the police prevents it from functioning effectively, especially when there is widespread police corruption. Fifthly, reduce the opportunities for corruption in those government departments which are vulnerable to corrupt activities (namely customs, immigration, internal revenue, and traffic police) such departments should review their procedures periodically in order to reduce the opportunities for corruption. Sixthly, the incentive for corruption among civil servants and political leaders can be reduced by ensuring that their salaries and fringe benefits are competitive with the private sector. To summate all six points he states that Singapore's success in minimizing corruption was due to dual strategy of reducing both the opportunities and incentives for corruption.

Quah JST (2007) identifies three patterns for control of corruption in south asia. First pattern relies on enactment of anti-corruption laws without a specific agency to enforce these laws, e.g. Mongolia. Second pattern involves the implementation of anti-corruption laws by several anti-corruption agencies, e.g. India, Philipines. Third pattern of corruption control was initiated by Singapore when it establishes corrupt practices Investigation Bureau to implement Prevention of corruption ordinance, e.g. Malaysia, Hong Kong, Thailand, South Korea, and Indonesia.

Lio et. al. (2010) attempted to estimate the effects of internet adoption on reducing corruption by using a panel consisting of 70 countries covering the period from 1998 to 2005, their results reveal that while causality running from internet adoption to corruption reduction can be established the causality between internet adoption and corruption is bi-directional. To deal with the problem of endogenity the dynamic panel data models were also employed. Their estimation results show that effects of internet adoption on corruption reduction were statistically significant but not too substantial. Further they add that their results suggest that the internet has shown a capacity for reducing corruption but its potential has yet to be fully realized.

In Nepal, According to Corruption Prevention Act, 2059 B.S. (2003 A.D.) bribe, corruption to misuse the authority and other illegal behaviors and misconduct are to be called corruption. The Act provides a list of corruption behaviors as the serious criminal offence:

- The use of assigned authority to give preferential treatment discriminates to any group or individual.
- Financial Irregularity
- Unfair competition in contract.
- Commission in Business Transaction
- Leakage of revenue
- Discriminate by abusing power and the basis of nepotism of Favoritism.
- Public officer get something by Extortion
- A fake action or a behavior of public official to derive benefit for personal gain or third party.
- Fake documents are made or fake or misleading reports are deliberated wrong translation, miss information is deliberated by public officer.
- Destroy to public property.
- Embezzlement

Similarly, the Commission for Investigation for Abuse of Authority Act, 2048 B.S. (1992 A.D.) describes corruption as an act that is punishable, like unreasonable activities.

- The denial to exercise an act beyond her/his authority,

- Not perform of procedurals obligatory to making of decision or issuing of any order.
- Use of the authority against objective or work of related law, order and decision
- Use of discretionary power with bad intention or arbitrary manner
- Interfering in others' office or offices or pressured to other officer or owns junior staff for doing illegal work.
- Evasion of Responsibility.
- Abuse of his/her own position.

Testa (2009) studied the impact of bicameralism on the level of corruption of elected officials, where she shows that bicameralism improves the accountability of legislators to the electorate when the same party controls the two chambers and party polarization is high, while the opposite holds if the two chambers are controlled by different parties. She adds these predictions find strong support in her empirical analysis.

Willebois, Halter, Harrison, Park and Sharman (2011) state that new forms of deception will develop in response for any "solution at that point in time" thus quest for a silver bullet is illusory.

Corruption is a governance issue because it involves effective functioning of institutions and management of society through its political, economic, social and judicial mechanisms. When these formal and informal institutions break down, laws and policies that ensure accountability and transparency of the government become harder to implement (Balboa & Medalla, 2006). Corruption arises when public officials have wide authority, little accountability and perverse incentives or when their accountability responds to informal rather than formal forms of regulation. (UNDP, 2004) It is recognized that corruption takes places, when accountability and transparency are lacking. If the corruption is defined as the misuse of power, the causes or corruption are the lack of accountability, transparency and ethic of profession, absence of accountability, weak parliament oversight function and decrease the capacity of parliamentary institutions.

Corruption appears to take place when it satisfies a certain formula. According Robert Kiltgaard, a leading export in this field, devised a simple equation, which identifies the cause of corruption:

Monopoly of power of public officials, when combined with discretionary power in the absence of accountability system: Thus, the formula: C=M+D-A, [where C (Corruption) = M (Monopoly) + D (Discretion) - A (Accountability)].

UNDP modified Klitgaard's formula by adding other dimension: integrity and transparency. Which are also important to balance monopoly and discretion, this creates the formula: C = (M + D) - (A + I + T), Where "C" is corruption, "M" is monopoly, "D" is discretion, "A" is accountability, "I" is integrity and "T" is transparency. It equation shows to the absence of AIT, primarily as a consequence of weak governance, in addition to monopoly and discretion, results in corruption. This formula strengthens the theory that corruption is a failure of governance (Op cited, UNDP Practice Note, 2004, p. 2). More of the time, the politicians and bureaucrats are able to abuse the advantages offered by such discretionary power in the wake of the incoherent interest of the principal. (Balboa & Medalla, 2006). This formula indicate that lack of transparency in decision-making system and process is one cause of the corruption as well as lack of accountability; not taking responsibility for decision is another cause of the corruption, which give to opportunities to do corruption. The political leaders, businessmen and bureaucratic elite are psychologically and mentally not prepared to be transparent and open in their transactions just to protect their personal interest. The non-transparency in their behavior provides them with greater opportunities for corruption and illegal monetary benefit. Culturally speaking, the Nepali society is somewhat against the concept of transparency. The Nepali traditions are not supportive to the values of openness in public official behavior even among actors within the system (Dahal, 2000).

Corruption will be higher where political instability is high. Mahatma Gandhi warns that 'power tended to corrupt' (Srivastava, 2001). Most of the corrupt activities are taken place under the protection of political power. If anybody tries to do corruption, he at first seeks the protection either of higher authority or political leader. Every system runs under the political control and hold. Politics leads world towards economic and prosperity. In most of the countries of the world, corruption exists because of the political protection and political party and leaders themselves involved in corruption. Therefore, the political cause of corruption is the most significant and influential factor. This type of political protection breeds corruption and could be sustaining illegal power, status and wealth or the combination of three. Corruption thrive more in

a situation of political instability (Sharma, 2000, p. 142). Researcher suggests that post-conflict conditions and political crisis bread more ground for corrupt behavior, and specific circumstances surrounding transition from centrally planned to market economies allowed for state capture and administrative corruption. The transition sage to democracy and market reforms can increase the opportunities for corrupt behavior (Buscaglia, Dakolias 1999). Greater political instability will increase corruption, because instability generates the perception among politicians and bureaucrats that the probability of winning elections does not depend on their actions, thus increasing the incentives to extract rents (Gaviria, 2002). As well as overlapping and confliction authority, political power, struggles over access to resources, and personal relationship of dependence and loyalty. Other contribution factors to be corrupt, are, a weak separation between civil service and partisan politics, a weak professionalization of the bureaucracy, a lack of accountability and transparency, and deficient political control and auditing and weak check and balance system. Experts cited decreasing morals and ethics, greed, socio-economic conditions, weak check and balances and political transformation as the main cause for corruption.

According to survey-Norms and values of individual politicians and civil servants, lack of control, supervision, auditing, strong interrelationship between business, politics state, lack of commitment by leadership (providing a bad example), disorganization and mismanagement, values and norms concerning government, state officials and organizations (Camerer, 2001).

All human beings have a basic human right to live in a corruption–free society (Pipapitiya, 2004). The Large scale corruption should be designated a crime against humanity, as for many around the world it falls into the same category as torture, genocide and other crimes against humanity that rob humans of human dignity (Pipapitiya, 2004). When corruption reigns, basic human rights and liberties come under threat and social and economic contracts become unpredictable. Therefore corruption affects both civil and political rights as well as economic, social and cultural rights (Pipapitiya, 2004). Corruption dilutes human rights in a significant way, although it is rarely observed and understood from this perspective. Human rights discourse is a powerful resistance to violation or various rights and the problem of corruption can be addressed by framing it from the standpoint of it being a human rights violation. (Rajkumar, 2006). A corrupt state creates a vicious circle in which the state quickly loses its authority and ability to

govern for the common good. Corruption makes it possible for critics to be silenced, for justice to be subverted and for human rights abuses to go unpunished. According to UNDP Practice Note (2004) when corruption reign basic human rights and liberties come under threat and social and economic contracts become unpredictable.

Corruption is one of the major obstacles to progress, and that its effects on development are disastrous (Frisch, 1996). Much research has been done on the detrimental effect of corruption in development. Studies show that a corrupt country is likely to achieve aggregate investment levels of almost 5 percent less than a relatively uncorrupt country and to lose about half a percentage point of gross domestic product per year. It is also shown to slow down FDI. Investing in a relatively corrupt country, as compared with an uncorrupt one, is estimated to be equivalent to 20 percent private tax on investment.

High levels of corruption reduce economic growth. It can distort the allocation of resources and the performance of government in many ways. It has a pervasive and troubling impact on the poor, since it distorts public choices in favor of the wealthy and powerful, and reduces the state's capacity to provide social safety nets (UNDP, 2000).

Corruption is both the cause and the consequence of underdevelopment (Frisch, 1996). It exacerbates poverty, most especially in developing and transitional economies. Among the identified effects of a corrupt regime are:

- Infrastructure projects biased against the poor, since public officials will design public projects that will maximize bribery receipts and minimize the chance of detection.
- Higher tax burdens and fewer services.
- Lower opportunities for farmers to sell their produce and for SMEs to flourish, as their ability to escape poverty using their livelihood will be severely restricted by corruption of the state regulatory apparatus (Balboa and Medalla, 2006).

Review of anti-corruption in Nepal begins with its forming father's guiding doctrine "*Ghus dinya ra ghus linya dubai mulukka satru hun*" means those who give or take bribe are the enemy of the kingdom; this statement was declared by Prithivi Narayan Shah during unification of Nepal for reforming administration-In his commandment *Dibya Upadesh*. In Malla period, corruption as bribery was serious crime in Nepal (only Kathmandu valley) record throughout the history. King

Jayasthiti Malla had punished his wife (Maharani) for taking bribes. Similarly, Ran Bahadur Shah's instructions of 1806 recommended fining of government officials if they took bribes from the people (Khanal, 2000).

The Rana ruling period, which lasted one hundred and four years, corruption flourished. Rulers always remained above the law and feuded practices like chakari, dam rakhne and salami was widely accepted by the commoners. In some court cases, officials in the districts would take money from both parties involved and would return money of loser after the case was completed (Khanal, 2000).

2007 B.S., a public movement overthrew the Rana oligarchy and king Mahendra introduced the panchayat. The thirty years of panchayat rule needs special mention in terms of growth of corruption in this country. In this period, state resources were diverted to retain the loyalty of individual panchayat member, thereby contributing to the growing problem of corruption. The political leaders lost their dignity and pride and thereby engaged in various socio-political evils and entered into the system where they often got protection from the government. Thus, Corruption became one of the most important causes for the fall of system. In present scenario, corruption is wide spread everywhere. In ten years' experience, after the restoration of constitutional monarchy multiparty democratic system in B.S. 2047 has become massively pervasive in government mechanism. Corruption is one of the foremost problems in Nepal and it is receiving much greater attention as we reach last decade. Since last decade Nepalese are frosted by system. They assume that organizations or entire governments are corrupt simply because people are immoral and they conclude: nothing can be done to curb corruption arising from generation which is short of moral education.

CHAPTER III

RESEARCH METHODOLOGY

In this chapter, I will present the methodology adopted for the study. This section will describe the research design, nature and type of data, sources of data, data collection tools, data analysis tools, the description for qualitative method and rationale for selection of experts/respondents.

3.1 Research Design

This research is an explorative study. Therefore, it attempts to explore the relationship between HDI and CPI. In doing so, this research also explores factors affecting rise and fall of HDI and CPI using findings from primary survey.

3.2 Nature and type of data

Both quantitative and qualitative data are used in this research. Quantitative data refers to the numerical index of HDI and CPI. Qualitative data refers to the categorical or responses to the open ended questions from the semi structured questionnaire.

3.3 Sources of Data

UNDP and Transparency International were major sources for quantitative data. A semi structured questionnaire was constructed to gauge information from various sectors, information obtained from this interview were treated as qualitative information.

The primary respondents were selected such that they would represent one each from International Civil society, National Civil Society, Corruption Control Agency, Government organization, Academicians and Private sector. A formal letter of request for interview was obtained from the department and submitted to concerned organization. An interview appointment was fixed and thus the interview was operationalized. The interview has been duly recorded in an audio format for which an informed consent was taken. A list of categories, organization, place, person and date of interview is presented below in a tabular form:

Table 4: Details of Respondents

Category	Institutions	Authority	Location	Name of person interviewed	Date of Interview
International Civil Society	Transparency International	Country Director	House 49, Gyaneshwor, opposite of German embassy	Mr. Ashish Thapa	15/03/2012
National Civil Society	ProPublic	President	Anamnagar	Mr. Kedar Khadka	10/03/2012
Corruption Control Agency	Commission for Investigation of Abuse of Authority	Secretary	Naxal	Erg. Ishwori	19/03/2012
Government Organization	Ministry of Health	Under secretary	Ramshahpath	Dr. Megha raj Dhakal	23/02/2012
Government Organization	Office of the Auditors General	Spokesperson	Thapathali	Mr. Mahodutta Timilsina	28/02/2012
Academicians	Public Administration Campus	Campus Chief	Jamal	Prof. Dr. Govind Dhakal	25/03/2012
Academicians	Central Department of Public Administration	Head of Department	Jamal	Prof. Dr. Teknath Dhakal	26/03/2012
Private	FNCCI	Joint secretary	Pachali Sahid Sukra Marg, FNCCI	Mr. Hansaram Pandey	16/03/2012

3.4 Data collection tools

Human Development reports, Corruption Perception Index report were used to collect information on scores (Annex I). Asian Countries have been classified under three categories viz. Low Income Economies, Medium Income Economies and High Income Economies. This classification is adapted from the World Bank classification of countries by economies. List of 43 countries is included in Annex II. An open ended questionnaire was constructed to collect the primary information with particular reference to Nepal (Annex III). The interview is recorded in

mp3 format as well as coded in paper; these shall be destroyed after six month of submission of this thesis.

3.5 Data Analysis tools

SPSS was used to calculate correlations and statistical procedures like Correlation; Pearson coefficient was used to interpret the findings.

3.5.1 Correlations

"The strength of the linear association between two variables is quantified by the *correlation coefficient*. Given a set of observations (x_1, y_1), (x_2, y_2),...(x_n, y_n), the formula for computing the correlation coefficient is given by

$$r = \frac{1}{n-1} \Sigma \left(\frac{x - \overline{X}}{S_x} \right) \left(\frac{y - \overline{Y}}{S_y} \right)$$

The correlation coefficient always takes a value between -1 and 1, with 1 or -1 indicating perfect correlation (all points would lay along a straight line in this case). A positive correlation indicates a positive association between the variables (increasing values in one variable correspond to increasing values in the other variable), while a negative correlation indicates a negative association between the variables (increasing values is one variable correspond to decreasing values in the other variable). A correlation value close to 0 indicates no association between the variables.

Since the formula for calculating the correlation coefficient standardizes the variables, changes in scale or units of measurement will not affect its value. For this reason, the correlation coefficient is often more useful than a graphical depiction in determining the strength of the association between two variables." (Yale, ?)

3.5.2 Pearson coefficient

According to Online Statistics Book (2012) "The Pearson product-moment correlation coefficient is a measure of the strength of the linear relationship between two variables. It is

referred to as Pearson's correlation or simply as the correlation coefficient. If the relationship between the variables is not linear, then the correlation coefficient does not adequately represent the strength of the relationship between the variables. The symbol for Pearson's correlation is "ρ" when it is measured in the population and "r" when it is measured in a sample. Pearson's r can range from -1 to +1. An r of -1 indicates a perfect negative linear relationship between variables, an r of 0 indicates no linear relationship between variables and an r of 1 indicates a perfect positive relationship between variables."

Interpretation criteria used for correlation values (r) for this study:

- Not worthy value less than .5
- Value more than .7 is noteworthy
- Value within .5-.7 mediocre but not noteworthy

3.6 Limitations

Number of observations for CPI in case of Nepal was only seven. This might have led to questions on generalizability of this study's findings. Realizing this limitation, we have tried to compensate and address the issue of generalizability by keeping two tail significance levels and including interviews of international civil society, national civil society, corruption control agency, government organization, academicians and private.

CHAPTER IV

FINDINGS AND DISCUSSION

In this section, I present and discuss the results that have been obtained using the methodology mentioned in chapter III. The findings for Pearson's coefficient have been arranged in year wise with old year presented first. Similarly, synopsis for a particular economy group has been provided at the end of each economy group. Finally, the discussion section begins with graph showing variation of correlation values over time for both indices. This is followed by correlational table for Nepal and its subsequent discussions. In this regard, cumulative responses from interview is also presented and elaborated whenever required.

4.1 Findings

The relationship between HDI and CPI has been assessed not only for a particular category but across all three categories, which not only includes a particular year but across five years. This has been done to make the findings more robust and discussions more appropriate and lively.

4.1.1 Low Income Economies

In 2005, for Low Income Economies, we have found that there is a positive relationship between HDI and CPI. Pearson's coefficient for correlation has a value of .716 in a 99% confidence interval. Compared with value of coefficient across five year within same category, this is the highest value for relationship.

In 2006, for Low Income Economies, we have found that there is a negative relationship between HDI and CPI. Pearson's coefficient for correlation has a value of -.113, but since this value is neither medium nor statistically significant. We can't draw conclusion out of it.

In 2007, for Low Income Economies, we have found that there is a negative relationship between HDI and CPI. Pearson's coefficient for correlation has a value of -.029 and is not statistically significant.

In 2008, for Low Income Economies, we have found that there is a negative relationship between HDI and CPI. Pearson's coefficient for correlation has a value of -.066 and is not statistically significant.

In 2009, for Low Income Economies, we have found that there is a negative relationship between HDI and CPI. Pearson's coefficient for correlation has a value of -.047 which is also not statistically significant.

In 2010, for Low Income Economies, we have found that there is a positive relationship between HDI and CPI. Pearson's coefficient for correlation has a value of .497 in a 95% confidence interval.

In 2011, for Low Income Economies, we have found that there is a positive relationship between HDI and CPI. Pearson's coefficient for correlation has a value of .333 and is not statistically significant.

Since there are only two years (2005, 2010) in which we have both statistically significant and positive relationship in Pearson coefficient. Our findings point us in direction that tells that the relationship between HDI and CPI is positive in LIE across 5 years.

4.1.2 Medium Income Economies

In 2005, for Medium Income Economies, we have found that there is a positive relationship between HDI and CPI. Pearson's coefficient for correlation has a value of .241 and is not statistically significant.

In 2006, for Middle Income Economies, we have found that there is a positive relationship between HDI and CPI. Pearson's coefficient for correlation has a value of .221 and is not statistically significant.

In 2007, for Middle Income Economies, we have found that there is a positive relationship between HDI and CPI. Pearson's coefficient for correlation has a value of .353 and is not statistically significant.

In 2008, for Middle Income Economies, we have found that there is a positive relationship between HDI and CPI. Pearson's coefficient for correlation has a value of .361 and is not statistically significant.

In 2009, for Middle Income Economies, we have found that there is a positive relationship between HDI and CPI. Pearson's coefficient for correlation has a value of .275 and is not statistically significant.

In 2010, for Middle Income Economies, we have found that there is a positive relationship between HDI and CPI. Pearson's coefficient for correlation has a value of .448 and is not statistically significant.

In 2011, for Middle Income Economies, we have found that there is a positive relationship between HDI and CPI. Pearson's coefficient for correlation has a value of .423 and is not statistically significant.

No countries in Middle Income Economies demonstrated statistically significant correlation values. However in an average the value has seen to be uniformly positive. This leaves some room for the two variables to be positively correlated.

4.1.3 High Income Economies

In 2005, for High Income Economies, we have found that there is a positive relationship between HDI and CPI. Pearson's coefficient for correlation has a value of .848 and is statistically significant. This value is suggestive of very strong positive correlation.

In 2006, for High Income Economies, we have found that there is a positive relationship between HDI and CPI. Pearson's coefficient for correlation has a value of .080 and is not statistically significant.

In 2007, for High Income Economies, we have found that there is a positive relationship between HDI and CPI. Pearson's coefficient for correlation has a value of .260 and is not statistically significant.

In 2008, for High Income Economies, we have found that there is a positive relationship between HDI and CPI. Pearson's coefficient for correlation has a value of .365 and is not statistically significant.

In 2009, for High Income Economies, we have found that there is a positive relationship between HDI and CPI. Pearson's coefficient for correlation has a value of .392 and is not statistically significant.

In 2010, for High Income Economies, we have found that there is a positive relationship between HDI and CPI. Pearson's coefficient for correlation has a value of .467 and is not statistically significant.

In 2011, for High Income Economies, we have found that there is a positive relationship between HDI and CPI. Pearson's coefficient for correlation has a value of .443 and is not statistically significant.

There was only one statistically significant value with a very high Pearson coefficient suggestive of a strong positive relation for the year 2005. Additionally though other correlation values were not statistically significant they were all positive. On this basis all this we can say that the relationship between HDI and CPI for HIE is positive.

Table 5: Summary for Correlation Values

	05			06			07			08			09			10			11		
	LIE	MIE	HIE	LIE	MIE	HIE	LIE	MIE	HIE	LIE	MIE	HIE	LIE	MIE	HIE	LIE	MIE	HIE	LIE	MIE	HIE
Pearson Correlation	0.716**	0.241	0.848**	-0.113	0.221	0.080	-0.029	0.353	0.260	-0.066	0.361	0.365	-0.047	0.275	0.392	0.497*	0.448	0.467	0.333	0.423	0.443
Sig.(2 tailed)	0.001	0.351	0.008	.654	0.395	0.850	.910	0.165	0.534	.796	0.155	0.374	.852	.285	0.337	0.036	.071	0.243	0.177	0.091	0.271

**. Correlation is significant at the 0.01 level (2 tailed).

*. Correlation is significant at the 0.05 level (2 tailed).

4.2 Discussions

From the above findings we arrive at an understanding that the relationship between HDI and CPI is positive. This finding runs complementary with a unanimous assumption of corruption decreases with increase in human development as obtained from our primary interview.

To get a wider picture, we plotted the correlation value across time in graph for all three categories.

Chart 2: Correlation trend for Low Income Economies

Legend
1=2005, 2=2006, 3=2007, 4=2008, 5=2009, 6=2010, 7=2011
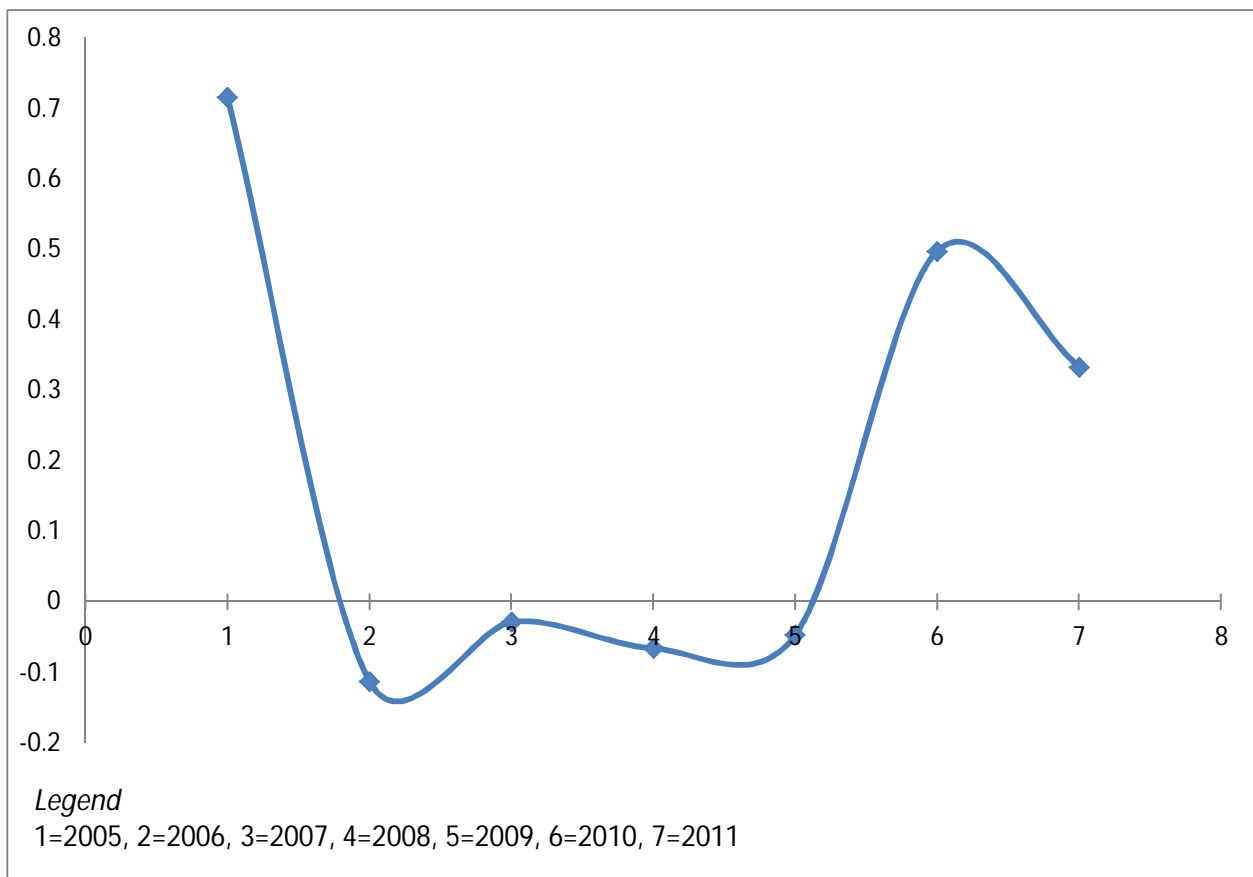
We can see that the correlation value falls steeply between 2005 and 2006; nothing conclusively can be stated for this fall. Interesting, point to note would be the shape and constituent of "W"-Curve; we have witnessed this "W" Curve in all of our plotted graphs the only difference being the width of this "W" graph. Another interesting point is how only the six points makes a curve.

Chart 3: Correlation trend for Middle Income Economies

Legend
1=2005, 2=2006, 3=2007, 4=2008, 5=2009, 6=2010, 7=2011
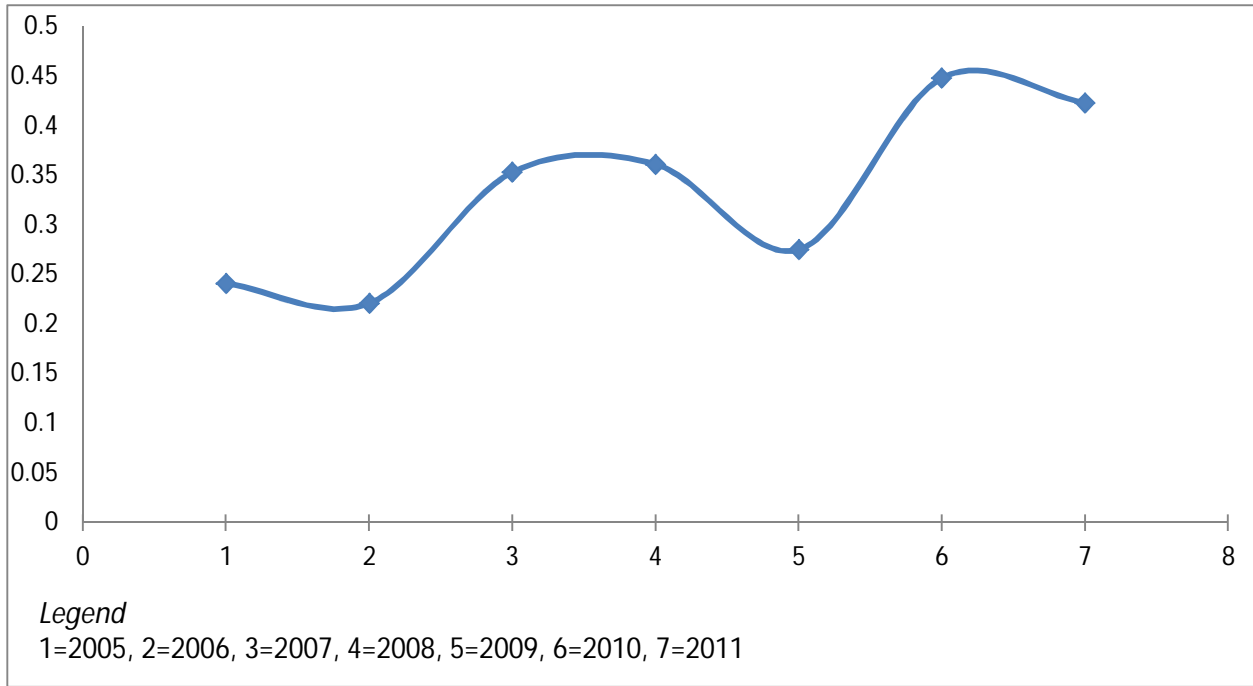
This graph is also indicative of the mysterious W shape but has a bit wider areas between two arms of W.

Chart 4: High Income Economies

Legend
1=2005, 2=2006, 3=2007, 4=2008, 5=2009, 6=2010, 7=2011
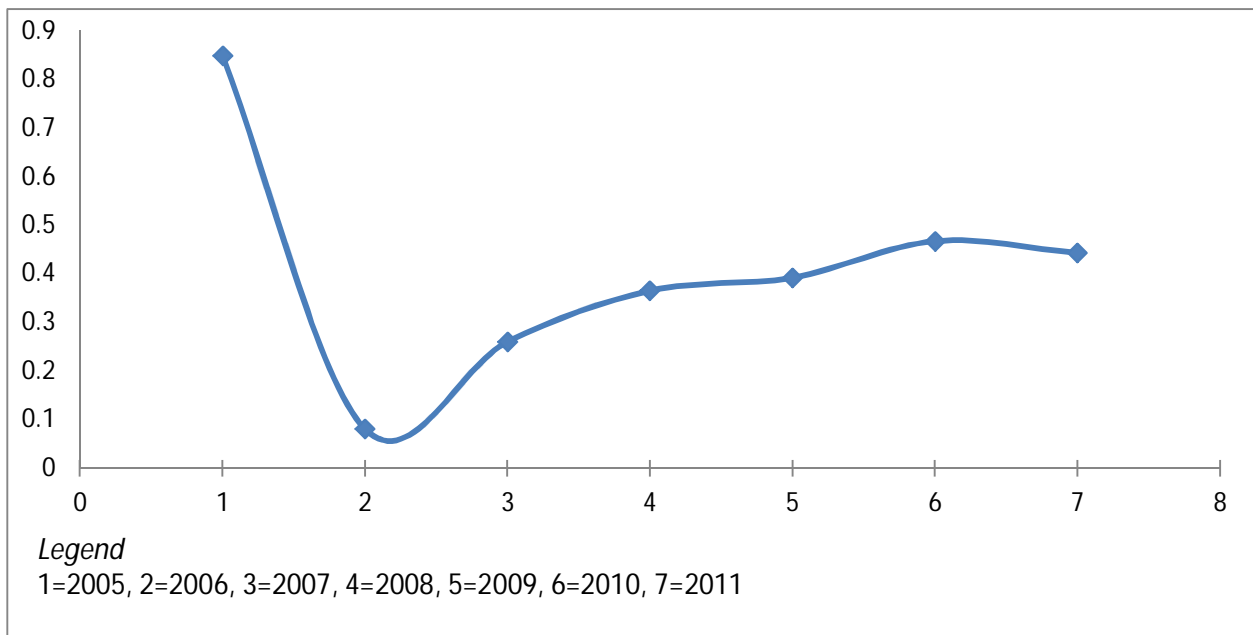
By far this has the widest area between two arms of W.

The mysterious facet discovered in graph: the mysterious six point "W" shape of correlation can be an important step in prediction of future trend and relationships between HDI and CPI.

Based upon our observation, we can say that the more economically challenged a country; more narrow W shape graph is obtained. Conversely, economically prosperous countries have a wider W shape graph. Our interpretation for this curve is that indecisiveness in investment at development sector and similar effect on corruption (i.e. increased development investment increased corruption and vice versa) and immature termination of ongoing projects give rise to such curve.

Based upon regional finding, we were intrigued to look into relationship between HDI and CPI for Nepal. In this case we took data from 2004 to 2011 (inclusive) because larger the number of observation, higher the chances of reliability. We found out that there was a negative correlation between HDI and CPI meaning Higher CPI scores associated with lower HDI scores. This correlation coefficient was statistically significant at 95% confidence interval with a strong coefficient of -.819.

Table 6: Correlation for Nepal

<center>Correlations</center>

		HDI	CPI
HDI	Pearson Correlation	1	-.819[*]
	Sig. (2-tailed)		.013
	N	8	8
CPI	Pearson Correlation	-.819[*]	1
	Sig. (2-tailed)	.013	
	N	8	8

*. Correlation is significant at the 0.05 level (2-tailed).

In case of Nepal, we can conclude that as we move up in development ladder, our perception to corruption increases. This can be justified as normative, because increase in human development also means increase in education and this leads to more aware people, which in turns leads to increase in perception towards corruption. Reviewing the increasing literacy rates and increased perception toward corruption in Nepal, one question has come across to researcher's mind: "Amartya Sen's Human Capability Approach and its applicability in Nepal". Though the topic is intriguing we left it because that would take us into a domain which would be out of the scope of this study.

Concentrating on our study, we discuss our findings based on our three hypotheses; this shall also be test for our hypothesis.

4.2.1 Null Hypothesis:

Null Hypothesis states that there is no relationship between CPI and HDI. In simplest term this would mean that any rise in any one or both of indicators would be completely independent and have no relationship of whatsoever. In statistical terms, correlation coefficient of 0 (zero) would have qualified for this hypothesis. Our statistically significant values for correlation between HDI and CPI are suggestive of that we reject Null Hypothesis.

One of the respondents Mr. Mahodutta Timilsina (spokesperson of Office of the Auditor General) from our Informant Interview answered that this (no relationship between these two variable maybe possible because the organization producing these use different methodology for two different things), his underlying assumption was that corruption was a product of greed, deceit and treachery whilst development was filled with good intentions. Good and evil couldn't go together for long. Therefore, he presumed corruption and development to be unrelated.

He also stressed that:

> … since corruption is related with intentions there is no level that is OK, allowing a level that would be fine for corruption could turn like a demanding child who is fully aware of taste of a candy, and people trying to limit him to eating only up to a level which only entices that child's motive to eat the candy whole.

According to Prof. Govind – Chief of Public Administration campus and one of our respondents:

According to development theory, corruption is not problem development has to go on. In our case money is completely siphoned out. When 90% money is translated into work and 10 % money goes to corruption then its Ok level, in our case it's the opposite. Commitment of leadership is very crucial and critical, top class leader need to be corruption free; we need that. Acceptable level of corruption is then possible!

4.2.2 Alternate hypothesis[a]

Alternate hypothesis[a] states that there is a positive relationship between HDI and CPI. In simplest term it means; increase in Human Development Index is followed by increase in Corruption Perception Index.

Based upon our findings, we cannot reject Alternate Hypothesis[a]. According to President of Propublic Mr. Kedar Khadka claimed that

… Over jump in development indicators should be marked otherwise development is a process which goes on even without government intervention!

Control of corruption at the present moment should focus on punitive action; as we have already tried out preventive action for a very long time, he further added:

… 40 % civil officers should be put behind bars that is around 4,00,000 should be jailed but we don't have that capacity. Therefore let's build jail first and then development infrastructures. In 22 years of democracy we never had a full term government this is another pre-condition for corruption to free play in Nepal!

According to Mr. Timilsina spokesperson for office of the auditor general, "beruju" or outstanding expenses has also increased, last year 2068(2010-11) it stayed at 72 arab. This is an important indicator for increasing breach of financial discipline. He further asserts that authorized personnel/civil officials can't take care of their assigned responsibility and are no more accountable. He presented an appealing case in Nepal to demonstrate ineffectiveness of anti-corruption laws:

> …If someone does financial misconduct of one lakh rupees, we report that he has mismanaged one lakh rupees, now if he returns that one lakh rupee that would just be sufficient legally, in law there is some monetary punishment but that is too small these days (because of inflation) and even that is not surcharged upon him law should prevent intentional corruption and our law cant ensure that at the present moment!

A possible solution for such defunct legal financial penalties could be to tie them up or compound the actual financial punishment with contemporary bank lending rates (interbank lending rates, lending rates for business startup or even insurance rate) whichever is higher, thus making the financial penalties always contemporary and effective. This would not only contextualize legal financial penalties but can also a way to improve/strengthen governance.

Speaking of strengthening governance TI's country director Mr. Ashish said that with coalition government it is very difficult to roll out reform activities therefore a single party system with strong opposition is necessary in Nepal. Speaking on national anti-corruption laws, he said:

> In Nepalese law: if the anti-corruption agencies charges u in court of law saying you have amassed wealth beyond your legal sources of income it is u who have to prove that income is legal.

Upon existing institutions regarding prevention of corruption he elaborated:

> My belief is we should have an independent anti-corruption body. It should have its own outreach centers but this is not the case which gives rise to conflict of interest, we have independent body for investigation of corruption but it relies on government to do investigation outside Kathmandu valley so this is purely a conflict of interest situation. CIA which is anti-corruption agency delegates its authority to a CDO office. Official who is a government employee has to investigate cases of corruption in a district, now because the government itself is involved in running projects and most of the accusations are against the government itself, how can a government employee be fair and transparent in investigating its brotherhood? Therefore the model is not perfect. They are not effective / sufficient, they can be more effective. Outside Kathmandu valley there are no mere anti-corruption drive campaigns.

4.2.3 Alternate hypothesis[b]

Alternate hypothesis[b] states that there is negative relationship between HDI and CPI. In simplest terms it means increase in Human Development Index is followed by decrease in Corruption Perception Index.

Based upon our findings, we cannot accept Alternate Hypothesis[b]. However, taking Nepal as a case we witnessed that the relationship was negative.

All of our respondents perceived that corruption has increased in the past six years. They all blamed weakening of rule of law, political party lacking ethical behavior, quick rich mentality and culture of silence, non-transparent flow of money and Interim setup of government to be driving forces behind this increasing trend.

One of the respondents Prof. Dr. Teknath Dhakal Head of Department of Public administration, expressed his view on HDI as

> HDI can't fully estimate Nepal's development. The HDI estimates for Nepal is misleading because given our present economy, Nepali society is better off than that also because of the fact that a large part of economy is still unaccounted.

When professor Dhakal was referring to unaccounted economy he was pointing towards the villages and communities (upper Jumla, Humla, Dolpa districts) of Nepal where barter is chief form of trade instead of trade in paper-money and coins and also in urban parts where there are serious loop holes in tax policies, serious fault in book keeping and auditing and huge discrepancies in tax evaded imports and exports and many other such practices.

All of our respondents answered that political sector was the most corrupt sector followed by public sector which had increased public sector expenditure/investment e.g. Ministry of Local Development, Ministry of Education, Ministry of Physical Planning and Construction, Ministry of Health and Population; most of the respondents also stated that security (army, police) and Judiciary are hotspots for hidden, unreported and capacious corruption zones.

When asked for reasons of declining Corruption Perception Index (CPI) scores, low efficiency of corruption controlling institutions, Transition, Lack of strict punishment, Low salary of Public officials, unaccounted money flow and defects in measurement scale were some of the major causes. They were also further asked to list five approaches which would be crucial to improve CPI score of Nepal: Rule of law must be strengthened topped the list followed by boost in ideal and ethical values, stopping clout of political instability as scape goat by bureaucracy to hid their incompetence, aggressive awareness campaigning and strengthening normative institutions were considered to be changed immediately.

Our interview with different stakeholder regarding corruption, development and their relationship helped explain some of the issue When asked to choose among preventive and punitive action, six respondents opted for preventive where as two respondent opted for punitive action. Similarly five respondents said that Patronage Moral aspects should be stringent whereas two respondents said that cultural aspect should be stringent. One of the respondent said that both are equally important.

All of our respondents said that existing laws regarding prevention of abuse of authority were sufficient if executed, however most of them noted some punishments were insignificants therefore revision was also essential. When asked similar question upon sufficiency of institutions regarding prevention of abuse of authority/corruption: most the respondent replied that institutions were made defunct! A typical case they cited was of National Vigilance Centre kept under Prime Minister, which in turn should have been made free/autonomous instead. The Commission for Investigation of Abuse of Authority (CIAA) has no commissioner for past five years. These kinds of insufficient institutions and inappropriateness of existing institutions has made existing institutions ineffective.

There was a unanimous understanding that Nepalese viewed corruption as low risk and high reward. On an average our respondents scored 4.06 out of 5 for our national culture of acceptance driving/motivating corruption. Similarly, they scored 4.125 out of 5 for our national culture of tolerance as driving/motivating corruption. Our respondents also replied that public, private sector, NGOs and Academicians all had a role to play in controlling corruption. They called that public sector should be more transparent, private sector should enforce anticorruption measures and NGO should sensitize and mobilize citizens and Academicians could suffice the

movement by doing more researches and scholarly discussions on effects and ways of controlling corruption.

Six of our respondents were satisfied with Nepal's progress in Human Development Index (HDI), two were not satisfied. Majority of the respondent felt that the human development has increased in the past six years because of increased literacy rate and income. Technology, media, Education and Health were sectors that our respondents saw substantial changes occurring in. Increased investment by government, increase in demand from public for services were factors responsible for this. Some respondents suggested that restructuring the Income data (most of rural economy is still unreported) in case of Nepal would improve our HDI scores.

Policies were thought to be effective in health sector, education sector whereas lacked seriously in income sectors. Though none of the respondents said that the existing infrastructures were effective to improve/sustain human development, respondents also stressed that quality of life should be increased by uplifting skills of citizen. All of the respondents felt that the national programs were not able to reach the grass-root levels and thus were not effective.

Speaking on ineffectiveness of anti-corruption agencies Mr. Ishwori of CIAA a supreme anti-corruption agency stated that:

> CIAA has delegated certain duties responsibilities to CDO but pursuing a case in court is entirely CIAA domain but why CDO are not effective because they are also politicized. Many CDO have complained that political parties members come and pressurize/threaten him/her for his transfer to remote district or even upon his and family life. They often complain me that they can't perform anti-corruption duties under these conditions. There are many factors responsible for this; First thing, government has not recruited a consulate/high commissioner for CIAA for past 6 yr this is clear reflection of government's commitment and intention to dilute anti-corruption drive in country!

Given the evidences that corruption is coexisting even with developed and developing countries and some evidences that all countries once in a while have had a history of rampant corruption (For e.g. Singapore (during late 70s) a corrupt country is today's virtually free of corruption).

Most of the respondents were unsure whether this meant that there should be any level of corruption that should be "OK" for development. But again they reiterated that a level of corruption where development work is not halted should be that level.

Seven of the respondents felt that the corruption and development are related and their relationship is negative.one of respondent thought the relationship was positive where as one of the respondent thought they were not related. Six of the respondents answered that corruption and development move together where once of the respondents said that that corruption occurred at the beginning of development.

Our study also reinforces the two key facts about corruption. Corruption is more prevalent in relatively poor countries as demonstrated by Hanna, Bishop, Nadel, Scheffler and Durlacher, 2011, demonstrated by the correlation values in our studies. High income countries tend to have relatively stable and positive correlational values between HDI and CPI.

According to key modernization theory's assumption for modernization breeding corruption hold true when most of the respondents replied change in Nepalese value to be a cause of corruption. Second assumption generation of new sources of wealth and power was not reflected exactly in our primary response therefore we can't conclusively say about it. However, the third assumption about expansion of government authority leading to multiplication of activities subjected to government regulation was also found to be true as most of the respondent answered that those areas where government investment and authority is increased those areas were more prone to corruption. Interestingly, it was also noted that respondents were also naming judiciary, security as areas of corruption, this finding is highlighted as previous studies(before 10 years) these sectors were not mere topic of corruption prone areas.

According to Public Choice theory, two key assumptions for corruption are:

- Corruption is rational behavior of public officials to maximize his/her personal gain thus making it subject to cost-benefit analysis and
- Corruption increases with the extent of government intervention in economy.

Nothing can be conclusively said about the first statement because most of the respondent thought most of the public officials were corrupt however they also stressed that it was due to the

way modern society started to measure a person by their display of wealth rather than content of their character. It was evident for the second assumption to be true because most of the respondent replied more corruption prone areas are those where government investment has increased. It was necessary to verify the widely accepted assumptions of increase in investments leading to increase in corruption. For this, we have analyzed national budget for education and health (as they are two crucial indicators determining HDI) for five years (retrospective).

Table 7: Public Expenditure

Fiscal Year	Ministry of Education*	% change	Ministry of Health and Population*	% Change	HDI	CPI
2006/07	1998	-	622	-	.432 (2006)	2.5 (2006)
2007/08	2410	20.62	744	19.61	.437 (2007)	2.5 (2007)
2008/09	3214	33.36	1049	40.99	.443 (2008)	2.7 (2008)
2009/10	4249	32.20	1358	29.45	.449 (2009)	2.3 (2009)
2010/11	4895	15.20	1439	5.96	.455 (2010)	2.2 (2010)

* Figures are in millions and Nepalese rupees
(….) Figures inside bracket represent year
Source: Economic Survey, 2011/12, Ministry of Finance

From the table, we can see that there has been a constant rise in expenditure for both health and education. Reflecting the increasing investments in two crucial development sectors subsequent years have shown increase in human development index and interestingly a slow decline in corruption perception index (i.e. increase in perception of corruption). This evidence supports assumptions of public choice theory which states that with increase in investment corruption increases.

CHAPTER V

CONCLUSIONS

5.1 Conclusions

This research has examined the relationship between Human development Index and Corruption Perception Index. Correlation values between HDI and CPI has been found to be positive. Relationship between HDI and CPI in every six years follows a "W" shape pattern. This characteristic "W" shape pattern varies in area for all three groups of economies viz. Low income countries having low areas, High income countries having highest area and Medium income countries having medium area between two distal arms of alphabet W. In this regard, we cannot reject Alternate hypothesis[a] which states that increase in HDI is followed by increase in CPI, which translates as increase in development causing corruption to decline.

All of our respondents perceived that corruption has increased in the past six years. They all blamed weakening of rule of law, political party lacking ethical behavior, quick rich mentality and culture of silence, non-transparent flow of money and Interim setup of government to be driving forces behind this increasing trend.

All of our respondents answered that political sector was the most corrupt sector followed by public sector which had increased public sector expenditure/investment e.g. Ministry of Local Development, Ministry of Education, Ministry of Physical Planning and Construction, Ministry of Health and Population; most of the respondents also stated that security (army, police) and Judiciary are hotspots for hidden, unreported and capacious corruption zones.

When asked for reasons of declining Corruption Perception Index (CPI) scores, low efficiency of corruption controlling institutions, Transition, Lack of strict punishment, Low salary of Public officials, unaccounted money flow and defects in measurement scale were some of the major causes. They were also further asked to list five approaches which would be crucial to improve CPI score of Nepal: Rule of law must be strengthened topped the list followed by boost in ideal and ethical values, stopping clout of political instability as scape goat by bureaucracy to hid their incompetence, aggressive awareness campaigning and strengthening normative institutions were considered to be changed immediately.

When asked to choose among preventive and punitive action, six respondents opted for preventive where as two respondent opted for punitive action. Similarly five respondents said that Patronage Moral aspects should be stringent whereas two respondents said that cultural aspect should be stringent. One of the respondent said that both are equally important.

All of our respondents said that existing laws regarding prevention of abuse of authority were sufficient if executed, however most of them noted some punishments were insignificants therefore revision was also essential. When asked similar question upon sufficiency of institutions regarding prevention of abuse of authority/corruption: most the respondent replied that institutions were made defunct! A typical case they cited was of National Vigilance Centre kept under Prime Minister, which in turn should have been made free/autonomous instead. The staff recruitment process for Centre for Investigation of Abuse of Authority (CIAA) has not been held for few years these kinds of insufficient institutions and inappropriateness of existing institutions has made existing institutions ineffective.

There was a unanimous understanding that Nepalese viewed corruption as low risk and high reward. On an average our respondents scored 4.06 out of 5 for our national culture of acceptance driving/motivating corruption. Similarly, they scored 4.125 out of 5 for our national culture of tolerance as driving/motivating corruption. Our respondents also replied that public, private sector, NGOs and Academicians all had a role to play in controlling corruption. They called that public sector should be more transparent, private sector should enforce anticorruption measures and NGO should sensitize and mobilize citizens and Academicians could suffice the movement by doing more researches and scholarly discussions on effects and ways of controlling corruption.

Six of our respondents were satisfied with Nepal's progress in Human Development Index (HDI), two were not satisfied.

Majority of the respondent felt that the human development has increased in the past six years because of increased literacy rate and income. Technology and media, Education and Health were sectors that our respondents saw substantial changes occurring in. Increased investment by government, increase in demand from public for services were factors responsible for this. Some

respondents suggested that restructuring the Income data (most of rural economy is still unreported) in case of Nepal would improve our HDI scores.

Policies were thought to be effective in health sector, education sector whereas lacked seriously in income generation sectors. Though, none of the respondents said that the existing infrastructures were effective to improve/sustain human development, respondents also stressed that quality of life should be increased by uplifting skills of citizen. All of the respondents felt that the national programs were not able to reach the grass-root levels and thus were not effective.

Given the evidences that corruption is coexisting even with developed and developing countries and some evidences that all countries once in a while have had a history of rampant corruption (For e.g. Singapore (during late 70s) a corrupt country is today's virtually free of corruption). Most of the respondents were unsure whether this meant that there should be any level of corruption that should be "OK" for development. But they reiterated that a level of corruption where development work is not halted should be that level.

One of the respondents from our Informant Interview answered that this (no relationship between these two variable maybe possible because the organization producing these use different methodology for two different things), his underlying assumption was that corruption was a product of greed, deceit and treachery whilst development was filled with good intentions. Good and evil couldn't go together for long. Therefore, he presumed corruption and development to be unrelated.

Seven of the respondents felt that the corruption and development are related and their relationship is negative.one of respondent thought the relationship was positive where as one of the respondent thought they were not related.

Six of the respondents answered that corruption and development move together where once of the respondents said that that corruption occurred at the beginning of development.

Modernization and Public Choice theory are also seen to be aptly defining corruption and development behavior in Nepal. However, both theories were also seen deficient in addressing the cultural tolerance or culture of silence towards corruption.

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ANNEX

S.N	Countries	2005		2006		2007		2008		2009		2010		2011	
		HDI	CPI	HDI	CPI	HDI	CPI	HDI	CPI	HDI	CPI	HDI	CPI	HDI	CPI
HIGH INCOME ECONOMIES															
1.	Hong Kong	.850	8.3	.857	8.3	.870	8.30	.885	8.1	.888	8.2	.894	8.4	.898	8.4
2.	Israel	.874	6.3	.877	5.9	.882	6.10	.882	6.0	.884	6.1	.886	6.1	.888	5.8
3.	Japan	.886	7.3	.891	7.6	.894	7.3	.896	7.3	.895	7.7	.899	7.8	.901	8.0
4.	Korea N	.866	5.0	.873	5.1	.881	5.1	.886	5.6	.889	5.5	.894	5.4	.897	5.4
5.	Kuwait	.752	4.7	.755	4.8	.756	4.3	.757	4.3	.757	4.1	.758	4.5	.760	4.6
6.	Macao	.000	0.0	.000	6.6	.000	5.7	.000	5.4	.000	5.3	.000	5.0	.000	5.1
7.	Qatar	.818	5.9	.816	6.0	.825	6.0	.825	6.5	.818	7.0	.825	7.7	.831	7.2
8.	Singapore	.835	9.4	.843	9.4	.850	9.3	.855	9.2	.856	9.2	.864	9.3	.866	9.2
MIDDLE INCOME ECONOMIES															
9.	Armenia	.689	2.9	.703	2.9	.715	3.0	.719	2.9	.712	2.7	.714	2.6	.716	2.6
10.	Azerbaijan	.000	2.2	.000	2.4	.000	2.1	.000	1.9	.000	2.3	.699	2.4	.700	2.4
11.	China	.633	3.2	.644	3.3	.656	3.5	.665	3.6	.674	3.6	.682	3.5	.687	3.6
12.	Georgia	.707	2.3	.712	2.8	.724	3.4	.722	3.9	.724	4.1	.729	3.8	.733	4.1
13.	Indonesia	.572	2.2	.579	2.4	.591	2.3	.598	2.6	.607	2.8	.613	2.8	.617	3.0
14.	Iran	.671	2.9	.684	2.7	.694	2.5	.699	2.3	.703	1.8	.707	2.2	.707	2.7
15.	Iraq	.552	2.2	.557	1.9	.558	1.5	.564	1.3	.565	1.5	.567	1.5	.573	1.8
16.	Kazakhstan	.714	2.6	.721	2.6	.727	2.1	.729	2.2	.733	2.7	.740	2.9	.745	2.7
17.	Maldives	.619	0.0	.632	.00	.640	3.3	.648	2.8	.650	2.5	.658	2.3	.661	2.5
18.	Philippines	.622	2.5	.624	2.5	.630	2.5	.635	2.3	.636	2.4	.641	2.4	.644	2.6
19.	Russia	.725	2.4	.733	2.5	.742	2.3	.748	2.1	.747	2.2	.751	2.1	.755	2.4
20.	Sri Lanka	.662	3.2	.667	3.1	.673	3.2	.676	3.2	.680	3.1	.686	3.2	.691	3.3
21.	Syrian Arab	.621	3.4	.624	2.9	.628	2.4	.629	2.1	.630	2.6	.631	2.5	.632	2.6
22.	Thailand	.656	3.8	.661	3.6	.670	3.3	.672	3.5	.673	3.4	.680	3.5	.682	3.4
23.	Turkey	.671	3.5	.681	3.8	.688	4.1	.691	4.6	.690	4.4	.696	4.4	.690	4.2
24.	Turkmenistan	.654	1.8	.661	2.2	.666	2.0	.671	1.8	.677	1.8	.681	1.6	.686	1.6
25.	Malaysia	.738	5.10	.742	5.0	.746	5.1	.750	5.1	.752	4.5	.758	4.4	.761	4.3
LOW INCOME ECONOMIES															
26.	Afghanistan	.340	2.5	.354	0.	.363	1.8	.370	1.5	.387	1.3	.394	1.4	.398	1.5
27.	Bangladesh	.462	1.7	.470	2.0	.478	2.0	.484	2.1	.491	2.4	.496	2.4	.500	2.7
28.	Bhutan	.000	0.0	.000	6.0	.00	5.0	.000	5.2	.000	5.0	.518	5.7	.522	5.7
29.	Cambodia	.491	2.3	.501	2.0	.508	2.0	.513	1.8	.513	2.0	.518	2.1	.523	2.1
30.	India	.504	2.9	.512	3.3	.523	3.5	.527	3.4	.535	3.4	.542	3.3	.547	3.1
31.	Korea Dem	.000	0.0	.000	0.0	.000	0.0	.000	0.0	.000	0.0	.600	0.0	.000	1.0
32.	Kyrgyzstan	.595	2.3	.598	2.2	605	2.1	.611	1.8	.611	1.9	.611	2.0	.615	2.1
33.	Laos	.484	3.3	.491	2.6	.500	1.9	.507	2.0	.514	2.0	.520	2.1	.524	2.2
34.	Mongolia	.611	3.0	.621	2.8	.631	3.0	.641	3.0	.642	2.7	.647	2.7	.653	2.7
35.	Myanmar	.436	1.8	.448	1.9	.459	1.4	.468	1.3	.474	1.4	.479	1.4	.483	1.5
36.	Nepal	.424	2.5	.432	2.5	.437	2.5	.443	2.7	.449	2.3	.455	2.2	.458	2.2
37.	Pakistan	.480	2.1	.483	2.2	.493	2.4	.495	2.5	.499	2.4	.503	2.3	.504	2.5
38.	Papua New Guinea	.435	2.3	.436	2.4	.447	2.0	.452	2.0	.457	2.1	.462	2.1	.466	2.2
39.	Tajikistan	.575	2.1	.583	1.2	.588	2.1	.597	2.0	.600	2.0	.604	2.1	.607	2.3
40.	Timor-Leste	.448	0.0	.464	2.6	.487	2.6	.505	2.2	.487	2.2	.491	2.5	.495	2.4

41.	Uzbekistan	.611	2.2	.614	2.1	.619	1.7	.624	1.8	.631	1.7	.636	1.6	.641	1.6
42.	Vietnam	.561	2.9	.568	2.6	.575	2.6	.580	2.7	.584	2.7	.590	2.7	.593	2.1
43.	Yemen	.431	2.7	.431	2.6	.438	2.5	.444	2.3	.452	2.1	.460	2.2	.460	2.1

WORLD BANK COUNTRY CLASSIFICATION

Low-income economies (61)

Afghanistan	Guinea-Bissau	Pakistan
Angola	Haiti	Papua New Guinea
Bangladesh	India	Rwanda
Benin	Kenya	Sao Tome and Principe
Bhutan	Korea, Dem Rep.	Senegal
Burkina Faso	Kyrgyz Republic	Sierra Leone
Burundi	Lao PDR	Solomon Islands
Cambodia	Lesotho	Somalia
Cameroon	Liberia	Sudan
Central African Republic	Madagascar	Tajikistan
Chad	Malawi	Tanzania
Comoros	Mali	Timor-Leste
Congo, Dem. Rep	Mauritania	Togo
Congo, Rep.	Moldova	Uganda
Cote d'Ivoire	Mongolia	Uzbekistan
Equatorial Guinea	Mozambique	Vietnam
Eritrea	Myanmar	Yemen, Rep.
Ethiopia	Nepal	Zambia
Gambia, The	Nicaragua	Zimbabwe
Ghana	Niger	
Guinea	Nigeria	

Middle-income economies (93)

Albania	Georgia	Philippines
Algeria	Guatemala	Romania
Armenia	Guyana	Russian Federation
Azerbaijan	Honduras	Samoa
Belarus	Indonesia	Serbia and Montenegro
Bolivia	Iran, Islamic Rep.	South Africa
Bosnia and Herzegovina	Iraq	Sri Lanka
Brazil	Jamaica	Suriname
Bulgaria	Jordan	Swaziland
Cape Verde	Kazakhstan	Syrian Arab Republic
China	Kiribati	Thailand
Colombia	Macedonia, FYR	Tonga
Cuba	Maldives	Tunisia

Djibouti	Marshall Islands	Turkey
Dominican Republic	Micronesia, Fed. Sts.	Turkmenistan
Ecuador	Morocco	Ukraine
Egypt, Arab Rep.	Namibia	Vanuatu
El Salvador	Paraguay	West Bank and Gaza
Fiji	Peru	
American Samoa	Grenada	Panama
Antigua and Barbuda	Hungary	Poland
Argentina	Latvia	Saudi Arabia
Barbados	Lebanon	Seychelles
Belize	Libya	Slovak Republic
Botswana	Lithuania	St. Kitts and Nevis
Chile	Malaysia	St. Lucia
Costa Rica	Mauritius	St. Vincent and the Grenadines
Croatia	Mayotte	Trinidad and Tobago
Czech Republic	Mexico	Uruguay
Dominica	Northern Mariana Islands	Venezuela, RB
Estonia	Oman	
Gabon	Palau	

High-income economies (54)

Andorra	Germany	Netherlands
Aruba	Greece	Netherlands Antilles
Australia	Greenland	New Caledonia
Austria	Guam	New Zealand
Bahamas, The	Hong Kong, China	Norway
Bahrain	Iceland	Portugal
Belgium	Ireland	Puerto Rico
Bermuda	Isle of Man	Qatar
Brunei	Israel	San Marino
Canada	Italy	Singapore
Cayman Islands	Japan	Slovenia
Channel Islands	Korea, Rep.	Spain
Cyprus	Kuwait	Sweden
Denmark	Liechtenstein	Switzerland
Faeroe Islands	Luxembourg	United Arab Emirates
Finland	Macao, China	United Kingdom
France	Malta	United States
French Polynesia	Monaco	Virgin Islands (U.S.)

Interview is supposed to last approximately 45 minutes for a single individual.

INTERVIEW CHECKLIST

<u>CPI</u>

1. Do you feel corruption has increased for the past 6 years?
2. 5 major reasons that make you feel corruption has increased?
3. Is the situation same or better or worse in for health, education?
4. Can you name five prominent factors, you consider responsible for this trend? *Prioritize 1-5*
5. Can you name five approaches that are crucial to improve CPI of Nepal? *Prioritize 1-5*
6. Which should be stringent?
    - Prevention aspect/punitive action/
    - Patronage Moral aspects- Cultural aspects
7. Are existing laws regarding prevention of abuse of authority/corruption are sufficient? *(please elaborate)* Do you think there is a need to refine/revise existing or adding new laws?
8. *Are existing laws regarding prevention of abuse of authority/corruption are effective? (please elaborate)*
9. Are existing institutions regarding prevention of abuse of authority/corruption are sufficient? *(please elaborate)*
10. Are existing institutions regarding prevention of abuse of authority/corruption are effective? *(please elaborate)*
11. *Do you agree that Nepalese view corruption as low risk, high reward? (please elaborate)*
12. *Is our national culture of acceptance driving/motivating corruption? (Please Scale in 5 and elaborate)*
13. *Is our national culture of tolerance are driving/motivating corruption? (Please Scale in 5 and elaborate)*
14. What are ways to change? *(please elaborate) Role of Public, Private and NGOs*
15. Given the evidences that corruption is coexisting even with developed and developing countries and some evidences that all countries once in a while have a history of rampant corruption (For eg. Singapore once (1979) a corrupt country is today's virtually free of corruption). Do you think there should be any level of corruption that should be "OK" or harmful to development?

HDI

Clarify human development from development as a broad issue!

1. Given our present stage in government/state, are you satisfied with the current situation of human development in Nepal?
2. Do you feel human development has increased in the past 6 years? (Which areas (Health, Education and Standard of Living) are getting better and which one least, like above corruption issue…)
3. Can you name five prominent factors, you held responsible for this?
4. Can you name five tools that are crucial to improve HDI of Nepal?
5. Are existing policies effective to improve/ sustain human development? *(Please elaborate)*
6. Are existing infrastructures effective to improve/sustain human development? *(Please elaborate)*
7. Are present programs (School/Health/Income generation) for HDI effective?
8. Are present program for HDI capable for addressing issues related with HDI?
9. Are present program for HDI able to reach the grass-root levels?
10. Why is our performance in HDI so poor? *(Note: Strength and Weakness)*

Summative questions

1. Do you think corruption and development are related?
   If No, record/note explanations!
2. *If yes,* Is the relationship between corruption and development positive or negative?
3. Do you think corruption is a necessary evil for development?
4. Do you think corruption precedes or entails development?
5. Personal and Institutional commitments to anti-corruption drive?