

**CORRUPTION AND DEVELOPMENT IN LATIN AMERICA:
The Case of Nicaragua**

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The agenda to re-map the Americas through trade liberalization arrangements such as the Central American Free Trade Area (CAFTA) and the Free Trade of the Americas (FTAA) in order to advance democratization and development confronts many serious challenges. One of the most prominent is the corruption pandemic inundating the region. Almost daily, citizens across the hemisphere are bombarded with reports of official misdeeds. In Guatemala, former President Alfonso Portillo has fled to exile in Mexico as the current regime investigates his administration's raid on the nation's treasury. In April 2005, the people of Ecuador mobilized against the nepotistic, clientelistic and anti-constitutional practices of the regime there, leading to the ousting of President Lucio Gutierrez. In September of this same year, there were mass protests in Brazil against President Lula da Silva's government on charges that members of his party orchestrated a cash-for-vote scheme. Meanwhile, in Nicaragua, the focus of this analysis, former President Arnoldo Alemán and a host of his officials have been serving time in prison for pillaging the public coffers.

State-level corruption issue is an issue which has skyrocketed to the forefront of the international agenda since the end of the Cold War. This is not particularly surprising. As the geopolitical rationale for supporting dictators waned, and globalization, democratization, privatization and stabilization became the objectives of the new millennium, the rise of official corruption has become the new enemy of western economic security. It is a major threat because it puts in jeopardy the successful realization of these new goals. Investors in the North, facing rising costs of doing business in the newly emerging markets of developing world due to pervasive fraud embezzlement and other forms of criminal activities, are demanding that international financial institutions adopt measures to "clean up" the market place to restore business confidence. Ironically, since it is the market liberalization growth strategy advocated by these same investors that set in motion the conditions conducive to the rise of corruption. In its *Global Report 2001*, Transparency International acknowledged the relationship between these two developments, that is liberalization and corruption, stating that the transition to a market economy provided openings for elites to reinforce their dominance by exploiting both the privatization processes and the increases in foreign investments which flowed as a result of market reforms.¹ This outcome is very much the antithesis of the claims by the advocates of neoliberalism who postulate that an open economy is the foundation for transparency, good governance and democratic development. With respect to Central America, the drive to re-map the region through trade restructuring agreements like CAFTA and the FTAA carry the very real danger that the corruption pandemic and its accompanying ills which have emerged from the democratization processes thus far, will only be exacerbated.

There is the argument, of course, that corruption is not new, but that it is receiving greater attention because of the increased levels of democratic openings. This is difficult to prove or disprove. The point being emphasized here is that the very

democratization processes which are supposed to preclude corruption are in fact facilitating its spread.

This analysis attempts to explain the corruption endemic by linking it to the emphasis on market-oriented democratization. Focusing on Nicaragua under the Alemán regime (1997-2001), it will argue that the nature of the region's democratization with its emphasis on competition, liberalization and privatization have set in motion processes which have given rise to mismanagement, exploitation and outright corruption by those in positions of political power. This is not to argue that corruption is a necessary outcome of liberalization. Rather in societies where state structures of oversight are weak, unscrupulous political leaders such as Arnaldo Alemán, are given greater incentives to exploit the openings offered by the implementation of free-market strategies to loot the public treasury to line their pockets and that of their cronies.

Relatedly, the calls for political pluralism, a necessary accompaniment to the economic openings, have offered up opportunities for manipulation of the political processes by power hungry politicians. Laws and institutions are reconfigured, all within a democratic electoral framework, to facilitate the plunder of the state, and to ensure access to power.

The exploitation by elites of the economic and political systems have deleterious implications for the citizenry overall, of course. Civil society is harmed in two ways: it is a victim of the actions of the political elites, deprived of resources to which it is legitimately due, and ironically, it too becomes corrupted by the corruption from above.

Definition:

In their work on *State Crime*, Penny Green and Tony Ward, distinguishes between two forms of corruption, that which they call "individual deviance" and "organizational deviance".¹ The first identifies acts committed by individuals against the state, or the abuse of public office for private gain" (the definition used by Transparency International). This is a form of corruption that is of a political and administrative nature, and can be seen as a form of "political white collar crime".² Organizational deviance, which they identify as state crime, can encompass three types of crimes.

Firstly, it can include those crimes committed as "a means to an organisation goal" such as in the case of state agents becoming involved in the drug trade or illicit arms sales to achieve a state objective. They cite the example used by de Leon³ of the Iran-Contra affair where arms sales to the Khomeni regime was used as a means to garner funds to support the Contra war. Secondly, it can refer to those acts committed to serve organizational goals. In other words it is tolerated because of its benefits to the organization. This can be seen in many African contexts for example where the salaries of public servants are so low that it is necessary for state employees to resort to corrupt practices such as bribery or extortion to supplement their income in order to survive. Finally, state crime or organizational deviance can refer to those acts where corruption becomes an organisational goal in itself, and "where the pursuit of profit determines the agency's decisions."⁴ These could be kickback to state officials for the awarding of contracts such as in the case of President Marcos of the Philippines and his awarding of state contracts for the construction of nuclear power plants based on the kickbacks he received.

In this analysis we look at corruption in all its aspects in the Nicaraguan context, that is in its individual and organizational sense.

Nicaragua: From Somoza to the FSLN

Nicaragua endured almost 4 decades dictatorial rule under the Somoza dynasty, which was eventually brought down in 1979. The brutality of the dictators culminated in the emergence of the revolutionary movement, the Sandinista National Liberation Front (FSLN) which had as its goal the complete overthrow of the regime. Success for the FSLN, however, was over a decade in coming and during that time the nation suffered a long and brutal civil war.

The holders of state power, the dynastic Somozas, subordinated all the apparatuses of the state to ensuring victory in these conflicts. State institutions such as the judiciary, the police, the electoral system, and the bureaucracy were therefore expected to advance state goals, even if these were antithetical to the principles of democracy. Citizens' rights such as in voting were easily manipulated or suspended or denied altogether. Their rights in the legal system were often non-existent as many of those charged were brutalized on the basis of being communists, guerrilla sympathizers and hence imprisoned, tortured, or killed.

The civil war in Nicaragua came to an in 1979 with the FSLN's overthrow of the dictatorship. This however, did not signal peace, as almost immediately, by the start of the 1980s, a decade long war against the US-funded Contra army ensued. By 1990, however, the military conflict officially ended, and pluralist elections were held. Thus far, there have been three such national elections, 1990, 1996 and 2001. In each of these, the FSLN went down to defeat, first to Violeta Barrios de Chamorro of *Unión Nacional Opositora* (UNO), then to Arnoldo Alemán, and finally to Enrique Bolaños both of the *Partido Liberal Constitucionalista* (PLC).

With the victory of Violeta Barrios de Chamorro began the process of transformation of the Nicaraguan economy, the reversing of Sandinista strategies which had been aimed at strengthening the public sector. On assuming power, the FSLN had followed a mixed- economy strategy in their drive to build socialism. As such, their economic program allowed for some free market operations mixed with state control of huge sectors of the economy. The latter component of their economic agenda involved the nationalization of the enormous holdings of the Somozas, as well as banks and other enterprises, and the introduction price controls. Between 1978-1980, GDP generated by state enterprises had risen from 15% to 41%.⁵

However, the Sandinista's program sent the economy into a free fall. By 1988, hyperinflation in 1988 stood at 33,603 %, the foreign debt was 700 % of GDP).⁶ To deal with this crisis, the government implemented a harsh austerity program that, according to Close and Dye, "choked whatever life there was left in the economy, and by the end of the Sandinista's tenure, GDP per capita had fallen to 60% of its pre-revolutionary level."⁷ Of course it must be remembered that the FSLN was facing a national crisis, stemming largely from the Contra war and this severely distorted the outcome of its economic program. Not surprisingly, the implementation of competitive elections saw the defeat of the FSLN at the polls as Nicaraguans voted for the UNO opposition led by Violeta Chamorro in the hopes that this would end the Contra conflict, the US sponsored war against their nation, and the general misery and

deprivation inflicted on the population as a result of the FSLN's war-time economic measures.

The Market Oriented Developmental Model

The Chamorro administration was committed to ending FSLN's state-centered model of development and to bringing about a free market, export-oriented developmental strategy. UNO's preferences were in line with those of its international allies, the US government and the international financial institutions (IFIs) such as the World Bank and the International Monetary Fund, all of which are staunch advocates of market liberalization. The logic of this strategy is that since the market is seen as the engine of growth, as stimulating investments, efficiency, productivity and entrepreneurialism, it is important that the market be able to function without impediments. Furthermore, when it comes to corruption, the prevailing belief of free-market adherents is that the less state involvement there is in the economy, the less likelihood there is of corruption. Yet ironically, corruption has since become endemic, particularly since the administration of Arnoldo Alemán which succeeded that of Chamorro, and it is proving antithetical to the success of the market.

Soon after assuming office, the Chamorro government committed itself to adhering to the IMF's program to open up the Nicaraguan economy and to reduce its massive debt burden. It began by signing the Enhanced Structural Adjustment Facility (ESAF 1) in 1994. ESAF included the standard package of structural adjustment measures (SAPs): devaluation of the currency, elimination of price controls, privatization of national enterprises, encouragement of national and foreign investments, and a reduction of the budget deficit through cuts in the public sector. Under Chamorro, 346 of 351 state-owned enterprises in the industrial and agricultural sectors were either privatized or liquidated between 1990-1995.⁸ Concomitantly, unemployment skyrocketed as the Chamorro government eliminated 285,000 public sector.⁹

This developmental model was continued under the successor administration of Arnoldo Alemán which in 1998 signed ESAF II. In keeping with the demands of the SAPs to reduce the budget deficit, the new government chopped an additional 5000 jobs sending the overall unemployment rate to approximately 60 percent¹⁰ by 2001. Additionally, it continued with the privatization of state owned enterprises such as the telephone (ENITEL) and the electricity (ENEL) companies (reportedly sold off at bargain prices). As a result of the sale of the latter, electricity prices have risen five-fold since 1990.¹¹ The price of other utilities not yet nationalized have also increased due to pressures from international institutions. The water utilities (INAA, now ENACAL), is under great privatization pressures. In preparation for this perceived inevitability, and in response to pressures from the IMF, the cost of water¹² has kept pace with that of electricity, making the industry more attractive, to private investors. This in a nation where 33% of the population is without any access to water,¹³ and 72% survive on less than \$2 per day.¹⁴ Despite these drastic measures, Nicaragua remained Central America's most indebted nation with over 50 percent of the national population below the poverty line.¹⁵ Meanwhile, according to recent reports, top officials in the government consume a significant portion of the nation's income through salaries and perks. According to a World Bank study, 0.86% of the nation's GDP go to 695 top

officials in the country, while another approximately 100,000 persons working for the state at other levels have little chance of augmenting their salaries.¹⁶

In looking at the above figures, it becomes evident that the drive to strengthen the free market model has had devastating social consequences. Compounding the problem has been the uncontrolled spread of corruption under the Alemán regime. Corruption has occurred not only at the very top, amongst the political and economic elite, but it has spilled down to the societal level as the free market policies take effect. The emphasis on liberalization and privatization has created opportunities for elites to exploit both the political and economic systems for gain. In the process, civil society, that sector which is supposed to be a countervailing force to the excesses of any ambitious, greedy or immoral state officials, has itself become corrupted. The implementation of the free trade arrangements which demand more of the same in terms of policy prescriptions, can only exacerbate an already serious crisis. The following section of the paper examines the ways in which the political system and civil society have become affected and even implicated in the corruption problem facing Nicaragua.

Corruption and the Political System

Given the human devastation accompanying the restructuring, it was critical to the success of the economic program that there be a “strong” state well-equipped to “pacify” civil society and contain social mobilization in order that it not jeopardize the market. The “success” of the SAPs, the guarantee of macroeconomic stability, demand an acquiescent labour force and a “cooperative” civil sector to ensure the orderly operations of the market. This is particularly crucial in the Nicaraguan context as this is a society with a proven record of mobilization as its revolutionary history testifies. Furthermore, a “strong” state whereby executives are largely rendered unaccountable to the electorate facilitate the plunder of the national treasury by unscrupulous state managers.

Important to Alemán’s strategy of strengthening the state apparatus was the deal or *El Pacto* forged with the once radical Sandinista National Liberation Front, particularly its leader Daniel Ortega who seemed to have abandoned his progressive revolutionary origins in practice (if not in theory) in favour of access to political power. *El Pacto* entailed a series of 18 amendments to the articles of the Nicaraguan constitution. Amongst the important changes were the substitution of a single Comptroller General with the 5-person body empowered with the authority to investigate financial or other charges of wrongdoing by government officials; the guarantee that the outgoing President and Vice-President automatically receive a seat in the National Assembly; the requirement that the voting criteria for removing presidential immunity be two-thirds, rather than the previous qualified majority; and changes in the types of requirements a presidential candidate must adhere to in order preclude a second run-off election. Importantly too, the amendments state that in order for a party to maintain its legal status, it must receive at least 4% of the vote in a general election.

Additionally, the Pact increased the number of high-ranking positions in several offices such as the Supreme Electoral Council, Supreme Court, the Appeals Court, the Public Prosecutor’s Office, and the Human Rights Defence Attorney’s office, and these new positions were then filled by appointees loyal to themselves. In essence, the Pact set up a form of clientelistic or patron-client relations typical of corruption. Clientelism denotes a situation whereby the patron grants to subordinates certain privileges or favours

in return for loyalty and support. In this instance, access to high ranking jobs in state institutions were the gifts distributed by patrons who in turn were protected by the “clients” now in said institutions. This freed the patron/executive to implement policies favourable to itself without fear of being reigned in by the operations of the ‘democratic’ operations of state institutions, institutions which are theoretically accountable to the people.¹⁷

Furthermore, the pact-makers tried to guarantee themselves immunity from prosecution of any kind, even long after they are gone. They attempted to do this by according to the President and Vice-President seats in the National Assembly even after they have departed from elected office, and by strengthening of the requirements (to two-thirds vote in the National Assembly) for their immunity to be lifted. The tougher criteria installed which new political parties have to meet (receive at least 4% of the votes) ensured that the parties of the pact makers would continue to dominate the political scene. Nicaraguan politics is marked by a huge number of small political parties (aside from the dominant PLC and FSLN) and hence it is difficult for small parties, and certainly small new parties to be able to garner the necessary 4% of votes. With this strategy, alternative voices to the two dominant parties (Alemán’s PLC and Ortega’s FSLN) are effectively silenced

Critics have described their collusion as a return to the politics of *caudillismo*, to the era of Somocismo, with Ortega and Alemán being the new strong men contemporary Nicaraguan politics, despite their drastically differing histories.¹⁸ The former, excluded from state power used the alliance as a means to securing power without officially being in control of the state apparatus. For the latter, it facilitated his plunder of public goods while guaranteeing that he would be unchallenged in his political decisions. In essence, Ortega and Alemán exploited the very mechanisms which are meant to preclude corruption, to institutionalize their corrupt practices. Prohibited by the rules of the electoral process from single-handedly and unilaterally reorganizing state institutions for his own ends, Alemán, with the assistance of his one-time nemesis Daniel Ortega accomplished this goal by exploiting the very rules of electoral democracy. He collaborated with the opposition, all legal acts, to marginalize state institutions to ensure that they were accountable to him rather than the converse. A form of dictatorship, or *caudillismo*, of corruption of the political system, was achieved by the manipulating of the very democratic processes, electoralism and constitutionalism, which were meant to preclude it.

The legacy of the Pact on Nicaragua’s democracy has been widespread; it has left “heinous prints” which include “all manner of arbitrariness, corruption and mafia-like murky deals.”¹⁹ As a matter of fact, some analysts argue, “[m]aking pacts has metamorphosed into a method and a philosophy in Nicaragua; the country has moved from pacts to ‘pactism’ as a normal way of engaging in politics.”²⁰

Corruption and Economic Liberalization

The reorganization state institutions such as the Supreme Court, the National Assembly and the Office of the Comptroller General, not only facilitated the implementation of the neoliberal program, it also cleared the way for plunder of the state coffers. These institutions were now staffed by individuals loyal to the President, thus allowing him to direct their activities to satisfy his personal desires, even if these are

illegal, immoral and antithetical to the national interest. At the same time, the restructuring also helped to protect him from any kind of process of accountability,²¹ though he was not completely successful in this.

Corruption is facilitated not only by calls for political pluralism but also by demands for economic liberalization. The drive to open in order to placate international financial institutions (IFIs) and to adhere to the structural adjustment policies (SAPs) they promote, have actually created the conditions for corruption to flourish—the antithesis of the aims of IFIs.

According to the logic of SAPs, a critical aspect to development is the opening of national economies to global markets and international investors, and in Nicaragua, this has created greater openings for corruption to thrive. Of course, the Nicaragua economy has historically been externally oriented; it is an underdeveloped society heavily dependent on foreign trade, investment and aid, its history is littered with foreign interventions, and most of its political leaders have bowed to the will of foreign powers. In its more recent history, with the signing of ESAF I and II, it is consistently at the mercy of the decisions of IFIs through the SAPs devised by them.

The increasing emphasis of SAPs on deepening globalization and the need to attract more foreign investments, have provided opportunities for manipulation for personal aggrandizement by unscrupulous leaders. It allowed ranking government officials, in this case Arnaldo Alemán and his close associates to exploit their inside knowledge and to situate themselves in such a way as to take advantage of the privatization processes in order to gain control of public enterprises. It bears repeating that such conduct is not a *necessary outcome* of liberalization. Rather when privatization is being imposed on societies where the mechanisms of accountability and transparency are weak, and when this is combined with the presence of greedy office holders, the outcome has proven disastrous for the state and society.

An example of this is the scandal involving a bid to purchase a new cell phone frequency in Nicaragua, but which was in fact, as David Close²² explains in detail, was plan to line the pockets of the deal makers. In essence, Alemán and his cronies orchestrated a strategy to profit from the call to globalize the economy by manufacturing a purported foreign investment bid. The story began in 2001 with two companies putting forth tenders. Nicaragua. The Mexican telephone company, PCS de Mexico (claiming to be acting on behalf of Azteca Holding, the parent company of Mexican media conglomerate TV Azteca) won the bid. It's charges included \$8 million up front with approximately another \$29 million for later work. Meanwhile the competing bid was \$7.15 million to begin, with \$42 million later.

It should be noted, as Close points out, that PCS had behind it several of Alemán's associates. Ricardo Galán, former Mexican Ambassador to Nicaragua and advisor to Alemán was one of the main lobbyists for PCS. There was also Alejandro Lopez Toldedo, another Mexican supporting the PCS bid who was also a member of the committee evaluating the offers, and chair of said committee's technical subcommittee. Reportedly, as a committee member he was influential in altering the criteria for selection in PCS' favour.²³ In addition, there were a hosts of other Alemán associates involved in this particular game.

This deal was later revealed to be fraudulent. TV Azteca claimed it had never heard of PCS—the company making the bid under its auspices. What the courts

concluded was that the objective of behind the fraud was to purchase the frequency cheaply then sell it for a much higher rate later on. It seems PCS was a shell established to gain control of the frequency so that a hefty profit can be made later by the participants. This view seemed to have had confirmation in the fact that PCS could not make the monthly payments after winning its bid, surprising given its claims to be a branch of the massive TV Azteca. This lack of funds reportedly led to other illegal acts crime involving many state agencies, including Channel 6 (the country's last publicly owned TV station), the Airport Authority (EAAI), the tourism institute (INTUR), the post office, the communications department (TELCOR), the phone company (ENITEL), and the finance Department. These agencies were all used as pawns to divert funds to PCS so it could make its payments.

The PCS and Channel 6 cases represent what Green and Ward have identified as a form of state crime whereby corruption becomes the organizational goal in itself—where as they note above “ the pursuit of profit determines the agency's decisions.” These examples are but a few of the staggering misdeeds of the Alemán administration. What they highlight too is that an emphasis on the market oriented approach does little to ensure transparency and accountability, and hence promote democracy. As a matter of fact, it can often have the opposite effect, especially where state structures are relatively weak, where elites are dominant, and where disparities between rich and poor are huge.

Corruption and Civil Society

Corruption not only deleteriously affects the functioning of the state but it also corrupts and weakens civil society. The same processes of liberalization that promote corruption above also encourages it below.

Theoretically, the market's liberalization and political democratization should increase transparency. Yet the focus on privatization and the reduction of the public sector have resulted in the contrary. The increases in the cost of living that comes from privatization of many basic services (utilities, health care, education etc), and the rising unemployment due to cuts across the spectrum, but especially in the public sector, have meant that people have to find alternative means of subsistence. Lacking such, many turn to petty crimes. The result is the degeneration and corruption of civil society. As Graham Harrison notes: “The point is that unless one believes that the public and private spheres are hermetically sealed from each other, the acquisitive struggles and powerful sense of self-interest which SAP creates and legitimises create the strong possibility that people, at all levels, will try to plunder public resources [or resort to other forms of criminal activity], either for self-interested accumulation or survival.”²⁴

One of the ways in which this is manifested in contemporary Nicaragua is in the drug problem. Absent alternative forms of employment, or simply unable to subsist of current levels of income, many people are turning to selling drugs. Even members of the police force have been caught participating in the drug trade. Amongst them are the police chief of the Atlantic Coast as well as the police chief of Managua, who resorted to paying his informants with drugs. With reference to the former, the Catholic Bishop of the Atlantic Coast Pablo Schmidt commented on the links between drugs and economic survival: “If you take this away, how are they going to live? This is not an easy problem to solve. And it destroys not only the image of a people, but their culture as well.”²⁵

While the Atlantic Coast example may have stemmed from personal need, the example of the Managua police chief demonstrates what Green and Ward would refer to

as corruption as “ means to an organisation goal.” In this instance, given the cut backs in state resources, the lack of attention to social problems, state agents are forced to resort to extra-legal means to fulfill state objectives. This is completely antithetical to the underlying objective of the initiative demanding reductions in the public sector spending.

Furthermore, the lack of viable options for youths, as the state cannot afford or is not permitted under its structural adjustment plans, or is not inclined to do so (due to official corruption or neglect) to spend on social programs, on job creation, on recreation, or on education, have meant that drugs have become an attractive alternative, especially as it can be bought cheaply in Managua’s streets. According to Jose Luis Rocha:

The biggest change, which has led to others, can be summed up by noting that gang members went from throwing stones to smoking crack, from having their feet firmly planted in the territory of the neighborhood they were defending to having their head in the clouds, high on drugs. This does not mean that members didn’t previously get high on crack, cocaine, marihuana or glue, but it does mark a change in their activities. Drug use and trafficking have come to take a central place, completely displacing the task of defending the neighbourhood.²⁶

As drug use has increased, so too have other crimes, thus engendering or exacerbating the problem of citizen insecurity. Rocha note: “Increasing drug use requires increasing income,”²⁷ and to earn such income users resort to stealing, mugging or armed robbery. This has encouraged a rise in the number of street gangs, a fact confirmed by police data).²⁸ More gangs generally translate into greater number of crimes. Understandably, as violence in the society increases, so too do the fears of its citizenry. Their insecurity is further heightened when the state is perceived to be uninvolved in dealing with the problem. According to Rocha, in the Managua barrio of Renato Schick, for example, where youth gangs, drugs and crimes are pervasive, the inhabitants there “were all unable to mention a single activity carried out by the Youth Secretariat or the Ministry of the Family in their *barrio*,”²⁹ (both with relevant mandates), to address the problem. The state presence is weak or non-existent when it comes to addressing this issue.

It has been suggested that these street gangs are a reflection of the developments amongst the political classes which, with the demise of the revolutionary project have resorted to a form of,

corporativism, a segmentation into interest groups according to ideology, profession or territory....Such corporatism also had its expression in the *barrios*, where just like the various association of various bureaucrats, intellectuals and technocrats, young people sought a group that could protect them against the collective other....The gang provided security because each member felt protected by the group, and provided a community service: defending a territory and its citizens against recurrent attacks from enemy gangs.³⁰

The behaviour of the street gangs therefore, is seen to be a reflection of the behaviour of the political gangs, each out for its own interests, a sense of “us” versus “them” the dominant principle governing relationships. Notions of community are de-emphasised

for new forms of individualism and competition, all very much in keeping with the principles of the market.

The corruption of civil society is also made possible by the corruption of the organizations designed to empower it. As James Mittelman and Robertson Johnston observed, the theoretical claims in support of a strong society is that it is a countervailing force to state power, however, “the very idea of civil society is becoming corrupted, torn away from the theories that spawned it.”³¹ What is become increasingly evident is that an array of players, including both public entities (state and interstate agencies) and private organizations “seek to develop civil society, to appropriate not only the concept but also the real activities juxtaposed to the public sphere.”³² In the Nicaraguan context this is seen in the flourish to establish new NGOs in the wake of Hurricane Mitch. Many of these new organizations (all of which are ostensibly geared to assisting women and children, or promoting development) were actually set up by politicians (and even the daughter of former President Alemán) in order to take advantage of funds from international donors.³³ Realizing that Western nations were reluctant to give aid to governments plagued with corruption, but are more open to assisting civil society directly (an aim of the drive to democratize the developing world and to empower the grassroots), enterprising politicians and other state actors have jumped on the bandwagon and have found the NGO alternative to be lucrative business.

Crime is only one way in which corruption affects civil society. With state resources directed towards private accumulation by state managers, the public interest and thus democracy is undermined. Furthermore, corruption directly affects people’s livelihoods through its impact on the economy. Economists have oft warned that corruption “increases transaction costs, reduces investment incentives, and ultimately results in reduced economic growth.”³⁴ As the Vice-President of the Nicaraguan National Agricultural Union (UNAG) complained, state corruption and the national obsession with it meant that attention had been detracted from the very critical problems facing the country, such as the crisis facing farmers--their growing impoverishment, their lack of access to credit, and the loss of confidence of international investors who had adopting a wait-and-see approach in light of the various scandals rocking the country.³⁵

Corruption, combined with the deepening economic crisis, in turn has negatively affected political participation as citizens concentrate on meeting immediate survival needs. According to one poll conducted on the corruption question during the Alemán period, 77 percent of Nicaraguans questioned Alemán’s integrity³⁶ while 85.6 percent expressed the belief that corruption has affected them.³⁷ One of the ways in which corruption’s effect is noted is in the “disaffection” amongst the citizenry, or a withdrawal from political activism. According to Wiliam Vado, despite the “many social tragedies” in Nicaragua today, there is a high degree of “apathy and social demobilization” as no-one seems motivated “to fight against a socio-economic system that batters them on a daily basis...”³⁸ He wrote:

Violeta Chamorro’s government liquidated almost all of the state-run industrial and agricultural companies, even selling off the railway system’s trains and tracks for scrap metal, paying people to rip up the rails. Arnoldo Alemán’s government sold off the state electricity and telephone companies at derisory prices and pillaged the public coffers. And Enrique Bolaños’s government’s

budgetary priority is to pay local bankers usurious interest on the treasury bonds issued to cover the enormous fraud perpetrated by the owners of five bankrupt banks. US, Canadian, European and Taiwanese companies conduct a permanent pillage of our national wealth—timber, minerals, and fishing and water resources—while rewarding their workers with miserable wages. The rich don't pay taxes. And ministers and magistrates, legislators and top public officials from all state branches earn the kind of salaries more associated with developed countries. Yet while all of this has been going on—and it still is—the three governments have enjoyed relative social stability. The reasons for such passivity are complex....³⁹

Such apathy is particularly striking in a country once highly mobilized due to its revolutionary struggles against the decades long Somoza-dictatorship. Amongst the reasons listed for the lack of social mobilization is the corruption of the political leadership.

People “delegate or renounce their individual sovereignty....guided by the logic that ‘politics is corrupt,’ politics won't put bread on my table...As a result, they totally delegate national decisions to the political class they so repudiate.”⁴⁰ Vado cites the CAFTA debates as an example of mass apathy.⁴¹ Despite the potentially horrendous impact of the agreement on people's lives, despite the lack of protections afforded them in the agreement, and despite the abandonment of promises by political leaders such as Daniel Ortega to forge laws to protect the country's vulnerable sectors, Nicaragua approved the CAFTA agreement without any protests marring the announcement of the approval.⁴² He notes that from the perspective of the political classes this apathy is a great advantage, as an “aware and organized” political class would endanger [their] ... privileges. That's why they so frequently recur to the argument that they were elected as majority parties through the ballot box and therefore have the right to do whatever they like.”⁴³

Anti-Corruption Measures

Several measures have been adopted to combat corruption. As a matter of fact, the most corrupt regime adopted many of them. Under Alemán, in 1999 Nicaragua ratified the Inter-American Convention Against Corruption and established, amongst other institutions, the *Consejo Cívico para la Integridad*. In effect, an officially created NGO, the Council consisted of two members of the civil society, a member of the Catholic Church, the Vice-president of the country, a supreme court judge, the Attorney General, the Comptroller and the Ministers of Government and Education. Its mandate was to promote integrity in governance. The possibility of any of these having a positive impact is not very high. Nevertheless there has been some degree of progress against corruption as Alemán and Jerez are currently in jail, as are many of their cronies. As well, others of their collaborators have fled the country fearing prosecution.

But it must be noted that the drive to uncover the extent of Alemán's crimes and to punish the criminals have had more to do with competition between political elites (specifically the Bolaños versus Alemán factions) to assert dominance over the PLC. The consensus is that thus far, Alemán, despite being in prison, still exerts a great deal of power in the country, and still represents “[t]he hands that rock...just about everything.”⁴⁴ As a matter of fact, he is still considered the power behind the PLC, and

has a great deal of influence over the country's political direction. After all, many of the state institutions and officials are of his making and he still has their loyalty.

In the final analysis, a state lacking the capacity or adequate mechanisms to face these challenges, will lead to the deepening of the problems. The very institutions of the state which are supposed to combat the corruption problems are themselves under suspicions of corruption. The re-mapping of the region through the various trading arrangements, does not offer an alternative to this problem. Because the foundations of liberalization are constructed on the premise of the erosion of state power, it will actually exacerbate the dilemma. Weak state institutions will have neither the resources nor the authority to confront the corruption's assaults, and the greatest losers in this process will be those on society's margins.

ENDNOTES

¹ Penny Green and Tony Ward, *State Crime: Governments, Violence and Corruption* (London and Sterling, VA.: Pluto Press 2004), pp.11 and 13.

² Green and Ward, *State Crime*, p.11

³ P. de Leon, *Thinking About Political Corruption* (Amonk, NY and London: M.E. Sharpe, 1993), p. 211, quoted in Green and Ward, *State Crime*, p. 13.

⁴ Green and Ward, *State Crime*, p.16

⁵ Bertelsmann Transformation Index, Country Report, Nicaragua,” *Shaping Change: Strategies for Development and Transformation*
<http://www.bertelsmann-transformation-index.de/101.0.html?&L=1>
Retrieved September 11, 2005

⁶ Bertelsmann Transformation Index, Country Report, Nicaragua,” *Shaping Change*.

⁷ David Dye and David Close, “Patrimonialism and Economic Policy in the Alemán Administration,” in David Close and Kalowatie Deonandan, eds., *Undoing Democracy: The Politics of Electoral Caudillismo* (Lanham, MD.: Lexington Books, 2004), p.121.

⁸ “Bearing the Burden of IMF and World Bank Policies: Downsizing, Privatization, Labor Flexibility, Wage Cuts—Selected Summaries of IMF/World Bank Country Policies,” *Multinational Monitor* Vol. 22, No. 9, September 2001, <http://multinationalmonitor.org/mm2001/01september/sep01corp1s.html>
Retrieved September 11, 2005

⁹ Salvdor Martí i Puig, “The External Debt of Nicaragua and the Alemán Liberal Administration: Images and Realities,” in David Close and Kalowatie Deonandan, *Undoing Democracy: The Politics of Electoral Caudillismo* (Lanham, MD.: Lexington Books, 2004), p. 152.

¹⁰ Katherine Isbester, “Nicaragua 1996-2001: Sex, Corruption, and Other Natural Disasters,” *International Journal* LVI, no. 4 (Autumn 2001): 638.

¹¹ In 2003 there was an attempt to nationalize water, but it was defeated by the National Assembly.

¹² Quest for Peace, “The Politics of Deprivation: Water Privatization in Nicaragua,” *Quest for Peace*, http://www.quixote.org/quest/advocacy/water_report.html Retrieved September 11, 2005.

¹³ Quest for Peace, “The Politics of Deprivation.”

¹⁴ William Grigsby Vado, “Why So Little Social Mobilization,” *Envio*, Vol. 24, No 288, July 2005, p.19.

¹⁵ See UNDP, *Human Development Report, 2001* and World Bank Group, *World Development Indicators Database 2002* <<<http://inweb18.worldbank.org/>>>

¹⁶ “The Mega-Salary Scandal Fuelled by World Bank Study,” *Envio* Vol. 24, Number 291, October 2005, p. 9.

¹⁷ The loyalty of many other public officials were guaranteed through massive salary increases which supposedly came from party funds, but which evidence has emerged showing that they more likely were state funds laundered through the Nicaraguan Democratic Foundation, an organization controlled by Alemán and his cronies. David Close, “President Bolanos Runs a Reverse: Or How Arnaldo Alemán

Wound Up in Prison,” in David Close and Kalowatie Deonandan eds., *Undoing Democracy: The Political of Electoral Caudillismo*(Lanham, MD.: Lexington, 2004), p. 170.

¹⁸ See Close and Deonandan eds., *Undoing Democracy*.

¹⁹ Nitlapán-Envío Team, “The Hands that Rock...Just About Everything,” *Envío* Vol. 24, No. 292, November 2005, p. 5.

²⁰ Nitlapán-Envío Team, “The Hands that Rock,” p. 5.

²¹ It must be noted that the Pact was not the only means by which Alemán controlled state institutions. According to critics he kept public officials under his control through direct financial payments or by offering them perks such as tax-free imported vehicles. (See León Núñez, “Alemán Still Controls the PLC and Will Hand Ortega the Victory,” *Envío* Vol. 24, No. 292, November 2005, p. 13).

²² The details of this fraud are taken from Close, “President Bolaños Runs a Reverse, p. 174-175.

²³ Close, “President Bolaños Runs a Reverse, p. 175.

²⁴ Graham Harrison, “Corruption as ‘Boundary Politics’: The State, Democratisation, and Mozambique’s Unstable Liberalisation,” *Third World Quarterly* Vol. 20, No. 3, 1999, p. 543.

²⁵ Toni Solo , “Neo-liberal Nicaragua: A New Banana Republic ,” *CounterPunch* August 7, 2003 <<http://www.globalpolicy.org/globaliz/special/2003/0808nicaragua.htm>> Retrieved September 11, 2005.

²⁶ Jose Luis Rocha, “The *Traido*: A Key to Youth Gang Continuity,” *Envío* Vol. 24, No.. 288, July 2005, p. 39.

²⁷ Rocha, “The *Traido*.” p. 39.

²⁸ Rocha, “The *Traido*.” P.37.

²⁹ Rocha, “The *Traido*.” P. 41

³⁰ Rocha, “The *Traido*.” P.39.

³¹ James H. Mittelman and Robert Johnston, “The Globalization of Organized Crime, the Courtesan State and the Corruption of Civil Society,” *Global Governance* 5, No. 1, January-March 1999, p. 119.

³².Mittelman and Johnston, “The Globalization of Organized Crime,” 119.

³³ See Kalowatie Deonandan, “The Assault on Pluralism,” ,” in David Close and Kalowatie Deonandan, eds., *Undoing Democracy: The Political of Electoral Caudillismo*(Lanham, MD.: Lexington, 2004), p. 56.

³⁴.Seligson, “The Impact of Corruption,” 409.

³⁵ Erving Sanchez Rizo, “Lucha anti-corrupción no debe postrar la Economía,” *El Nuevo Diario*, May 10, 2002. In early 2001, for example, the Dutch suspended their aid to the municipality of Chinandega after it came to light that public funds were improperly used.

³⁶ Infopress Central America, *Central America Report*, May 14, 1999, p. 2.

³⁷ Infopress Central America, *Central America Report*, May 12, 2000, p.8.

³⁸ Vado, “Why So Little Social Mobilization,” p. 19

³⁹ Vado, “Why So Little Social Mobilization,” p. 20.

⁴⁰ Vado, “Why So Little Social Mobilization,” pp.24-25.

⁴¹ Vado, “Why So Little Social Mobilization,” p.25.

⁴² Nitlapán-Envío Team, “The Hands that Rock...Just About Everything,” p. 1.

⁴³ Vado, “Why So Little Social Mobilization,” p.25.

⁴⁴ Nitlapán-Envío Team, “The Hands that Rock...Just About Everything,” p. 1