

## Corruption in Nepal: An analytical Study

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### Abstract

*Nepal is the 122<sup>nd</sup> least corrupt nations out of 175 countries throughout the world according to the 2017 'Corruption Perceptions Index (CPI)' reported by Transparency International. Corruption Rank in Nepal averaged 127. 64 from 2004 until 2017 A.D., reaching an all time high of 154 in 2011 and a record low of 90 in 2004. Various cases of VAT fraud, massive irregularities in the distribution of relief materials of earthquake victims and the government's failure to control the artificial increase of fuel and basic goods, prices after Madhesh agitation and crisis in Nepal-India trade relation has evidenced that corruption in Nepal has becoming systemic. However, no study is undertaken to estimate the magnitude of corruption. Therefore, along with the promulgation of the Federal Democratic Republic Constitution of Nepal, 2015 AD, time has come to conduct a nationwide survey to estimate the magnitude of corruption in Nepalese economy and identify the measures to control it. This study has analyzed the historical trends of corruption and economic growth as well as conceptual and theoretical issues of corruption. The main objective of the study is to analyze the determinants of corruption in Nepal. In order to obtain valid useful data about corruption, academic research has been the main sources of information in this study. The objective of the study has to analyze the trend, extend and explore the determinants of corruption in Nepal. Both inductive and descriptive approach has been adopted for methodology. The corruption data have been taken from Transparency International (TI). ADB and Economic Surveys of Nepal have been taken the data for other variables.*

**Key Words:** Corruption, Promulgation, Information, Transparency, Economic Growth, Bribery

### Introduction

For at least a decade and more obtrusively in recent years, the problem of corruption has been at the center of the political agenda in Nepal. It is recognized as one of the chief causes of Nepal's underdevelopment. It is very widespread, has different manifestations, and is practiced at all levels of society. The Nepali bureaucracy, politician, and the business sector are most seriously affected by, and inextricably involved in corruption. This is really a great challenge to the campaign of modern Nepal (Upadhaya, 2003).

Corruption is as aged as the existence of man. It exists in the public and private sectors, profit and non-profit as well as charitable organizations. It subsists both in the developing

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and also in the developed nations but predominant in the developing countries. Hence, it remains a system of a poorly functioning nation. Corruption is a complex and multifaceted phenomenon with multiple causes and on various forms and functions in different contexts. The phenomenon of corruption ranges from the single act of a payment contradicted by law to an endemic malfunction of a political and economic system. The problem of corruption has been seen either as a structural problem of politics or economics, or as a cultural and individual moral problem. The definition of corruption consequently ranges from the broad terms of misuse of public power and moral decay to strict legal definitions of corruption as an act of bribery involving a public servant and a transfer of tangible resources (Mathew & Barnabas, 2012).

**According to Koltgaard (1991)**, corruption can be represented by the following equation:

$$C = E + D - A$$

Where,

C = Corruption

E = Economic Rent

D = Discretion

A = Accountability

According to his model, corrupting can always have a green light when individual exhibit monopolistic and discretionary powers over the control of goods or services of a country with little or no accountability and decides who gets it, when he gets it and how much the receiver gets (Klitgaard, 1991).

Pervasive political corruption constitutes a major challenge for foreign companies in Nepal. Kickbacks and facilitation payments are widespread in Nepal's public procurement and in the process of business registration. Corruption reduces competitiveness and significantly increases the costs of starting up a business in Nepal in comparison to the rest of the South Asian region. The Prevention of Corruption Act- 2002 AD is the principle of anti-corruption legislation and criminalizes corruption, bribery, money laundering, abuse of office and facilitation payments in the public and private sectors (TI, 2017).

Corruption means the practice of obtaining power, influence, or other personal gains through illegitimate means; often at other's expense. The more widespread and acceptable corrupt methods are in a given society, the more corrupt that society is said to be.

Transparency International (TI) defines corruption as "the abuse of entrusted power for private gain." Corruption occurs when an office-bearer or a government employee acts in an official capacity for personal gain. In other words, corruption is the illegal use of public power to benefit a private interest. Bribery is the most common form of corruption. It is the improper use of gifts and favors in exchange for personal gain. Embezzlement of government coffers is another common form of corruption. Corruption is a social and economic evil which hampers the overall development of a country.

### **Overview of Corruption**

Corruption is a complex and multifaceted phenomenon with multiple causes and effects, as it takes on various forms and functions in different contexts. The phenomenon of

corruption ranges from single act of activity contradicted by law to way of life of an individuals or groups. The definition of corruption ranges from the broad terms of 'misuse of power and authority' to 'moral decay' (Amundsen; Sissener & Soreide, 2000). Corruption is conventionally understood, and referred to, as private wealth-seeking behavior of someone who represents the state and public authority. It is the misuse of public goods by public officials, for private gains. In simple terms corruption may be described as “an act of bribery” or “the use of public power for private profits in a way that constitutes a breach of law or a deviation from the norms of society (Amundsen, 2000)”. It is a misuse of authority as a result of consideration of personal gain, which is not necessarily monetary. This private gain is achieved by ignoring prohibitions against certain acts, by exercising legitimate discretion to act, or by fulfilling obligations to act. This is the abuse or misuse of public offices, professional rights and duties for personal gains. The genesis of corruption is found within the international, the national institutional and national societal levels. At the international level, the globalization of markets, finances and numerous other transactions between various players in the global game and the “host” government and its representatives take part in this game. Multinationals are, for instance, buying concessions, preferences and monopolies; kickbacks are offered on tenders, loans and contracts, and development projects are sometimes eased through by including travels, computers, and other fringe benefits for officials (Amundsen, 2000). There is no question that corruption is, before anything, a type of crime (Lederman, 2001). However, the discourse of corruption varies a great deal from one country to another with particular historical trajectories and the specific grammars of public culture (Gupta, 1995).

At the national institutional level, corruption takes place between the government (the executive) and the administrative and bureaucratic institutions (the civil service, judiciary, legislature, and local authorities). The relationship can be corrupted because of overlapping and conflicting authority, political power struggles over access to scarce resources, and personal relationship of dependence and loyalty. Other contributing factors 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. The more discretion officials have through abundant, complex and non-transparent regulations, the more corruption becomes likely (Amundsen, 2000; Bista, 1991; & Pyakuryal, 2000).

On the national societal level, the corrupt relationship happens between the state and various non state actors – corrupt state officials and the supplier of the bribes. It can be the general public, any nongovernmental and nonpublic individual, corporate and organizational, domestic and external.

Corruption, however, also exists within and between private businesses and within non-governmental organizations, without any state agency or state official being involved. There is a corruption in terms of bribing, swindling and mafia methods in business, and there are treacherous individuals and disloyal employees in many private firms, organizations and associations. Besides, corruption also exists as a moral and cultural problem in society, among individuals in their personal dealings.

### **Objectives**

The general objective of the study is to analyze the historical trends of corruption as well as conceptual and theoretical issues of corruption. The specific objectives of the study are as follows:

- a) To analyze the trend and extent of corruption,
- b) To explore the determinants of corruption in Nepal,
- c) To examine the relationship between corruption and economic growth in Nepal.

### **Methods and Materials**

In the development of knowledge in this research and the understanding of the determinants of corruption in Nepal has been presented as a process drawn in the line of thinking of William, M.K. by using both inductive as well as descriptive approach (William, 1998). In order to obtain valid useful data about corruption, academic research has been the main sources of information in this paper. The corruption data have been taken from Transparency International which uses Corruption Perception Index (CPI). It has started publishing data on corruption and measuring corruption in 1995. The data of other variables have been taken from World Bank Data Set, ADB and Economic Surveys of Nepal published by Ministry Finance (MoF).

### **Forms of Corruption**

Transparency International classifies corruption as grand, petty and political grand corruption consists of acts committed at a high level of government that distort policies or the central functioning of the state, enabling leaders to benefit at the expense of the public goods. Petty corruption refers to everyday abuse of entrusted power by low and mid-level public officials in their interactions with ordinary citizens, who are trying to access basic goods or services in places like police stations, courts, land revenue offices, district administration offices, and other public agencies. Political corruption is a manipulation of policies, institutions, and rules of procedure in the allocation of resources and financing by political decision makers who abuse their position to sustain their power, status and wealth. The cost of corruption can be divided into four main categories: political, economic, social and environmental. In the political form, corruption is a major obstacle to democracy and the rule of law. In democratic systems, offices and institutions lose their legitimacy when they are misused for private advantage. It is extremely challenging to develop accountability political leadership in a corrupt environment. Economically, corruption depletes national wealth. Corruption corrodes the social fabric of society. It undermines people's trust in the political system, in its institutions and its leaderships. Environmental degradation is another consequence of corrupt systems. Non-enforcement of environmental regulations and legislation means that previous natural resources are carelessly exploited. From mining to logging, companies continue to pay bribes in return for unrestricted destruction.

The main forms of corruption are bribery, embezzlement, fraud, and extortion. Even when these concepts are partly overlapping and at times interchangeable with other concepts, some of the basic characteristics of corruption can be identified through these concepts (Amundsen, 2000).

**Bribery:** Bribery is the payment that is given or taken in a corrupt relationship. A bribe is a fixed sum, a certain percentage of a contract, or any other favors in money or kind, usually paid to a state official who can make contracts on behalf of the state or otherwise distribute benefits to companies or individuals, businessmen and clients. There are many equivalent terms to bribery, like kickbacks, gratuities, baksheesh, sweeteners, pay-off, speed and grease money, (Amundsen, 2000) which are all notions of corruption as perceived from below, from public. These are payments needed or demanded to make things passed swifter, smoother or

more favorably through the state bureaucracy. By “Greasing Palms” corporations and businesses interests can buy, for instance, political favors and escape the full burden of taxation and environmental regulation, or buy protected market and monopolies, import/export licenses etc. Bribery can also be a form of “informal” taxation, when public officials charge additional amount under-the-table payments (called *ghush* in Nepali) or expected “Gifts” from clients.

**Embezzlement:** It is the theft of public resources by public officials, which is another form of misappropriation of public funds. Embezzlement happens when a state official steals goods and resources from the public institution in which he/she is employed, and from resources he is supposed to administer on behalf of the state and the public. However, corrupt employees in private firms can also embezzle money and other resources from their employers. Some people think that embezzlement is not considered as corruption from a strict legal point of view. In general terms, corruption is a transaction between two individuals; state agent and other civilian, when the state agent goes beyond the limit of the law and regulation in order to secure himself/herself a personal benefit in the form of a bribe. Embezzlement is regarded as theft because it does not involve the “Civilian” side directly. The general public is deprived when public funds are embezzled, but individual property is not stolen, and it is argued that the individual citizen will have no legal right to present themselves as forfeited. This is a very dangerous argument. There has to be a political will and legal capacity as well as public sanction to control it. In Nepal, embezzlement is one of the most important modes of economic accumulation. In fact political leaders and higher administrative bureaucrats are earning money by this method. Otherwise, how is it possible to earn multi million rupees within a few years of bureaucratic post or being a political authority? It is a fundamental part of the resource extractive capacity of the ruling elite, and it should be taken more seriously than extraction through bribes. Another form of embezzlement is - some power holders systematically use their political office to enter into, secure and expand their private business interests. In Nepal, the political elites have link with businessperson, decision makers and control media personnel, development workers and human rights activists through their contact. They hold a major share in private schools and colleges, and nursing homes, pharmaceutical companies, transport and media and many more ventures.

**Fraud:** This is a serious crime that involves some kind of dishonesty, swindling or cheating. When the ministers, bureaucrats and academicians take their share for closing their eyes they have an active role in it. This is also known as *phohari khel* or *phohari rajniti*, 'dirty politics'. Dirty politics include, giving unnecessary loans that will never be paid back, provide contracts without competition, issuing license to manufacture poor qualities of medicines to pharmaceutical companies, approving bills without proper supervision, select less qualified and unskilled persons, transferring qualified bureaucrats to other places if he/she is not favoring political authority. This dirty politics is tied to the interest of national and international agencies and authorities and the dominant feudal culture. In Nepal, dirty politics is playing a major role in the selecting, nominating and promoting of less qualified, politically corrupt people in vital posts.

**Extortion:** It is money and other resources extracted by the use of coercion, violence or threat to use force. By creating an atmosphere of insecurity where individual citizens, private businesses and public officials are harassed and intimidated. Only those who pay the protection money will be exempted from further harassment. With more or less concealed threats, rulers can extract resources from private source businesses. These businesses rarely

take the chance of refusing state or ruling party officials. The present political conflict has played very important role for promoting such extortion in Nepal.

**Favoritism:** It is a mechanism of power abuse implying “Privatization” and a highly biased distribution of state resources, no matter how these resources have been accumulated in the first place. It is the tendency to favor family, friends, relatives, clan, caste, ethnic group, gender, race, place of origin, members from the same party, and anybody closed and trusted. In political sphere, it is the liking of state officials and politicians who have access to state resources and the power to decide upon the distribution of these, to give preferential treatment to certain people. It is a basic political mechanism in many autocratic and semi-democratic countries. In Nepal, the Prime Minister has the constitutional rights to appoint all high-ranking positions, legal or customary rights that extend exceedingly the possibilities for favoritism. It easily adds up to several hundred positions within the ministries, diplomatic organization and other line agencies.

**Nepotism:** It is a special form of favoritism, in which an office holder (ruler) prefers his proper kinfolk and family members (wife, son, daughter, brother, sister, nephew, cousins, in-laws, etc.). Many political leaders have tried to secure their power position by nominating their family members to political, economic, various public councils and committees and security positions in the state apparatus. Through such mechanisms, many politicians and bureaucrats have been able to move their family members from public position into private business, to transfer public power to private wealth. Favoritism is not only a legal problem, but also a problem of flawed qualifications, lacking skills and inefficiency (Amundsen, 2000). Further where public position is strongly correlated to possibilities of corrupt and extractive practices, favoritism can secure substantial prerogatives and profit for certain families, clans or some social subgroups.

### Corruption in Nepal

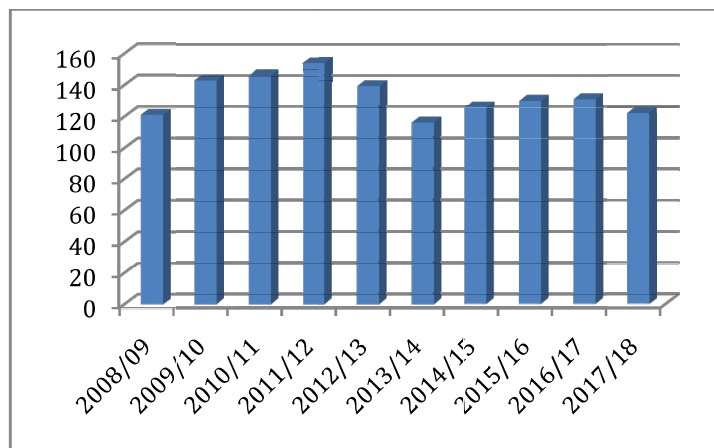
Nepal is one of the least-developed countries in south Asia. The country is suffering a serious problem of corruption. It is ranked 122<sup>nd</sup> out of 175 nations in Corruption Perceptions Index. Nepal received a score of 29 out of 100 in the CPI (TI, 2017). Scores range from 0 (highly corrupt) to 100 (very clean). This rank and score show that public sector corruption is rampant in Nepal.

**Table 1: Nepal Corruption Rank**

| Year | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 |
|------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Rank | 121     | 143     | 146     | 154     | 139     | 116     | 126     | 130     | 131     | 122     |

Source: *International Transparency*, 2017

Figure 1: Nepal Corruption Rank



Source: Based on the table 1

Table 2: Corruption Perceptions Index's Scores and Ranks

| Countries   | Years |      |       |      |       |      |       |      |       |      |       |      |
|-------------|-------|------|-------|------|-------|------|-------|------|-------|------|-------|------|
|             | 2017  |      | 2016  |      | 2015  |      | 2014  |      | 2013  |      | 2012  |      |
|             | Score | Rank | Score | Rank | Score | Rank | Score | Rank | Score | Rank | Score | Rank |
| Afghanistan | 15    | 177  | 15    | 169  | 11    | 166  | 12    | 172  | 8     | 175  | 8     | 174  |
| Bangladesh  | 28    | 143  | 26    | 145  | 25    | 139  | 25    | 145  | 27    | 136  | 26    | 144  |
| Bhutan      | 67    | 26   | 65    | 27   | 65    | 27   | 65    | 30   | 63    | 31   | 63    | 33   |
| India       | 40    | 81   | 40    | 79   | 38    | 76   | 38    | 85   | 36    | 94   | 36    | 94   |
| Nepal       | 31    | 122  | 29    | 131  | 27    | 130  | 29    | 126  | 31    | 116  | 27    | 139  |
| Pakistan    | 32    | 117  | 32    | 116  | 30    | 117  | 29    | 126  | 28    | 127  | 27    | 139  |
| Sri-Lanka   | 38    | 91   | 36    | 95   | 37    | 83   | 38    | 85   | 37    | 91   | 40    | 79   |
| Maldives    | 33    | 112  | 36    | 95   | NA    | NA   | NA    | NA   | NA    | NA   | NA    | NA   |

Note: A dash denotes not available

Source: Transparency International, 2017

### Key Holders of Corruption in Nepal

After the restoration of multiparty system in Nepal, it has been seen a significant institutional development in the political sphere of the country. Many small political parties have emerged while many new faces have been seen in the major political parties. However, the key political affairs of the country is still - like in Panchayat days – being run by the few elite that control, influence and manipulate the construction of political and economic mainstream of modern Nepal (Subedi, 2001). These elites maintain the informal as well as formal networks within their groups. It has been seen that this over the last 14 years when there has been a frequent turnover of the government. In almost 16 different governments that have been seen over the last 14 years, it has been seen, in many cases, the same set of people representing different portfolio at various point of time. Innovation, creativity, and discoveries are only possible with the new faces, new minds and new ideas. Will any person, with creative and fair-mind, have a place within the narrow lane of network in which the

current political framework is working? Existing political and social situations show that the answers are negative. If things remain same, the economic disparity, political instability, educational inequality, and social security troubles will continue to persist in Nepal and this situation will help those people who are involved in corruption. As, a prominent sociologist with considerable development experience sees “corruption and greed as two of the most important factors that have hindered the Nepali society from moving ahead (Pyakuryal, 2000, p. 21). He further writes:

*“During the period of hung parliament, the lawmakers were sold and bought for millions of rupees by political parties for defecting from or supporting the parties. These political parties had to collect this money from business houses or even smugglers. What would we then expect from such leaders or the parties that had no choice than to surrender to the investors? These lawmakers made business by passing a bill in the parliament to get all tax exemption for the parliamentarians on imported vehicles. Businessmen and smugglers imported costly vehicles on the MP’s quota, and as commissions, those MPs either took cash or cheaper vehicles from their investors. Some other rented their vehicles to earn money. Several of the MPs who had their constituencies on the high hills where there were no motor able roads also imported vehicle for accumulating money. Those MPs were not even ashamed of smuggling men and women to foreign countries by misusing their diplomatic (red) passports. They even handed over their diplomatic passports to the smugglers who imported foreign goods and materials with all duty exempted at the airport custom. Thus there was an utter misuse of authority, and those who misused most might have earned most, and they were the ones who succeeded in becoming more powerful (Pyakuryal, 2000, pp.21-22).”*

Thus, the lawmakers in Nepal developed the “Pajero” culture, which is synonymous to a corrupt parliamentarian. Pyakuryal further writes that some diplomats in Kathmandu, the capital city of Nepal, who in the name of supporting democracy in Nepal, got involved in financing these corrupt politicians and parties. As a result, social status remained only on the money and power, irrespective of its source. People with black money have gained power and emerged as elites of the nation. The situation also gave a positive chance for the emergence of wing of contractors and sub-contractors within the institutionalized pattern of corruption in Nepal (Upadhaya, 2003).

Corruption among public servants has always existed in one form or the other although its shape, dimension, textures and shades have been changing from time to time and place to place. At one time, bribe was paid for getting wrong things done but now the bribe is paid for getting right things done at the right time. Honest politicians are a rare breed today. Corrupt politicians not only go scot-free, unharmed and unpunished but also they manage to strut on political stage as honorable leaders. In this land, those who plunder the country masquerade as honorable citizen with all the paraphernalia merely because they happen to be bigwigs in politics or are close to centers of power. In the last one-decade or so, several scandals and financial irregularities, including paying of massive commissions, pay-off and kickbacks have been reported in our country. Mostly, it is the Prime Ministers, Ministers, and leaders holding important political positions, bureaucrats and big businessmen who are reported to be involved in these scams. But nothing tangible has been done in uncovering, tracing, apprehending, prosecuting and punishing the culprits on the plea of inadequate evidence. While most people would say they know corruption while they see it, debate continues over the best way to define the concept for analysis. Which acts have been called ‘Corrupt’ in politics and public service? More recently, most definition(s) have focused on the



classification of behaviors employing various standards, such as law, public opinion, or the ideas of public interest, to identify abuse of office for the private benefit. The following patterns of behavior among politicians and public servants can be described as corrupt within the provision of law: acceptance of gratification as reward for work in an official capacity, obtaining any object or pecuniary advantage illegally, fraudulent misappropriation of public property, being in possession of financial resources or property disproportionate to one's known sources of income, misuse or abuse of official position, borrowing money for purchasing a costly article from a person with whom one has official dealings with a known understanding that the borrowed money will not be returned, accepting gifts by persons of position from persons with whom they have positional relations, disregard or neglect of rules purposely to help the citizen in dues/tax/duty due to be paid to government, refusal to do a duty on some plea which may benefit the other party and others.

There are different ministries in the government, which are regarded as gold mines for making money. Defense Ministry, Home Ministry, Ministry of Finance, for example, spend a huge amount of total budget every year and it is said that commission between 15 to 50 percent are not uncommon on purchasing of weapons, spare parts, emergency expenditure, payments of bills, passing bills, issuing cheques, approving supplies settlements of disputes and so forth. People say that out of total cost sanctioned for the project, about 30 percent is invested in the work, 30 percent on contractor's profit, and 40 percent goes into various Ministers' and Officers' pockets. The power enjoyed by ministers and police are so wide that they can accuse, arrest, and harass even an honest person. It is said that the failure to pay commission results in delay in getting the bill passed and receiving the cheque.

The causes of corruption are sought in wholly different directions, depending on the ideological stance and preferences of the seeker. The neo-liberal school considers corruption to be one of the effects of the black market caused by excessive state interventionism. The more the state intervenes, the more it legislates, and the more it develops interfering bureaucracies, the greater the risk of parallel procedures and market spawning unlawful conduct. On the other hand, those who are not convinced of the state's intrinsic perversity or market's unquestionable merits stress another aspect: the erosion of the public ethics, lack of political culture to politicians, domination of dirty politics to the state bureaucrats, the loss of state's legitimate status as the incarnation of the general interest, and the dilution of communal values through the pursuit of profit and the defense of selfish private interests. However, these causes are not mutually exclusive.

### **Role of Civil Society and Issues of Good Governance**

The present era is marked by the fact that corruption has become widespread, that it affects more and more spheres of activity, and that it reflects a negative trend compared with the progress made in stamping it out, particularly in democracies. Many businesspersons, government officials and consumers are unaware of the serious impact that corruption has on Nepali economy and society.

The sensitivity of public opinion, towards corruption varies considerably from one country and from one culture to another. Comparable variations are to be found in political systems between public opinion at large and social elite. Whereas latter usually tend to minimize the scale of corruption (often after having ignored or denied it), public opinion has had a marked propensity in recent years to exaggerate its extent. Opinion polls show that the vast majority of the people interviewed are convinced that "more than ninety percent

politicians are corrupt". Clearly, and whatever the real degree of corruption, nothing can be adduced as serious evidence for such a claim.

The legal definition offers the advantage of safety and certainty, i.e., corruption is what the penal code defines as such, or what professional code of ethics prohibits. By establishing what is allowed and what is prohibited, the law lays down in principle clear limits that should not be overstepped. This principle raises two problems, the first being strictly legal and second ethical.

The strictly legalistic approach presents shortcoming in that it tends to sidestep the ethical principles and that are at the very root of repressive measures. Corruption is not an ordinary offence comparable to a highway-code or fraud. It constitutes a violation of duties, of office and a negation of the values that should underlie the democratic, political and administrative systems founded on the rule of law, such as distinction between private and public interests, equality of treatment for citizens, transparency of transactions, and so forth. By laying stresses exclusively on the strictly panel definition of corruption, we may lose sights of justification and purpose of these repressive measures.

Governance is a composite form of the state, the private sector and the civil society. The strength of good governance is that where all actors remain close to and co-operating each other. In such situation, they complement to each other and at the same time keep checking and balancing each other to obtain good results. Transparency is the major requirement of good governance. It means that decision taken and their enforcements are done in a manner that follows rules and regulations. It also means that information is freely available and directly accessible to those who will be affected by such decisions and their enforcement. It also refers to the free availability of information to the general public and clarity about rules, regulations and decisions. It also means that processes, institutions and information are directly accessible to those concerned with them, and enough information is provided to understand and monitor them.

Accountability is also a key requirement of good governance. "It is the duty of public officials to report their actions to the citizens and the right of the citizens to take actions against those officials whose conduct is considered unsatisfactory. It is imperative to make public official (Decision makers) answerable for government behavior and responsive to the entity from which they derive their authority. The authority or the decision maker is good or bad depending upon the level of transparency and accountability in such decision making processes that directly or indirectly affects the public life.

An important activity should be to review business processes, political related legislation and procedures, academic irregularities and to develop the situation for more business friendly, fair election legislation, academic environment and procedures that discourage corruption. The CIAA (Commission to Investigate the Abuse of Authority) has complained that it does not get enough well grounded complaints about political and business related corruption. The other activity would be to collect corruption cases to pass on to the CIAA and to deal with the other ways.

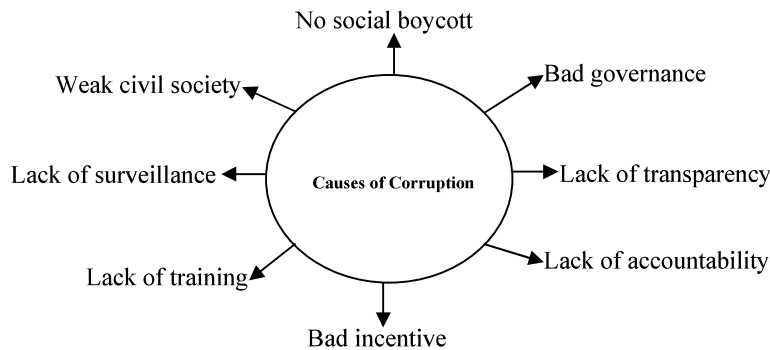
An organized effort and action based on the ground reality is important to influence public policy and decisions that directly or indirectly affect public life. A complaints unit should be set up in favor of fairness, transparency to receive record and take forward complaints by and against existing system of corruption in Nepal. For this, a public action committee should be formed with representative from the business community, lawyers,

academicians and local leaders to press the government to crack down on corruption. This organization should put pressure on the government to prevent corruption happening and to prosecute guilty parties. The intention is that, for example, in a case where the government official has demanded a bribe from a businessperson to clear some official procedure, the victimized businessperson would report this case to the Complaints Unit. The unit would then assess the truthfulness of the accusations, and, if convinced, either send a complaint on to the appropriate government authority, such as the CIAA for the government related cases, or deal with it in an alternative way. The complaint unit will work out such as mediation or ‘naming and shaming’ with the help of media, to deal with corruption cases as a way to bypass the time consuming and expensive process of going to court.

At first, it should be an informal group; but later it could develop into a more formal structure or some kind of federated body. The name of corrupt personnel should be published in the media. A website and regular edition of a corporate ethics bulletin plays very important role to sensitize the cases. The website should be used to provide information and expose corrupt officials, businesspersons and academicians. This is also expected to be an important part of the up-coming to operate more transparently and to be more law abiding.

### Causes of Corruption

Corruption is a national disease of Nepal which has been caused by several factors. The major factors that cause corruption are listed below:



- The root causes of corruption are bad systems of governance.
- There is little chance of getting caught. This comes primarily from a lack of transparency.
- Lack of accountability is also the cause of rampant corruption.
- Another equally important cause of corruption is bad incentive.
- Public employs do not get anti-corruption training and education that emphasizes the negative effects of corruption.
- There is no surveillance mechanism in place. Electronic monitors, computer programs, and other technologies can monitor corruption in government agencies and businesses.
- The civil society in Nepal is not very strong and extensive to pressurize the government in formulating and implementing stringent anti-corruption policies.
- The corrupt people are not boycotted by the public. Instead, they get recognition.
- There are certain attitudes that make average people disregard the law. For instance, poverty or scarcity of goods may push people to live outside the law. This creates the situation of bad governance.

### **Determinants of Corruption in Nepal**

Main determinants of corruption are economic growth, openness to trade, inflation and Human Development Index.

**Economic Growth:** It is assumed that there is a relationship between the level of economic growth or economic development and the level of corruption (Husted, 1999, p.340 & Tekgoz, 2002, p.116). Lack of economic resources can emerge as a fundamental factor leads to corruption. Corruption is a phenomenon that existing in all countries. However, it can emerge more rapidly in low income countries than in high-income countries.

**Inflation:** One of the factors causing corruption is inflation. Since, inflation reduces the level of real wages; it negatively affects the purchasing power of people. Although the purchasing power decreases, the basic needs must be met first. If not, people might apply to any kind of illegal methods such as fraud, bribery, embezzlement for needs. Therefore, these socio-economic deteriorations lead the level of corruption to increase in a country. A lot of people believe that inflation can be caused to moral hazard (Paldam, 2002, p.221). And then it can offer opportunity for illegal and unethical behaviour such as fraud, deception, embezzlement. Moreover, any informational problems caused by inflation can lead to more corruption. Because, high and variable inflation is assumed to increase uncertainty about prices and, therefore, cost of accounting the agent's behaviour (Braun & Tella, 2004, pp. 79-80).

**Openness to Trade:** It is said that openness to trade is also important determinant of corruption. There is a strand of literature that investigates the relationship between openness and levels of domestic corruption. There are a number of scholars that recognize the positive relationship between the openness of a country to international trade and lower levels of domestic corruption (Soudis, 2009).

**Human Development Index (HDI):** HDI is regarded as one of the main determinants of corruption. When human development index increases, corruption decreases and vice versa.

### **National Efforts to Control Corruption**

Although Nepal has slipped on the Corruption Perceptions Index-2017 of Transparency International, it has made some genuine institutional efforts to curb public sector corruption. The following are the national efforts made by the Government of Nepal to Control Corruption:

**The Commission for the Investigation of Authority (CIAA)** is an apex constitutional body for corruption control for the Government of Nepal. The Constitution of Nepal-2072 has empowered CIAA to investigate and probe cases against the persons holding public office and their associates who are indulged in the abuse of authority by way of corruption.

**National Vigilance Centre (NVC)** is another anti-corruption body of the Government of Nepal. It was formed according to Anti-Corruption Act, 2059 B.S. in order to reduce the corrupt activities in effective manner and to build a corruption free society. It is a watchdog and so it plays a preventive and vigilant role in order to ensure good governance by creating far economic discipline, moral ethics and transparency.

*Department of Money Laundering Investigation (DMLI)* was established by the Government of Nepal on July 15<sup>th</sup>, 2011 to fight money laundering, terrorist financing and any forms of illegal earnings including the property earned by corruption.

As its commitment to fighting corruption, Nepal has ratified the **United Nations Convention against Corruption (UNCAC)** on 31<sup>st</sup> March 2011. UNCAC is the first global legally binding international anti-corruption instrument.

*Transparency International, Nepal Chapter*, is a civil society organization working in Nepal as a catalyst in the fight against corruption. It promotes anti-corruption movement in Nepal through advocacy of transparency, integrity and accountability in governance, and mobilization and empowerment of people.

### **Conclusion**

No study is undertaken to estimate the magnitude of corruption in Nepal. Some data on corruption exists but it is also not sufficient, systematic and authentic to estimate the actual size of the corruption. National and international experiences indicate that it has been rampant in the country. The study concludes that there is an urgent need to conduct a nationwide survey to estimate the magnitude of corruption in Nepal so that it could be accommodated with the white data, which in turn, would facilitate the policymakers in formulating proper policies for the country. Although the incidence of poverty is significant, no attempt has been made to accommodate the corruption in analyzing the poverty estimation. It is argued to modify the economic growth rate, saving and investment, poverty incidence data by incorporating the corruption. Nepal is ranked 122<sup>nd</sup> out of 175 nations in the Corruption Perceptions Index (TI, 2017).

Corruption is an issue in public debates and everyday conversation in many countries. To understand and fight against corruption, the legal definition of corruption is too narrow and only concerns with legal procedure, legal evidences and ignores the people's own assessment of courses of action. If it is only given priority to legally sanctioned sphere and ignore socially sanctioned sphere, it is very difficult to fight against corruption in Nepal. This is related to democratization process. Economic and political competition, transparency and accountability, coupled with democratic principles of checks and balance, are the necessary instruments to restrict corruption and power abuse. Civil society should hate, boycott culturally and socially corrupt people for introducing people oriented good government which should be transparent and accountable.

### **Recommendations**

- a) The important determinant of corruption is the inflation. So, the government should control the inflation by using anti-inflationary measures.
- b) Human Development Index (HDI) consists of three dimensions of the human beings, particularly per capita income, literacy rate and life expectancy at birth the government should spend the budget to those sectors.
- c) Nowadays, the nation is suffering not only from petty corruption but grand and policy corruption. So, strong institutional mechanism to control corruption should be established.
- d) Proper leadership needs to be developed with respect to honesty, integrity and capacity for hard working.

- e) A publicity campaign to create greater awareness on the adverse effects of corruption.
- f) Heavy capital gains tax should be minimized.
- g) Deterrent punishment must be given to those who are found guilty of profiteering, black marketing and smuggling.
- h) A responsible press to gather, analyze, organize, present and disseminate information is considered vital to create greater public awareness and to provide the momentum for undertaking reform to overcome corruption.

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