

**GOVERNANCE, CORRUPTION, AND CAPITAL OUTFLOW  
AND UNDERDEVELOPMENT IN NEPAL**

**A Dissertation**

**Submitted to the Faculty of Humanities and Social Sciences of  
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Degree of  
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in  
SOCIOLOGY**

**Submitted by**

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**April 2023**

## LETTER OF RECOMMENDATION

We certify that this dissertation entitled **GOVERNANCE, CORRUPTION, AND CAPITAL OUTFLOW AND UNDERDEVELOPMENT IN NEPAL** was prepared by Mr. **DIPESH KUMAR GHIMIRE** under our supervision and guidance. We hereby recommend this dissertation for final examination by the Research Committee of the Faculty of Humanities and Social Sciences, Tribhuvan University, in fulfillment of the requirements for the Degree of **DOCTOR OF PHILOSOPHY** in **SOCIOLOGY**.

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Date: 23 April 2023

## DECLARATION

I hereby declare that this Ph.D. thesis entitled **GOVERNANCE, CORRUPTION, AND CAPITAL OUTFLOW AND UNDERDEVELOPMENT IN NEPAL** submitted by me to the Office of the Dean, Faculty of Humanities and Social Sciences, Tribhuvan University, Nepal, is an entirely original work. This thesis was prepared under the supervision and guidance of supervisor Assoc. Prof. Dr. Tikaram Gautam and co-supervisor Dr. Dinesh Prashain. I have made do acknowledgements to all ideas and information borrowed from different sources while writing and preparing this thesis. The result presented in this dissertation has not ever been presented or submitted anywhere else for the award of any degree or for any other purposes. No part of the contents of this thesis has ever been published in the form or a part of any book. I am only responsible if any evidence is found against my declaration.

Dipesh Kumar Ghimire

Date: 23 April 2023

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## ABSTRACT

The notion of development is considered as a process of enhancing and enlarging the social and economic conditions and people's choices. Nepal's economic, and social development status is very poor. The World Bank shows that Nepal is one of the poorest countries around the world. It ranks 195<sup>th</sup> in per capita GNP out of the 216 countries. National Planning Commission shows that 17.4 percent of Nepal's population is multidimensionally poor. During the latter half of the decade, the growth rate was negative for most of the years. In the years 2002/03 and 2016/17, the growth rate was reported to be negative. Nepal has a total public debt of Rs. 627.79 billion in Nepal. The debt increased by 776 billion just during the last three years, which is an 88.5 percent increase. Similarly, 580.34 billion net business loss has been seen with an increase of 476 percent over the last three years. Based on the indicators, Nepal's economic, infrastructural, and social development status is weak.

This research tries to explore the causes of the underdevelopment of Nepal. There are various theories defining the reason for the poor status of development. The Nepali society was a closed society during the Shah and Rana regimes. The status of economic, physical, and social development during the time was poor. Democracy was established in Nepal in 1951. In Nepal, the planned development started from 1956 as a periodic plan. However, the status of physical development—including road, hydroelectricity, irrigation, social development status including health and education—is poor. The poverty-alleviation drive so far has been far from effective. Though the state has spent a huge amount of money, the development status is poor both in terms of quality and quantity. Many projects are taking decades to complete. Overall, the development is slow and of poor quality. The situation could not progress only during the autocratic Rana regime and no-party Panchayat Regime, but also during the democratic and republican regimes. The expectation of Nepalese people towards development has not been fulfilled. From 1953 on, 14 periodic plans came into implementation in Nepal and the 15th periodic plan is in progress. However, the goals and targets set by these periodic plans have not been fulfilled. As a result, the country is not able to take a good pace towards development. Rather, the country has been mired in the vicious circle of underdevelopment.

In this situation, this study attempts to answer the following research questions: Is Nepal failing to achieve development outcomes? What kind of socio-

historical context has led to underdevelopment in Nepal? How do weak governance, corruption, and capital outflow play a role as barriers to the development progress of Nepal? And what are the conditions that determine the development or underdevelopment of a country like Nepal?

To find out the answers to these questions, some specific objectives were formulated. The general objective of this research was to identify the obstacles to development in Nepal. The specific objectives were to explore the history of derails of development in Nepal, to describe the role of governance, corruption, and illicit capital outflows in underdevelopment in context of Nepal, to examine how a country like Nepal becomes underdeveloped, and finally, to find out the socio-historical context and causes of underdevelopment in Nepal.

This research has investigated the historical reason for underdevelopment of Nepal. The study has employed a qualitative historical method to study and analyze the nature and inclination of the historical under development of Nepal. An incident that takes place at a time in the history of a country or society has a long-term impact on the status of that society. Thus, through historical facts and information, it has been tried to identify the obstacles to the development of Nepal. The information was collected through the primary and secondary sources materials. Interviews were held with historians and intellectuals to verify historical data and information and theoretical sampling method was used for this. Similarly, the saturation method was employed for determining the sample size.

This study has analyzed the development trend of Nepal since 1769 when Prithvi Narayan Shah built the base of unification of the country until 2020. The analysis has included the governance system, corruption status and attempts to control corruption, and the trend of capital outflow. During the study, it was found that the weak governance system of the country in every regime, high corruption, and rapid capital outflow from the country led to underdevelopment of the country.

Not only unequal exchange and relationship with core or developed countries as argued by the neo-Marxist scholars like AG Franck and Samir Amin, but the role of internal factors also as said by Max Weber and WW Rostow are important as well. The internal factors—including weak governance, a high level of corruption, and illicit capital outflows from the country equally—contributed to underdevelopment in Nepal. Kleptocracy and state capture, which are vital characteristics of the governance

system of Nepal, play an important role as well. Kleptocrats send money looted from the national treasury abroad through state capture. Capital outflows existed throughout every regime in Nepal. This study has concluded that capital outflows from Nepal have exacerbated underdevelopment of the country.

Thus, this study concludes that the weaknesses of a country include a weak governance system, increasing corruption, and the inability to prepare the environment of investment in the country. The countries which worked to minimize these kinds of weaknesses and to create an investment-friendly environment have rapidly economically progressed while the countries unable to do so have been pushing themselves into a downward spiral of corruption and underdevelopment. Singapore reformed the governance system and strengthened public institution to reach the heights of development within a generation. The reason behind the progress of the countries, Malaysia, South Korea, Singapore, and Taiwan, which are also called the four Asian Tigers, is promote good governance, and minimization of corruption.

In the case of Nepal, weak governance, a high level of corruption, and capital outflow are major reasons to get entangled in a vicious circle of corruption. Weak governance, corruption, and capital outflows vitiate the investment environment. In the history of Nepal from 1769 to 2020, the political regime changed 7 times. However, the governance system remained unchanged. There has not been any solid initiation during any regime for improving the governance system, minimizing corruption, and controlling capital outflows from the country. As a result, the development status of the country could not improve with the change in regime in the country.



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## ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
ADC	Aide-de-camp
AG	Attorney General
BOOT	Build-Own-Operate-Transfer
CA	Constitution Assembly
CBS	Central Bureau of Statistics
CEO	Chief Executive Officer
CIAA	Commission for the Investigation of Abuse of Authority
CIJ	Centre for Investigation Journalism
CPA	Comprehensive Peace Agreement
CPI	Corruption Perception Index
CPN (MC)	Communist Party of Nepal (Maoist Center)
CPN (UML)	Communist Party of Nepal (United Marxist and Leninist)
CPN	Communist Party of Nepal
CTEVT	Council for Technical Education and Vocational Training
DFID	Department for International Development
DoFE	Department of Foreign Employment
DRI	Department of Revenue Investigation
EC	Election Commission
EPS	Employment Permit System
EU	European Union
FDI	Foreign Direct Investment
FinCEN	Financial Crimes Enforcement Network

FNCCI	Federation of Nepalese Chambers of Commerce and Industry
GDP	Gross Domestic Product
GNI	Gross National Income
GNP	Gross National Product
GoN	Government of Nepal
HDI	Human Development Index
HDR	Human Development Report
IC	Indian Currency
ICIJ	International Consortium of Investigation Journalism
IFFs	Illicit Financial Flows
ILO	International Labor Organization
KG	Kilogram
KM	Kilometer
KUKL	Kathmandu Upatyaka Khanepani Limited
KW	Kilowatt
LC	Letter of credit
MNCs	Multi-National Corporations
MoE	Ministry of Education
MoF	Ministry of Finance
MW	Megawatt
NAC	Nepal Airlines Corporation
NC	Nepalese Currency
NC	Nepali Congress
NEA	Nepal Electricity Authority
NESP	National Education System Plan

NGO	Non-Government Organization
NICs	Newly Industrialized Countries
NLSS	Nepal Living Standards Survey
NOL	No Objection Letters
NPC	National Planning Commission
NRB	Nepal Rastra Bank
NVC	National Vigilance Centre
OAG	Office of the Auditor General
OECD	Organization for Economic Co-operation and Development
PAC	Public Account Committee
PERC	Public Expenditure Review Commission
PFI	Political Freedom Index
PSC	Public Service Commission
RDP	Rural Development Program
RNA	Royal Nepalese Army
RNAC	Royal Nepal Airlines Corporation
RPP	Rastriya Prajatantra Party
SDGs	Sustainable Development Goals
TI	Transparency International
TIA	Tribhuvan International Airport
TNCs	Trans-National Corporations
UGC	University Grant Commission
UK	United Kingdom
UN	United Nations
UNDP	United Nation Development Program

UNMIN	United Nations Mission in Nepal
UNODC	United Nations Office on Drugs and Crime
USA	United States of America
USD	United States dollar
USOM	United States Operation Mission
USSR	Union of Soviet Socialist Republics
VAT	Value Added Tax
WB	World Bank

# CHAPTER I

## INTRODUCTION

### 1.1 Introduction

The notion of development is considered as a process of enhancing and enlarging the economic, social conditions, people's needs and choices. However, many a time development is also defined as industrialization, economic growth, and modernization. It has been six decades since planned development started in Nepal. The state has spent a huge amount of money though the development status is poor. Nepal's economic, physical, and social development status remains very poor (Panday, 1999). In this context, this study has tried to explore the causes of the underdevelopment of Nepal and whether the weak governance system of the regime, high level of corruption, and rapid illicit capital outflow have role on underdevelopment in Nepal.

There are various theories defining the development of underdevelopment in the context of various countries. Some theories emphasize external causes like unequal exchange relationship with core or developed countries and dependency while other theories emphasize the internal reasons, mainly the geography. However, this study has tried to define the causes of underdevelopment relating to weak governance, high levels of corruption, and capital outflow. This chapter begins by articulating the background and status of development and governance in Nepal. Furthermore, it describes the research problems, objectives, research questions, and significance of the study too. This chapter ends with the organization of the study.

### 1.2 Study Context

Nepal is a poor country, where there are many features of underdevelopment (Luitel, 2009). A report by the World Bank (2017) shows that "Nepal is one of the poorest countries around the world." It ranks 195<sup>th</sup> in per capita GNP out of 216 countries and life expectancy is 103<sup>rd</sup> position out of 118 countries. Nepal has a negative per capita growth. It exhibits many of the characteristics of underdevelopment, backwardness, and weak state too (World Bank, 2017). For instance, unequal exchange relations in the export of primary products and import of manufactures, extreme economic inequality in the country, domination of the foreign financial capital, etc. are all to be found common characteristics of underdeveloped

countries. Similarly, Nepal's level of development is in weak stage which is characterized by an unskilled workforce and weak managerial capacity. The country is also unable to develop industrial development and transform agricultural productivity. NPC (2021) shows that more than 17.4 percent of the population of Nepal are multidimensionally poor.

According to the annual economic survey reports, during the first half of the 1990s when the GDP grew at an average rate of 5 percent or so, the agriculture sector grew at only 1.6 percent. During the latter half of the decade, the growth rate was negative for most of the years. In the years 2002/2003 (MoF, 2003) and 2016/17 (MoF, 2017) the growth rate was negative. The country's overall balance of payments turned into a deficit of 9.27 billion rupees in the first five months of 2017/18 (MoF, 2018). Similarly, the total trade deficit in these five months expanded by 13 percent to Rs 397.79 billion (NRB, 2018).

There was still a total public loan (debt) of Rs. 627.79 billion, 38.1 percent is internal and the remaining 61.9 percent accounts for an external loan (MoF, 2018). The loan was 843 billion rupees by mid-March 2018 (MoF, 2018) which increased to 1.5 trillion rupees in mid-March 2021. The loan increased by 776 billion just during the last three years, which is an 88.5 percent increase (MoF, 2021). According to Nepal Rastra Bank (2021), Rs. 580.34 billion net business loss has been seen with an increase of 47.6 percent. The balance of payments remains at a deficit of Rs. 150.38 billion. The loan of the country has doubled in the last three years.

With a degraded economic status of the country, the state of good governance is also degrading while the level of corruption has been increasing (Panday, 2018). Various studies (Dahal et al., 2000, Bajracharya, et al., 2019) show that the prevailing weak governance and high level of corruption are the major factors for development of underdevelopment in Nepal. A study conducted by Transparency International Nepal (2015) shows that there is very weak status of the state of governance in Nepal. According to the study, service recipients pay extra and illicit money to receive service from the government. Similarly, according to another study carried out by Transparency International Nepal, people experienced corruption and they paid bribe to seek services from for their works in every government office (TI Nepal, 2016).

Corruption has been flourishing in every sector in Nepal such as import, export, public expenditure, procurement process, service delivery, development activities, and project implementation process among others (TI, 2013). Dhungel (2018) argues that it is very difficult to find any sector, government agency and government personnel who are not involved in corrupt behavior. According to TI (2013), corruption has thrived chronically and structurally in Nepal across dominated bureaucracy, the politics, executive organ, judiciary, legislative, NGOs as well as donors and private sector. According to the Corruption Perception Index (CPI) published annually by Transparency International, Nepal is listed among the most corrupt countries in the world. According to the report of TI, Nepal scores 33 out of 100 and stands at 117<sup>th</sup> place out of 179 countries. In South Asia, there are Pakistan, Bangladesh, and Afghanistan after Nepal in most corrupt countries list (TI, 2021).

Dahal et al. (2000, p. 13) have argued that “Nepal’s efforts toward economic growth and development have been overwhelmed by increasingly acute and rampant corruption that has marginalized the prospects for good governance”. Rent-seeking politics, corrupt bureaucracy and excessive smuggling have jeopardized the economic growth and development of Nepal (Dahal, 1998). Bajracharya et al. (2019) have argued that political interference and increasing corruption within the government have undermined development efforts in Nepal. Because of the high level of corruption, the project implementation has deteriorated, and expected outcomes have not been achieved. The cycle of development of Nepal has been hampered by the high level of corruption (Panday, 2018). Panday further argues that corruption erodes economic growth, expands the inequality between rich and poor, and hampers the investment friendly environment.

The political elite is a group of people in the government institutions such as Prime Minister, councils of ministers, upper and lower houses that controls the government apparatus in Nepal. These political elites in Nepal are also responsible for the development of underdevelopment of the country (Upadhyaya, 2003). He further argues that the members of the parliament, councils of ministers, federal and province ministers consume a huge amount of public money as salaries at the expense of Nepal’s development. The Nepali bureaucratic, political, and business sectors are seriously affected by, and inextricably involved in corruption. It is really a great challenge to development of modern Nepal. No work is done without corruption in

the public service delivery and development works. Corrupt activities have adverse impacts on the development activities as well as economic progress and socio-economic and infrastructural development of the country (Subedi, 2005). The rate of illicit capital outflow from Nepal in turn, is also increasing. The increasing illicit capital outflow has created a lack of investment required for development in the country which is promoting the development of underdevelopment in the country (Acharya & Gyawali, 2074).

In these circumstances, this study has made attempts to find out the effect of weak governance, corruption, and capital outflow in the development process of the country. It has tried to find out the answer to the questions as why Nepal fails to achieve economic growth and development and how does a nation-state like Nepal become underdeveloped. This context draws attention of scholars towards understanding the development of underdevelopment in the context of Nepal. And these all facts and figures of Nepal provide the good platform to conduct the study about the causes of underdevelopment.

### **1.3 Statement of the Research Problem**

Development has become the most contentious and important issue in Nepal. While analyzing the literature two major obstacles to development of Nepal have been identified. The first one is the internal and second one is the external causes of underdevelopment. Many scholars have focused on the internal causes such as geographical setting and status of modernization while others have focused on the external causes such as unequal exchange and dependency.

First, the modernization theory focuses on internal causes of underdevelopment. This theory must allow the western industrial countries to bring in the necessary capital, industrial technology, and expertise through Trans-National Corporations (TNCs) investments, foreign loans, and assistance. Such a formula promises to upgrade the traditional societies to at least at the stage of "take-off" where they can nurture the resources necessary for a fully developed industrial society (Rostow, 1960). In the same way, while seeing theoretically, Max Weber gives emphasis on the internal factors for lack of development of a country. Weber has specially focused on the internal factors while defining the rise of Europe and its prosperity (Weber, 1968). This school of thought interprets economic backwardness



or underdevelopment as an initial stage in a spontaneous evolution toward economic maturity, so that developed and underdeveloped countries coexist without important causative links.

Underdevelopment is closely tied to the dependency theory developed by neo-Marxist scholars to interpret lack of development in certain regions of the world. The intercourse between the core and the periphery countries always results in the development of the center at the expense of the periphery (Sunkel, 1973). The exploitation is engendered by the transfer of profits through various channels from the periphery to the center. These unequal relations make the development of the periphery impossible and promote underdevelopment in them (Frank, 1969). This school of thought overemphasizes the effects of external causes on underdevelopment with little attention directed towards internal causes. This theory is not able to analyze and search the reasons for underdevelopment. The theoretical review also shows that the dependency, world system, and development of underdevelopment theories have not spoken on how the domestic policies or condition affect the development activities and promote underdevelopment in these countries.

Planned development began from 1956 in Nepal. So far, 14 periodic plans have been implemented. The 15<sup>th</sup> Five Year Plan is currently being implemented. The goals set by these plans seem to be partially achieved. For example, since the 9<sup>th</sup> and 10<sup>th</sup> plan it had been aimed at poverty alleviation. However, still large number of populations is below the poverty line in Nepal. There seems to be no in-depth study of the role of weak governance, corruption, and capital outflow behind the failure to meet the targets set by such plans.

In this context, this research focuses on whether policy and its implementation and state institutions and their performance play a role in the development of underdevelopment of any country or not. There is theoretical gap on the study for finding the causes of development of underdevelopment in Nepal. It is not clear whether internal or external causes are playing a role in underdevelopment of the country. Basically, are the Third World countries underdeveloped because of unequal trade relations or are there internal causes as well? This study tries to answer the above-mentioned question. Similarly, there has not been any empirical study on the role of weak governance, increasing corruption and capital outflow for the underdevelopment of Nepal. This study tries to explore the role of these factors.

Despite huge amount spent annually in the name of development, Nepal is being trapped more and more into the vicious circle of underdevelopment. What is the reason for not getting positive results of development? There has not been considerable research work on getting an answer to this question.

It is important to study how poor governance, high level of corruption, and illicit capital outflow are playing an important role to remain underdeveloped even if the governments of different regimes are rhetorically saying they are planning for the development of Nepal. This is broadly the research problem of this study. This broader research problem is further specified with crucial research questions. This research therefore expands the broader research problem into the following research questions:

- a) How is the nature of governance and what are its key features across the history of 250 years of Nepal?
- b) How are poor governance, corruption, and illicit capital outflow associated with the nature of governance?
- c) In what way corruption, capital outflow and underdevelopment are associated in the developmental history of Nepal?
- d) Whether the corruption and capital outflow induced through poor governance led to underdevelopment in Nepal?

#### **1.4 Research Objectives**

Nepal's long-term development goals have not been met. The main objective of this research is to explore out the historical patterns of changes in relation to governance and development and explain whether there is association between poor-governance, corruption, capital outflow and underdevelopment across the history of modern Nepal. This general objective of this research is expected to fulfill on the basis of the following specific research objectives:

- a) To examine changes in governance and identify the pattern of change in relation to governance practices focusing on development across the history of modern Nepal.
- b) To discuss in what way governance, corruption, and capital outflow are associated in the history of Nepal.

- c) To explain and analyze the association between governance, corruption, capital outflow and underdevelopment in the history of development in modern Nepal.

### **1.5 Significance of the Research**

Various attempts are being made in Nepal for advancing the development process in a well-managed and planned way. The National Planning Committee was established in 1936 during the Rana regime (Pande, 2044). The budget allocation process with details of income and expenditure started after the establishment of democracy in 1951 and the budget was focused on rural development (Pathak, 2017). Rural Development Program (RDP) was brought by the government for improving the state of health, education, and other community developmental activities in Nepal (Ghimire, 2057). Similarly, planned development started in 1956. It has been 6 decades since the formulation of planned development. The 15<sup>th</sup> plan (2019/20-2023/24) is in implementation at present. Various studies show that the planned development activities adopted for development of Nepal have not met the targets set. Various attempts have been made for positive change in Nepal's economic growth and development. The question is why positive change is not experienced. Despite the huge amount spent, the development status is very weak and poor. In this context, this study has made attempts on why there is poor development in Nepal and how governance, corruption and capital outflow are playing role for this.

While studying various literatures and policies about the poor status of development of Nepal, two conclusions have been made. The first reason is the external factors played an important role in promoting underdevelopment in Nepal. Mishra (1987) gives emphasis to the socio-political relation of Nepal with India and British India as the reason for underdevelopment of Nepal. This school of thought focuses on unequal exchange and trade relations to play vital role for this. The next one is the internal factors has an important role in promoting underdevelopment in Nepal. Panday (2009) considers the internal causes of Nepal as a major constraint to development.

Important factors that have remained unidentified while recognizing the causes of underdevelopment of Nepal are governance, corruption, and capital outflow. While the state institutions are weak in terms of policy making and implementation,

the whole development process gets impeded. Similarly, the high level of corruption and irregularities breeding rapidly all over the country also equally relate to poor development status in Nepal.

Diagnosing the problem is a prerequisite to treatment. Hence, the research was significantly focused on the problem part so that it would be easier for future researchers and policy makers to find a better solution. The conclusion of this study is believed to be useful to make development plans in future and achieving more and more benefit through implementation of these plans. This study shall be a good material for studying about the development of underdevelopment in Nepal as well. This study formulates a theoretical and conceptual framework based on its findings, and it will help in understanding similar other problems better.

### **1.6 Organization of the Dissertation**

This thesis is divided into six chapters. The first chapter gives a brief introduction to the thesis and the second chapter presents a review of relevant literature. The third chapter discusses research methodology. Chapter four critically examines the development and its fragility in Nepal. Chapter five discusses the causes of underdevelopment in Nepal. Chapter six provides a theoretical discussion summary, and conclusion of the study. The final part of this thesis includes reference cited in this study and Annexes.

## **CHAPTER II**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

There are considerable debates and discussions on governance, corruption, development, and underdevelopment. This chapter begins with examining some of these concerns and debates and defines the key terminologies utilized in the research and then discusses governance, corruption, capital outflow, development, and underdevelopment. It tries to connect these variables along with their underlying pillars and critique too. The final section of this chapter includes the theoretical framework of the research showing relationship and interconnection among the weak governance, corruption, capital outflow with development and underdevelopment.

#### **2.2 Understanding Governance Corruption, and Capital Outflow**

##### **2.2.1 Governance**

The word governance was used by Plato to explain about the system of rule (Kjaer, 2004). Governance is the act of governing or ruling and it is also deemed as the agency, mechanism, and procedure of governing (Ilyin, 2013). According to Bell and Hindmoor (2009) governance is the strategies, tools and relationships used by governments to help govern.

According to UN (n.d.), governance is “the exercise of political, social, economic, and administrative power and authority in the management of a country’s affairs at all levels. It includes the processes, institutions, and mechanisms through which citizens express their interests, exercise their legitimate rights, responsibilities and facilitate their differences.” According to MIREST Nepal (2013) governance is the exercise of political authority to manage a nation's activities, and it includes accountability, citizen engagement and participation in the decision-making process, legitimacy, transparency, and responsibility.

The term governance is the system, mechanism, approach, and processes that guide the procedure of decision making and execution of decisions made by elected peoples’ representatives (Kiskel, 2011).

A traditional meaning of governance was related to the function of government which has been changed after the late 1980s. Burns et al. (2016) examined that the concept of governance has been extended to the functions of the private, public and the civil society after 1980s. He further extends that the governance implies to the dynamic processes involved in the execution and supervising, policy making, decision-making process and system including priority setting, operating and accountability.

While reviewing the literature we can define the term governance as the system and process of the control and governing approaches of the state or a company or an organization.

### **Good Governance**

The concept of good governance was developed to lower the negative effects of Weak governance mechanisms and processes. The word “good governance” was first used in a report *"Sub-Saharan Africa: from Crisis to Sustainable Growth: A long-term perspective"* by the World Bank in 1989. The World Bank (1989) viewed governance as having three aspects. First, the form of political regime, second, the process by which authority is exercised and finally, the capacity of the government to design, formulate and implement policies and discharge functions.

UN (n.d.) noted that the concept of good governance was closely associated with the encouragement of participatory democracy, engagement of civic society in monitoring process, local leadership, and transfer of power at the grassroots level. Good governance focuses on the optimum participation and engagement of the local people in the formulation of plans as well as the decision-making process affecting their property, lives, and individual freedom. The World Bank considers good governance as an indispensable prerequisite for receiving assistance from any country since the 1990s (World Bank, 1992).

According to the UN Economic and Social Council (2006) good governance is the best public sector management ensuring accountability, transparency, responsibility, right to information, and a legal framework for economic growth and progress. The OPM and CIPFA (2004) argued that good governance gives emphasis to the public interest and strong commitment to integrity, accountability, ethical values, rule of law, transparency, freedom of choice, openness, and civic engagement

in the governance process. Fukuyama (2013) argued that good governance is an approach to government that is committed to creating a system that assures the rule of law, accountability, transparency, effectiveness, efficiency, and civic engagement.

Gisselquist (2012) believes that the notion of good governance includes the people's participation, accountability, transparency, rule of law, property rights, contract prosecution, strong anti-corruption mechanism, strong commitment towards democracy and ensuring the human rights.

According to UNDP and other UN bodies, there are eight major attributes of good governance. Those are people's participation, consensus oriented, accountability, transparency, responsiveness, effectiveness, efficiency, equitable and inclusive and the rule of law (UN, n.a.). Good governance also assures minimizing corruption and respect to the rights of the minority groups in the decision-making process.

ADB (1995) gave more emphasis on four major elements of good governance i.e., accountability, people's participation, predictability, and transparency. The World Bank (1997a) has developed six indicators of good governance which are government effectiveness, political stability and absence of violence, accountability, regulatory quality, control of corruption, and rule of law.

From the above literature, we can conclude that the term good governance is an ideal orientation of governance in the management of a country's resources and affairs for development. It is a combination of the state, the market, and civil society for mutual prosperity. Similarly, it is prerequisites of economic growth and development of the country.

### **Weak Governance**

Weak governance in terms of accountability and transparency void, also often characterized by high levels of corruption and financial mismanagement, can have a damaging impact on development. The weak governance means that the government is unable to implement its given responsibility (UK Department of International Development, 2005). Weak governance is a major challenge to effective service delivery like health, employment opportunities, education, income growth, physical infrastructure development. It is believed that weak governance is the major problem to Weak economic growth and development in the third world. A country is poor and

underdeveloped because it has a weak governance mechanism and process with high level of corruption. According to a report of OECD (2005) poor historically rooted institutions, Weak governance procedures, and high level of corruption essentially lead to poor development and reduce the quality of investment.

The weak governance indicates that situation where the government do not protect to the property and other rights, or not able to provide the basic services like health, education, infrastructures, social protection, prudential surveillance. It is also called the government failure, and it indicates the weak status of socio-economic, political, and civic institutions. We can call such a situation weak governance.

### **2.2.2 Corruption**

In general terms corruption is defined as the misuse of public office or authority for private gain. Many scholars (Amuwo, 2005, Obayelu, 2007) argue that corruption is the abuse and misuse of entrusted power, public position, and resources for private gain. Klitgaard et al. (2000) argues that corruption is charging an unlawful price for a service or using the public authorities and power of office to further illegal objectives. They further stated that corruption includes legal or illegal activities. Ogundiya (2009) characterized corruption as moral decay and abuse of public office in the return for private gain. Salisu (2002) described corruption as mismanagement of public funds for private gain. Duyne (2001, p.3) defined “corruption as a decay in the decision-making process in which a decision-maker consents or demands to deviate from the criterion, which should rule his decision making, in exchange for a reward, the promise or expectation of it”.

Sen (1999) has described corruption as the violation of established rules for personal gains or profit. Altas (1968) defined corruption as a symptom of deterioration of the relationship between the state and the people, which is characterized by bribery, extortion, and nepotism. Hodder-Williams (1985, p.111) examines “corruption as a cancer of development and dysfunction of the political, social, and economic system”.

Coates and Quest (2005) have also defined corruption as the abuse of public office for private gain. They further added that corruption hampers economic growth, social order, and development activities. Della Porta and Vannucci (1999) examined



that corruption is an illegal expense and characteristic of developing nations and totalitarian regimes.

Myrdal (1992) argued that corruption is a behavioral distortion. Likewise, Shah and Schacter (2004) defined corruption as a misuse of public power, authority, and office for private benefit. Jain (2001) also has similar ideas. He argues that corruption is the misuse of public power for private gain by violating the rules of the game. Tanzi (1995) has taken corruption as unfair behavior, act of a public body in favor of themselves and their relatives. Rose-Ackerman (1999) defines corruption as the behavior of a public or private figure in power where he/she becomes irresponsible and misappropriates his/her power for personal benefits.

Lambsdorff (2006) has identified the nine possible causes of corruption which include the quality of regulation, the degree of economic competition, the size of public sector, decentralization of authority and power, values and gender, the structure of government, the impact of culture, and the role of invariable features like history and geography.

### **Types of corruption**

According to the process, medium, amount and type of gain, corruption can be categorized into petty, grand, systemic, administrative, and state capture including others.

#### ***Petty Corruption***

In petty corruption, there is a small amount of gain to the receiver. There is extensive petty corruption in the majority of underdeveloped countries and countries with political transition. According to Schwenke (2005) petty corruption is found in major public service providing offices like revenue office, land administration, judiciary, police, general administration, and other offices that provide goods and services to public in a regular basis. Administrative corruption is also near to petty corruption (Coates & Quest, 2005).

#### ***Grand Corruption***

Grand corruption incorporates the exchange of a big amount of money between giver and taker. This kind of activity is usually found in the policy or top level of authorities with controlling power. Unlike petty corruption, both the receiver and giver benefit from grand corruption. There is a flow of a huge benefit with

massive gain to the provider as well. Giver and receiver both parties protect each other in this kind of corruption (Ackerman, 1991).

The officials with the right to exchange goods and services, proposing tax, implementing law, providing justice, producing energy, developing physical infrastructures, and business are found to commit grand corruption (Ackerman, 1991). He further adds that the public sectors responsible for massive and sensitive procurements, providing facilities to motivate the private sectors are involved in grand corruption. The programs and projects run by the government are possible sectors of grand corruption.

### ***Systemic Corruption***

The whole organization is involved in corrupt activities in systemic corruption, whereas almost all the activities are managed to promote corruption (Bogovic, 2010). The officials or staff of such an organization do not do a single work unless they get a bribe. According to Bogovic (2010) not a person but a group is involved in systemic corruption and those who do not have intension to be involved in corruption are either thrown out of the organization or void of responsibility. And the members of the organizations will distribute the gain within the group.

### ***State Capture***

It is a systematic process of corruption where state mechanisms such as executive, legislative and judiciary work within the same system to get involved in corruption, protect the corrupt and so on. According to Lesch (2002) such kind of corruption involves the operation and use of the entire state machinery. All organs of the state are captured and controlled. The setup is determined by the appointments made in the state structures and bodies. Kaufman (2001) defines state capture as the shaping of laws, policies, and regulation of the state by unlawful payments of elite cooperation to public officials and high level of politicians.

### **Consequences of Corruption**

According to the United Nations (2016) bribery, corruption, tax evasion, and theft cost developing countries about 1.26 trillion USD each year. But the losses caused by corruption cannot be calculated in dollars alone. The effect of corruption is huge in lost opportunities for development. Furthermore, it leads to the loss of

confidence in the private sectors, and it leads to imbalance and inequality in income and profit sharing too. Gupta et al. (2002) carried out a study in 37 countries and found that corruption leads to a widespread inequality of income.

Okafor, et al. (2014) argued that corruption creates obstacles to economic, social, physical, and human development. Lambsdorff (2006) explains that corruption has a negative impact on the economy by reducing a country's capital balance. He further argues that corruption ought to deteriorate and hinder both domestic private investment and FDI. Habib and Zurawicki (2002) provided strong evidence of corruption discouraging FDI.

Wolfensohn (2002) argued that corruption is damaging to development. Corruption discourages investment and hinders growth (The Economist, 1997). Kaufman (2001) strongly believes that corruption represents a domestic threat to national development and economic growth. Olken (2007) argues that corrupt payments reduce the economic benefit of the physical infrastructure and damages the quality and reduces lifespan. Polgreen and Khwaja (2010) have argued that corruption and Weak governance has deleterious effects on public and private infrastructures like buildings, bridges, irrigation channels, hydropower in developing countries.

Gray and Kaufmann (1998) investigated that bribery raises operation costs and uncertainty in an economic outcome. They also argue that corruption also leads to ineffective economic activities and development outcomes and that corruption reduces the state's ability to provide basic goods, services, and development activities of the people.

Fons (1999) argued that weak transparency and high levels of corruption always support expanding credit risks. Bardhan (1997) argues that corruption reduces efficiency, productivity, and quality of public investments. Tanzi and Davoodi (1997) found that corruption has a negative relationship with the investment. Beck (1991) did research on how corruption deforms international exchange and trade. They found that corruption had a significant negative impact on the export competitiveness, and it also leads to reduction on the government revenues, customs, and tax. Cooley et al. (2018) argues that corruption undermines sound public financial management, accountability, and transparency. It also weakens market integrity, deters foreign investment, and dampens development. Friedman et al. (2000) found that countries

with high levels of corruption tend to have a lower collection of tax revenues in relation to GDP.

Corruption and the black economy have a positive relationship. Corruption promotes a black and informal economy. Corruption contributes to flourishing the black and underground economy. Lambsdorff (2006) argued that corruption always misleads private sector activities by giving rise to a shadow economy. He further argues that corrupt tax officers can help firms and individuals to avoid taxes. Many other scholars (Johnson et al., 1998, Goel & Nelson, 2005) argue that corruption directly contributes to increase the underground economy. They also provided evidence and found the positive association between inflation and corruption as well. Al-Marhubi (2000) found that corruption always encourages expansion in inflation.

Moran (1999) analyzed the relationship between corruption and economic development. According to him corruption is a demonstration of specific sets of state-society relations, political regime, and development trajectories. Wade (1990) found that South Korea and Taiwan has a direct relation with low level of corruption behind their effective development and rapid economic growth.

Theobald (1990) examined that corruption always leads to very serious types of political decay. It also weakens administrative competence and undermines democracy, national integration, and political stability, and it also hampers economic growth and development. He has stated on the adverse effects of corruption. Theobald (1990, pp. 126-130) identified five major causes why corruption has harmful impact on economic development, which is given below:

- a) **Corruption degrades capital:** Businesspersons and lay citizen have to spend a vast amount of time and money dealing with corrupt politicians and bureaucrats, policeman, and judiciary in the corrupt county. A corrupt administration represents a very serious cost of business interest. Furthermore, corrupt political leaders and bureaucrats are more interested to importing luxuries cars, furniture, private jets rather than investing in manufacturing or construct road and other infrastructures.
- b) **Corruption squanders national resources:** Investment decisions are distorted by corrupt interests; development projects are sited not where they are most needed but according to the machinations of politicians who need to

pay off the businessmen having bank rolled their election campaigns. Tenders for government contracts are accepted not according to economic criteria but based on who will offer the largest bribe.

- c) **Corruption weakens administrative capacity:** A corrupt bureaucracy implies nepotism, political patronage, and bribery which conflict with the fundamental principle of appointment, transfer, and promotion. Nepotism, patronage, and bribery also deprive the public service of appropriately qualified and talented personnel who lack the necessary contracts or funds.
- d) **Corruption undermines democracy:** Corruption encourages the growth of parties. Corruption is anti-democratic in two senses: if corruption is the primary form of political influence, only the wealthy and the well-connected have it. Second, corrupt regimes are invariable in which basic democratic rights are minimal.
- e) **Corruption undermines national integration and promotes instability:** Widespread corruption seems to be associated with pathological political style, an ethos of mistrust, subterfuge, and conspiracy.

Corruption is widespread in the developing countries, where the government is providing a good opportunity to accumulate money for bureaucrats, public office holders, and politicians. The countries are underdeveloped not only because of lack of capital and resources but also the public position holders are corrupt.

### **2.2.3 Capital Outflow**

Illicit capital outflow is also known as illegal financial transfer or capital flights from one place to another. It is the movement of property, assets, and wealth from one country to another (Dev & LeBalanc, 2013). It is a drain of the capital out of the country illegally that enables tax evaders, businesspersons, corrupt politicians, officials, and others to protect their property from seizure (Massa, 2014). According to Rahman et al. (2018) the illicit capital outflows derive through under invoicing of exports and over invoicing of imports. Multinational and trans-national corporations help to promote the illicit capital outflow through tax evasion.

Modern technology and financial market structures contribute to transferring capital from one country to another (Schneider & Enste, 2000). Bouchet (2012) identifies some major factors of capital outflow from one country to another. According to him the internal causes like political disturbances, weak governance,

high levels of corruption, socio-political and economic instability are playing a role in increasing the capital outflow. Furthermore, he also discusses external causes like opacity, loose banking regulation and financial policies as reasons for the illicit capital outflows from underdeveloped countries.

Acemoglu et al. (2003) suggested that the illicit capital outflow occurs because of corruption and rent-seeking in extractive political institutions. Acemoglu and Robinson (2004) argued that the political and social instability, high level of inflation rates in the country, higher level of tax liabilities, financial deficit, high level of corruption, lack of investment friendly environment, weak governance system will lead to illicit capital outflow from the developing and underdeveloped countries to developed. Rodrik et al. (2002) argued that inflation creates pressures and stimulates domestic agents to engage in illicit capital outflow. Ajayi (1995) also agreed with it and argued that it may inspire domestic financiers to transfer their capital and wealth to foreign countries. Blankenburg and Khan (2012) find out that the illicit capital outflow is the result of social, political, and economic situation and controls in developing countries.

Kar (2012) defines illicit capital outflows as a trans-national transfer of assets earned through corruption, smuggling, illegal and criminal activities. and he argues that the illicit capital outflow is a process of transfer of money from one place to another through violation of the rules and regulations. Kar and Freitas (2013) assess the relationship between illicit capital outflows and the growth of black economy and find out that they mutually reinforce each other. The lack of transparency in the governance system is the main reason behind the black economy. It is an important aspect of illicit capital outflows. Moore (2012) argues that it is the potential to securely hide illegal assets and wealth in tax havens accelerating the pace of corruption and other illegal and criminal activities. The illicit capital outflow is one of the major causes of corruption and financial irregularities (OECD, 2012).

### **Illicit Capital Outflow and Underdevelopment**

The illicit capital outflows have been promoting the development of underdevelopment in the third world and it also plays an important role as a derail of development. Acemoglu et al. (2001) strongly argued that the lack of economic growth and development is accounted for the illicit capital outflow in the developing countries. Acemoglu et al. (2003) examined that the weak economic status and

underdevelopment are ascribed to the extractive political institutions which are led to widespread rent-seeking and corruption. It also supports the illicit capital outflows.

Saleh (2004) also agreed with this. He argued that weakness of the institutions has stifled investment, leading to illicit capital outflow in the underdeveloped countries. Ali and Walters (2011) find out that the state institutions make a significant contribution to the illicit capital outflow from Africa. The illicit capital outflows from developing and underdeveloped countries are increasing rapidly day by day and negatively affecting the economic development of the third world. Rahaman et al. (2018) argues that the illicit capital outflows have a strong relationship with the underdevelopment of the country.

The OECD (2013) finds out that the illicit capital outflows have a negative impact in the developing nation's economy. The easy opportunities to outflow the capital, transfer the money and assets abroad through illicit sources will lead to damage the investment environment, economic growth, and the development activities in developing and underdeveloped countries (Rahaman, et al., 2018). A study of UNECA (2012) shows that the widespread corruption and illicit capital outflows are mutually inherent in a rent-seeking economy and promoting underdevelopment. Le and Zak (2006) conducted a survey in forty-five developing and underdeveloped countries and found that political uncertainty and instability directly contribute to increases the illicit capital outflow.

Illicit capital outflows from Russia in 1990s was the outcome of the high level of tax liabilities, unscientific taxation system, weakening of the banking mechanism, vested interests of the political and bureaucratic elite, the widespread corruption, and the Weak governance system (Loungani & Mouro, 2000). They present data which shows that India lost about 213 billion USD because of illicit capital outflows since 1947 to 2010. The socio-economic and political structural factors and weak governance system played an important role for outflows the assets from India. Ndikumana and Boyce (2008) exposed the very terrible picture of capital outflow from Africa. According to them more than 80 percent of the African capital was outflowing through illegal way to developed countries. Kar (2012) shows that illicit capital outflows from Mexico are about 872 billion USD in the period between 1970 and 2010. Frank (1970) showed that the net capital outflow from the Brazil was 1,667 million USD between 1947 and 1960. The OECD (2013) identifies the impact of

illicit capital outflow and finds that it will reduce the investment, budget expenditure, employment opportunities, infrastructures like schools, colleges, hospitals, road, bridges, hydropower, irrigation channel and ultimately contribute to the development of underdevelopment. Capital outflow also damages state institutions like banks, financial investigation agencies, and legal mechanisms.

Corruption and money laundering mutually promote capital flights. Chaikin and Sharman (2009) found that most of the illicit capital outflows are from developing to the developed countries like Switzerland, UK, USA. They further argue that the third world underdevelopment is the outcome of this kind of illicit capital outflow. Larrain (1989) argued that the underdeveloped countries consisting of the transfer of their economic surplus to the developed countries is promoting underdevelopment.

Cooley et al. (2018) examine that the developed country's institutions and brokers play a crucial role in helping the transnational corruption and illicit capital outflows. Kleptocrats transfer wealth and assets abroad. They use the common techniques to transfer assets like appointing relatives or friends as the ambassadors who manage the outflow of money to abroad. Cooley and Heathershaw (2017) find out that the developed countries seem to have come up with various schemes to attract the capital from the developing and underdeveloped countries. For instance, many countries have been announcing golden investor programs regularly. UK's Tier 1 program directly contributed to attract the capital from the developing and underdeveloped countries. Rush (2015) identifies that the substantial amounts of corrupt wealth from Russia, China, and other developing countries have been laundered into the UK through this program. Farolfi et al. (2017) also identifies that Cyprus offer a golden investor program and the participants of this scheme receive passports to work and reside anywhere within the European Union member countries. According to them more than four-hundred passports were granted under the program in 2016 and it also produced more than 4 billion Euros wealth of investment between its 2013 inception and mid-2017. Malta also launched such kind of passport program and was able to attract more than 200 million Euros till mid- 2016 (Cooper, 2016).

Illicit capital outflows create conditions in the Third World for low income, low productivity, and poor physical, economic, and social development. It gradually plunges countries into underdevelopment. The outflows of money, wealth, and



financial resources are the major cause of the weak and poor physical, economic, and social development. It also weakens a person's status of health and education which is dragging the country into a vicious cycle of underdevelopment.

### **Corruption and Underdevelopment**

Corruption distorts economic growth and expands inequality and divisions in a society, which has harmful effects on economic growth and development. Coates and Quest (2005) found a very strong association between corruption and poor development performance. Khan (1998) argued that the allocation of political power is a key variable in examining corruption and it has harmful impacts on economic development of the country.

According to a study of Transparency International (2015) more than one-half respondents in the poor and underdeveloped countries report paying bribes while less than 10 per cent of the rich or developed countries people reported that. This shows that the problem of corruption is more in underdeveloped countries than developed ones. It also shows that high levels of corruption have a direct negative impact on development.

Corruption offers a means of relocating public resources to the bourgeois class in Africa and underdeveloped countries (Szeftel, 2000). Szeftel (200) further argues that corruption impacts negatively on economic growth, poverty reduction, governance reforms, and development projects. Corruption threatens development and supports underdevelopment and uncertainty (Riley, 1998). Corruption seriously jeopardizes development activities, economic crisis, stable democracy, political stability, and promotes underdevelopment (Charlick, 1993).

The Transparency International's Corruption Perception Index (CPI) rank confirms that corruption is high in developing countries and authoritarian regimes.

Table 2.1 shows that the level of human development in a country with high levels of corruption is also very poor. In the same way, Riley (2000) argued that corruption is an important cause of development crisis and instability in the country. Iyayi (1986) argued that corruption is a means of new class formation in the developing countries. He stated that corruption transfers surplus from lower class peasants and workers to higher class bureaucrats, politicians and businessmen and so acts as a means of new class formation.

**Table 2.1***Corruption and Underdevelopment*

<b>Name of Country</b>	<b>CPI (2020)</b>	<b>HDI (2020)</b>
Sudan	16	0.510
Yemen	15	0.470
Syria	14	0.567
Somalia	12	0.361
South Sudan	12	0.433

*Source: Transparency International (2020) and UNDP (2020)*

The crisis of development intensifies pressures for corrupt behavior in the developing countries (Szeftel, 2000). Heywood (1997) argued that strong public institutions and low levels of corruption are necessary conditions for economic growth and quality development. Keywood (1997) strongly believed that underdevelopment was a consequence of widespread and rampant corruption. Mauro (1995) found that high levels of corruption were directly associated with low levels of investment.

Thus, underdevelopment is a consequence of high levels of widespread corruption. Corruption leads to the damage of development like roads, bridges, schools, electricity supply, hospitals, irrigation channels and social and economic development too. The bureaucratic, political, and public sector corruption are the major causes responsible for the third world underdevelopment and economic crisis.

#### **2.2.4 Kleptocracy**

Kleptocracy is a form of government where the state authority exploits national wealth, resources, and public authority for personal interest (Okafor et al., 2014). Kleptocracy is a government ruled by corrupt politicians who use their political power to receive bribes and favors at the expense of the state resources to themselves, their relatives, party cadres or associates (Andreski, 1966). Diamond (1999) examined that the word kleptocracy refers to elites in governed, non-

egalitarian societies, ordinarily using tax, revenue, or levy to transfer the fruits of labor by common people to themselves.

Kleptocracy is the process of transfer of wealth and assets from commoners to the state's elites and powerful rulers. The elites or political leaders use power for personal gain (Diamond, 1999). Kleptocracy is implied by 'rule by thieves;' that is a situation where leader systematically use power for the purpose of stealing from own constituency, polity, or organization and it also abolish good leadership and entrepreneurship from the country (Gowri, 2005).

Many underdeveloped countries have deteriorated under the personal rule of kleptocrats, who employ extremely ineffective economic programs and policies, steal the wealth of their people, and use it for their own interest (Acemoglu et al., 2004). Acemoglu et al., (2004) further argued that the kleptocracy seems to have been devastating for development and economic progress, performance and causing the misery of peoples. Olson (1965) argued that kleptocrats use a divide-and-rule approach for acquiring and preserving power. Abreu et al. (1990) argued that divide-and-rule is a method used by kleptocrats to maintain power. Acemoglu et al. (2004) further argues.

The kleptocratic ruler collects taxes and uses the resulting tax revenue, the rents from natural resources and potential foreign aid from outside donors for their own use. Kleptocratic regimes seem to be more common in naturally resourceful and richer countries because of the larger rents from natural resources facilitate it. Similarly, the kleptocrats use foreign aid, loans, and rents from natural resources to obtain and stay in power and use it for personal benefits (p.164).

There seems to be an important role of kleptocracy for a country to be underdeveloped. Among the most underdeveloped of all, African, Latin American, and Caribbean countries suffer under the kleptocratic regimes. Cooley et al. (2018) argue that those countries are often controlled and ruled for the personal or a small minority group' interest, and state institutions are set up to allow the power holder and their families to systematically loot under political protection. Jackson and Rosberg (1982) argue that power holders and small minority groups use their power to transfer a large fraction of society's resources to themselves.

Looking at the history of the some kleptocrats, their main aim seems to have been to loot the state treasury and national resources. The loot has negatively affected the economic development of the country and promoted development of underdevelopment. For instance, Leslie (1987) found out that about 15-20 percent of the operating budget of Congo directly went to President Mobutu Sese Seko's account in the 1970s. According to Leslie (1987) President Mobutu's family took more than 71 million USD from the national treasury for personal benefit, and by the early 1980s his personal affluence was more than 5 billion USD. This kind of systematic plunder by the rulers in the country increases the underdevelopment of the country.

Kleptocracy promotes underdevelopment in various ways. They use a big portion of public wealth and property for private gain. Kleptocrats and their family members purchase luxurious goods from abroad and they systematically use the country's resources and control economic activities in their wish. They also develop wide global networks of institutions and actors to help in hiding their financial flows, but they always lie to their people (World Bank & UNODC, 2007).

While reviewing the available literature, the kleptocracy is known as a government with corrupt politicians who utilize their power to manipulate the state treasury, public properties, and natural resources for their private gain. This type of weak governance severely undermines the country's economic potential and development activities. It also eliminates and destroys the investment friendly environment. It also controls the private sector and the country's economic activity. It misuses and destroys the entire state mechanism and system for its own benefits and selfish ends (Coates & Quest, 2005). Kleptocracy always plays an endemic and disruptive role in economic growth and development activities (Andreski, 1968). Kleptocracy hinders economic growth and development in the country (Kuzio, 2017).

Most of the poorest and underdeveloped countries in the world are facing some form of kleptocracy. In such countries, the kleptocrats misuse the state treasury, natural resources, and other public property for their own selfish ends. The taxes and revenue collected from the poor people will be misused by kleptocrats and the state will have scarcity of the resources to invest in economic, infrastructural, social, and physical development. As a result, kleptocracy plays a vital role in making countries underdeveloped.

## **2.3 Understanding Development and Underdevelopment**

### **2.3.1 Development**

The terms development is used by many authors not all, sociologists to mean industrialization, economic growth, higher living standards and prosperity, like free and quality education, increased life expectancy, and good health-care facilities. And those countries that have not yet achieved these goals are said to be underdeveloped. Different scholars define development in various ways. Chang (2009) explains development as increasing and enlarging the scale of consumption and economy. However, Myers (1999) gives more emphasis on positive change in the whole human life socially, culturally, materially, economically, physically, and spiritually. Rapley (2007) argued that development is a process of enhancing, improving, and enlarging the physical, social, and economic condition of people and their choices and priorities.

Todaro and Smith (2011) gave an economic definition of development. According to them, development is achieving a sustainable rate of growth of income per capita which enables a nation to increase its output faster than the population growth. However, this definition is not able to incorporate all the aspects of development. It fails to consider the problems of unemployment, poverty, unequal distribution of resources, exclusion, and discrimination. In the meantime, the Chamber (1997) defined development as good change whereas Sen (1999) examined that development means standing against inequality and injustice to allow freedom. Rist (2007) focused on the development as progress on genuine social practices. Rapley (2007) examined that development is a collective process of progressive transformation of society to higher growths. Cowen and Shenton (1996) defined development as a positive transformation of the economy and structural changes in the operating forces of the society.

The simple meaning of development is making a better life for everyone. A better life means fulfillment of basic needs such as a safe and healthy place to live, sufficient food for good health, affordable services to everyone, good quality education, and a dignified and respectful life of the people. According to Peet and Hartwick (2010) development is understood as a better, quality, and dignified life for everyone. According to Rodney (1973) development is a many faceted processes such as greater freedom, self-discipline, creativity, material well-being, and increased skill

and capacity at the individual level. Coates and Quest (2005) argued that development is growth in human society encompassing equality, social justice, social inclusion, no discrimination, quality of life, and equitable income distribution. Slim (1995) argued that equity and justice and self-reliance and independence are important elements in effective development.

The concept of development is infused with socio-economic, political, and cultural dimensions. Singh (2017) argues that development is a concept which can be used to analyze the level of social, political, and economic progress, improvement, or positive change. For him, development is progress, a change for the better and with continuity. Clark (1991) strongly argues that development is not a commodity to be weighed or measured by GNP statistics; it is a process of change that enables people to take charge of their own destinies and realize their full potential. He further adds that development requires building up in people the confidence, skills, assets, and freedoms necessary to achieve this goal.

Development is not just about having more but also about being more. For Clark, development is not a simple engine for economic growth, but it includes multidimensional aspects like unrestricted leisure activities and productive employment too. Bauer (1976) argued that development is always depending on traditional or primitive norms, attitudes, values, traditions displaced by modern norms and values. Roxborough (1979) gave emphasis to creativity, entrepreneurship and capital accumulation for economic growth while defining development. Friedman (1992) argued that development means more than economic development, it is all about quality of human life and quantity of economic growth. Slim (1995) argued that human power, gender, and ethnic relations are important in shaping or misleading development in the national and community level. On the other hand, Sen (1999) examined that development springs from the most optimistic moment of modern rational belief.

A systematic study of development starting only in the middle of the 20<sup>th</sup> century (Smith, 2002). According to him development means creating conditions for the realization of the human personality. It has been linked to the three major economic criteria; these are reduction in underdevelopment, inequality, and poverty (Seers, 1972). Seers (1972) further argued that development is measured at the family level based on health condition, infant mortality, nutrition, access to quality

education, and political participation. Opondo (1987) argued that there are three general goals of development: life sustenance, freedom, and human dignity, and development is the fulfillment of human needs, values and standards of the good life and the society.

Development is a complex concept with multiple meanings like economic development, childhood development, social development, human development, political development, sustainable development and so on. Development concerns structural transformations and human development. It is an inclusive concept while economic, cultural, political, and social factors determine the nature and extent of development (Singh, 2017).

Slim (1995) argued that the concept of development is very much dominated by the Washington Consensus in contemporary times. According to him, the major aim of the Washington Consensus is to promote good governance which has both political and economic aspects. Political good governance means human rights, equality, social inclusion and development of a vibrant society and economic good governance means free markets economy and a limited and enabling state. Myrdal (1974) argues that development must be understood as the upward movement of the entire social system, where there is circular relationship between conditions and changes with collective effects.

UNDP (1992) noted that development had five major elements: equality of opportunity, personal security, freedom of expression, rule of law, and political participation. Streeten (1996) also gave more emphasis on freedom in defining development. For him, there was development without freedom that made no sense. Streeten further argued that development is not only the fulfillment of basic needs like food, clothes, and shelter but also a state of democracy and individual and press freedom. Baxi (1986) agreed with it. According to Baxi, basic needs are met through totalitarian models of exercise of public power or through dictatorship simply through a callously exploitative use of human beings in complete disrespect of human values.

Webster (1990) explained that development was a process of effective social adjustment to periods of anxiety. Sachs (2005) argued that basic infrastructures like bridges, powerhouses, roads, and human capital like education, health, employment

opportunities, and markets are powerful engines of development. Panday (2009) emphasized an integrated approach in the development process.

While reviewing the literature related to development, it can be defined as a holistic human experience. We shall focus on specific aspects of it. The first aspect is economic outcomes which includes the status and trends in production, resources, uses and the balance of external operations. The second is the social aspect which incorporates improvement of the quality in life, the status of health, the fulfillment of basic human needs, education and other dimensions of human capability influencing the physical, social, and economical quality of life of the people. At the same time creativity, innovation, entrepreneurship, and general efficiency in the use of resources is a must. Furthermore, development is a process of conflict resolution, acceptance of democratic norms and values and peaceful environment to everyone. Development is also with a means and ends of a political process where people actively participate, compete for their rights, ensure public accountability, fulfill their duties as citizens and promote the political freedom and citizen engagement in the governance process.

### **Prerequisites of Development**

Workers are the drivers of economic development, and the size of the working age population lays has an impact on it (Sharma, 2017). This connection between population growth and economic growth has played out in many cases in Malaysia from the 1960s to 1990s (Sharma, 2017). Pearson (2015) strongly argues that never in history has there been economic growth and development without population growth. Rapid population growth is often a prerequisite for faster economic growth, but it never guarantees fast growth and development. However, Sharma (2017) argues that many countries there was a strong population growth but typically did not produce an economic miracle before the 2000s.

Smith (2002) explored the causes of rapid growth of the British economy and development in his writing. He argued that development of free market enterprise was most beneficial to economic growth. Free trade and business without the intervention of the government facilitated ambitious entrepreneurs to develop successful business. Smith suggested that the government should not interfere in the market and in the operation of the laws of supply and demand. Government must ensure a self-regulatory economy for the best use of resources.



The World Bank (2021) gave more emphasis to governance and strong anti-corruption initiative as a precondition of economic growth and development. The World Bank report further explains that internal check and balance within a government needs to be strong, and anti-corruption laws must be effectively enforced along with the establishment of strong watchdog institutions. Myrdal (1974) argued that education was an essential factor of economic development. Education creates equality, opportunities, and a higher productive capability in society. Webster (1990) strongly supported Myrdal's argument. For Webster, education was an inevitable factor of development which helped to promote economic growth as well as socialization of the new members of society into required political, economic, cultural, social, and ethical value systems.

Different countries have different experiences of economic growth, development, and progress. For instance, Sachs (2005) identified the causes of China's development in a short time. He found that science and technology play a vital role in the Chinese speedy development. China export has been fueled by a vast inflow of FDI and technology which brought the capital to establish many modern multinational factories with relatively low-cost labors and workers. The export of China was around 20 billion USD in 1980 which peaked to a value of 400 billion USD in 2004 (Sachs, 2005).

To summarize, there are many prerequisites for development. The combination of new industrial technologies, coal power and market forces creating industrial growth are the pre-conditions of economic growth and development. Similarly, an open, and liberal economic policy, quality education, market system, good governance, political stability, and the low level of corruption are few more prerequisites of development.

### **2.3.2 Changing Paradigm of Development**

There has been widespread variation in the perception towards development by time.

#### **Economic Growth**

Economic growth and progress can be measured in terms of per capita GNP, the number of functioning industrial units etc. The supporter of this model of development refers essentially to the successive growth in material forces of production like land, labor, technology, capital, etc. There are four major aspects which explain the laws of economic growth. First, the accumulation of capital and

improvement of technology. Second, population change, third, the division of labor into specialized activities and finally, entrepreneurship (Singh, 2017). Smith (2002) proposed the first systematic theory of economic growth. According to him, the intervention of better machines is responsible for the increase in productivity and material welfare. Smith emphasized the role of division of labor in the increase in production.

In the meantime, entrepreneurship is also a key factor for economic growth, but it was not recognized in classical economies. Schumpeter (1967) explored the role of entrepreneurship in development and gave a systematic definition of an entrepreneur.

### **Human Development**

The concept of human development was developed by the UNDP, which began publishing the Human Development Report (HDR) in 1990 (UNDP, 1990). HDR noted that economic growth may not cover all aspects of development. It also suggested that improvement in overall human well-being was the objective of the development. It focused on the human face of development. There is no automatic relationship between the increase of GNP and advancement in the quality of life (UNDP, 1990). The UNDP introduced HDI which can be used to measure relative human development position. The major indicators of the human development are life expectancy, literacy rate, per capita income, birth rate, death rate, infant mortality rate etc.

UNDP (1993) argued that there is no direct relation between income and human development. Todaro (1977) argued that the multidimensional process of development involves reorganization of the entire system of economic, social, and cultural aspects. He further argued that development is not only improvement in income and material conditions but also improvement in multiple aspects like life expectancy, infant mortality, adult literacy, and social conditions of human life.

### **Social Development**

The concept of social development emphasizes holistic progress and positive change in society. Social development includes economic, social, cultural, human, and political aspects of society. Social and economic development mutually reinforce each other. According to Rao (1972) there are many aspects of social development

such as welfare services, policy relating to urbanization, industrialization, environment protection, regional development, income growth and distribution, land reform, public administration, civic engagement, and people's participation in the governance process.

Social development also incorporates social, political, and cultural domains of society. Singh (2017) identified 12 indicators of social aspects like society is more modern and less traditional, more democratic, and less authoritarian, end of social discrimination, no religion-based hierarchical division of society, low population growth, high level of literacy rates, good health facilities etc. Similarly, he found eight cultural indicators and five political indicators of social development.

### **Sustainable Development**

By the end of 1970s it was realized that the nature and approach of development would harm more than helping humankind. High levels of exploitation of natural resources creates ecological imbalance, environmental degradation and pollution of water and air too. It can lead to a crisis of energy and to climate change in the world. A sustainable development approach, therefore, was required. The term first appeared in the 1987 report of the United Nations 'Our Common Future.' Sustainable development that does not compromise the ability of future generations to meet their own needs (World Commission on Environment and Development, 1987).

Similarly, sustainable development refers to the method of development which brings better living standards and life chances. It also minimizes possible negative impact of the developmental process. Singh (2017) defines sustainable development as a developmental approach which meets the needs of the present, without compromising the ability of future generations to meet their own needs.

### **Measuring Development**

Basically, there are two types of indicators to measure development. First, traditional economic indicators like production, income, consumption, debt, etc. The second one is the World Bank's world-development indicators formed in 1995 which captures the personal, social, cultural, and environmental dimensions of the development. Up to 94 indicators are reported for each country, like size, growth and

structure of population, determinants of population like fertility and infant mortality, education and literacy, labor force, income and level of poverty, natural resources, expenditure on food housing, power, transportation, communication, investment in health and education, among others (Slim, 1995). Each of these indicators is broken down into several subcategories, too.

The HDI develops three major indicators to evaluate the level of development. First is a long and healthy life. It is measured by life expectancy at birth. Education is the second indicator of HDI where the expected years and the mean years of schooling are included. The third indicator is the living standard of human beings. It is measured by the Purchasing Power Parity Gross National Income (PPP GNI) per capita (UNDP, 2020). Similarly, OECD (2011) has developed two major indicators for measuring the development. The first one is material living conditions and next is the quality of life. The sub-indicators under material living conditions include income and wealth, jobs and earnings, and housing. Similarly, there are eight indicators under quality of life. These are health status, work and life balance, education and skills, social connections, civic engagement and governance, environment quality, personal security, and subjective well-being. The sub-indicators under civic engagement and governance include two sub-indicators viz electoral participation in major elections, and formal consultation processes. These sub-indicators under civic engagement and governance are built in at key stages of the design of regulatory proposals. This helps aggregate various sources of information on the openness and transparency of the consultation process used when designing rules. This indicator incorporates participation of citizens in governance process as well.

The Sustainable Development Goals (SDGs) are a collection of 17 interlinked goals required to achieve a better and more sustainable future for all (United Nations, 2017). The SDGs were set up in 2015 by the United Nations General Assembly and are intended to be achieved by the year 2030. The 17 goals are: no poverty, zero hunger, good health and well-being, quality education, gender equality, clean water and sanitation, affordable and clean energy, decent work and economic growth, industry, innovation and infrastructure, reducing inequality, sustainable cities and communities, responsible consumption and production, climate action, life below water, life on land, peace, justice and strong institutions and partnership for the goals.

Goal number 16 comprises transparency, accountability, and inclusion in public institutions as important aspects of development (United Nations, 2015).

### **2.3.3 Underdevelopment**

Underdevelopment is an indication of the dreadful economic condition of the country. The term "underdevelopment" was first used in 1942. It was also incorporated in Truman's inaugural speech made on 20 January 1949. The debate of underdevelopment came to the surface after this speech (Rist, 2009). The less prosperous or rich countries have been called underdeveloped, developing, less developed, third world or Global South (Dickenson et al., 1983). Underdevelopment refers to a weak and vulnerable situation of the political organization, economic characteristics, and social institution in the country (Opondo, 1987).

Myrdal (1974, p. 734) argued that "an underdeveloped country has grave deficiencies and weak status of economic, social, and political power and corruption is found everywhere in underdeveloped countries which hampers economic growth and development". Rotberg (2004) noted underdevelopment as;

Weak states typically harbor ethnic, religious, linguistic, or other inter-communal tensions that have not yet thoroughly become overtly violent. Similarly, physical infrastructural networks in a have deteriorated state. Schools and hospitals show signs of neglect. GDP, per capita income, and other economic indicators have fallen or are falling, sometimes dramatically, and the levels of venal corruption are embarrassingly high and escalating (p.4).

The situation of underdevelopment is completely man made, not accidental. Rotberg (2004) provided very intensive evidence on Zimbabwe's president Robert Mugabe. The president's corrupt rule exploited the resources of the state for his personal interests. He discouraged domestic investment and FDI, damaged local and domestic trade and commerce, harassed the press and media, weakened the judiciary and courts, squandered foreign exchange, and led his country to the edge of undernourishment. Rotberg, (2004) argued that high levels of rampant and widespread corruption was one of the indicators of underdevelopment and state failure.

Furthermore, Weak governance is an undeniable consequence, and it has often preceded insurgencies within states which further contribute to underdevelopment.

Civil war, armed conflict and violence are some of the major causes of underdevelopment. These activities hinder the development process and promote the development of underdevelopment in the country. Collier (2000) shows that those countries that are rich in terms of natural resources are more engaged in civil wars and unable to meet the development goals and become underdeveloped.

The political and bureaucratic elites engage in high levels of corruption and rent-seeking activities. Van De Walle (2004) argued that politically motivated economic policy making has results in economically irrational policies which in turn trigger an economic crisis, further weaken the state, and promote underdevelopment.

Rose-Ackerman (1999) found out two major sources of state weakness and underdevelopment. First, is the corrupt autocratic ruler where the system operates without strong legal norms and without an independent judiciary that limits the freedom of prosecutors. Private activity is controlled by the state and people find ways to cope against institutionalized corruption. Second, underdevelopment comprises an ongoing low level of state capacity. Criminal gangs loot money from legal businesses and instead, operate illegal businesses. The government is unable to control such groups. As such groups are economically and strategically strong, it is extremely difficult to reform such a situation. As a result, the atmosphere of development in the country weakened is destroyed and a state of underdevelopment is created.

According to Rose-Ackerman (1997), there are four interlocking issues regarding state crisis and underdevelopment. He argued that criminal law operates at the boundary between the state and society. Laws against corruption, fraud, and self-dealing by officials may need to be strengthened or amended.

To summarize, underdevelopment is a condition with a low level of per capita income, high level of poverty, and illiteracy. Similarly, it is also one with low life expectancy and underutilization of resources. The state fails to provide the basic needs of people. There is widespread misery and material deprivation as well.

## **Features of Underdevelopment**

Opondo (1987) argues that the underdeveloped economies are dependent on nature, and there are not enough job opportunities available in the market. The size of informal economy and the size of the rural labor force in the small family firm are high. The basic feature of underdevelopment is that majority of the population of these countries survive on extremely low incomes, but that scarcity is the keynote of social existence, e.g., scarcity of jobs, material goods, hospital beds, school places, housing, land, skills, spare parts, potable water etc. (Theobald 1990).

The collection of taxes from workers, peasants, and farmers is almost impossible due to their low cash income. In the meantime, it is also difficult to collect tax from small family firms, businesses, and petty traders. They do not formally register with the government and do not have systematic bookkeeping and accounting systems (Andreski, 1966). Myrdal (1974) argued that population growth tends to expand inequality in an underdeveloped country. Webster (1990) identified a few key features of underdevelopment. Underdeveloped societies tend to have a larger agricultural than industrial workforce, a limited number of raw materials for export, and have a relatively poor diet as well as high levels of illiteracy.

Webster (1990) further argued that underdeveloped countries are substantially different from one another. Underdeveloped countries should not be treated as a homogeneous category though their poor condition, illiteracy, weak rule of law, low per capita income are the urgent features of majority of the underdeveloped countries. At the very core of the problem in the underdeveloped countries is corruption. According to Theobald (1990), corruption is a serious institutional instability in the public sector. In most of the underdeveloped countries, nepotism, bribery, extortion, and misappropriation are widely held to infuse every level and sector of society, from the very bottom to the top. When everyone is involved in corruption, there is no one to make a legal complaint. Political nominees' relatives, friends, clients are regularly appointed to positions in the administration, especially the more attractive ones, i.e., those with the greatest opportunities for graft (Theobald, 1990). Similarly, personal rulership and patrimonialism is the most dominant form of government in underdeveloped countries. Roth (1968) argues that the main reason for patrimonialism in underdeveloped countries is the cultural and political heterogeneity of the states.

The underdeveloped countries do not have attractive investment opportunities (Theobald, 1990). Misappropriation, nepotism, bribery, and extortion permeate every level of the political system is common (Seibel, 1981). Gould (1980) argued that corruption and underdevelopment are dialectically related, and each determines how the other develops. He further argued that corruption is an essential factor in reproduction of the links of dependency and exploitation which constitute the prime characteristics of underdevelopment.

To summarize, first, underdeveloped countries have low levels of economic growth, little capital to invest and high levels of unemployment. Second, is the export economy based on the production of raw materials. The country does not have manufacturing capacity. Third, many are deprived of quality education. Fourth, the child and infant mortality rate is high, there are fewer health facilities and there is a low level of life expectancy. Fifth, there is a high level of corruption, and the state mechanism is weak. Sixth, poverty, famine, and malnutrition are found in both urban and rural areas. Seventh, personal rulership and patrimonialism is the most dominant form of government in underdeveloped countries. Finally, the status of infrastructures like communication, transportation, drinking water, sanitation, irrigation, bridge, road connectivity facilities are weak.

#### **2.3.4 Causes of Underdevelopment: External vs. Internal**

Why do countries fail to achieve economic growth and become underdeveloped? This is a very crucial question in contemporary times. Scholars have been trying to answer this question through various research. Different theories emerge to identify the causes of underdevelopment. The modernization approach is one of the influential perspectives in the discourse of underdevelopment. It believes that underdeveloped countries need to follow the development approaches and strategies of the highly industrialized countries. Rostow (1960) outlines the five stages of economic progress. These stages are traditional, pre-conditions for takeoff, the take-off, the drive to maturity and the age of high mass consumption. This theory gives more emphasis to internal issues of a country becoming underdeveloped.

In contrast, the neo-Marxist dependency theory always focuses upon the exploitation of the underdeveloped countries by the developed countries and unequal exchanges between core and periphery countries as the main reasons for the underdevelopment (Amin, 1976). The country's system penetrating the world



economy is responsible for its underdevelopment (Amin, 2010). Dependency theorists counter the modernization theorists' assumption of underdevelopment in the third world (Arrighi, 2007). The core countries are more responsible for the underdevelopment of the Third World countries (Amin, 1976).

Both schools of thought have their own strengths and weaknesses. Lacoste (1995) strongly believes that underdevelopment is a consequence of internal factors which originate and grow within societies. There is also a claim that Weak governance and high level of corruption lead to the underdevelopment in the country (Nageri et al., 2013). Authors found that corruption remains a core barrier to the development of any society.

Other scholars have identified some more elements of underdevelopment. Sachs (2005) argues that poverty traps lead to underdevelopment. Opondo (1987) argues that exploitation of rural people by the urban and poor countries by rich is a main reason of underdevelopment in the third world. He identifies three major causes of underdevelopment in the Third World: colonialism, the nature of world economy, and the role of the ruling elite. He gave more importance to the role of the ruling elites and further argued that the great wealth of a few elites is a cause of the poverty in the third world. Gould (1980) finds that the main cause of third world underdevelopment is the neglect of the role of public administration, bureaucracy, and high level of administrative corruption. Similarly, Sachs (2005) notes that poverty and underdevelopment are the result of corrupt leadership. Lacoste (1975) emphasized the selfish behavior of elite in promoting underdevelopment in the third world.

After studying Iran and the neighboring countries Bobek (1974) disagreed with the external exploitation and colonialism and gave more emphasis on the internal reasons like rent-seeking behavior for the underdevelopment of a country. In the countries he studied, small wealthy elites were not involved in productive activities and did not contribute to GDP but used the surplus produced by farmers and craftsmen. He further argued that the small group of elites did this by renting land and equipment to these agricultural and industrial products as well as by providing the farmers with loans at high interest rates. The appropriate surplus was mainly used to satisfy the extravagant desires of these wealthy elites (Bobek, 1974). He further argues that privileged minorities limit the opportunities for large number of people in

several ways and that in turn, creates underdevelopment. Were (1983) also agrees with Bobek and argued,

Underdevelopment is attached to the nature of leadership of a country. The privileged minorities seem to think that the country was made for them to use as they please. Thus corruption, nepotism and tribalism are the order of the day. When relief aid for the rural poor comes into the country from international organizations most of it finds its way into the pockets of the so-called officials in charge. Corruption is a deadly malaise because it cripples most of the economies of the underdeveloped countries. Leading in corruption are the countries' leaders, some of whom use the country's financial resources as their private properties (p. 115).

Mauro (1998) found that high levels of corruption are associated with lower levels of investment, which also affected growth and development. Corruption always reduces private FDI and encourages excessive public investment (Tanzi & Davoodi, 1997). The authors further argued that a high level of corruption led to underdevelopment and corruption bred more corruption and discouraged both the quality of development as well as legitimate investment. Ackerman (1999) found out that corrupt tax and custom mechanisms favored small groups of elites, which destroyed sound fiscal mechanism and discredited reforms. Opondo (1987) finds out that an unequal and unbalanced model of economic development is also the main cause of underdevelopment. There is a strong relationship between the nature of political regime and the status of economic development. Przeworski et al. (2000) conducted a comprehensive study and found that dictatorship predominately existed in poor and underdeveloped countries.

Underdevelopment is a multi-faceted phenomenon with internal and external factors so closely related. It is not possible to isolate any single factor or theory to explain the process of underdevelopment. Analyzing various perceptions, the features of underdevelopment in a country are summarized as follows:

- (i) A large part of the population is impoverished.
- (ii) The government may be incompetent, corrupt, or incapacitated to collect tax, revenues and operate the development project efficiently.

- (iii) The government has a huge amount of debt and limited sources of its own revenue and tax.
- (iv) The government exercises self-restraint in demanding bribes or side payments. Similarly, governments fail to deliver the basic services to the people.
- (v) Many internal and external factors create trade barriers which directly hamper economic growth.

Most of the poor and underdeveloped countries never get to start the process of innovation of new technologies. Poor and underdeveloped countries cannot afford even basic science and technology related work in the government and university labs.

## **2.4 Theories of Development and Underdevelopment**

Many scholars have studied underdevelopment, poverty, and backwardness of the third world. The contribution of scholars like Adam Smith (1723-1790), Karl Marx (1818-1883), Emile Durkheim (1858-1917), and Max Weber (1864-1920) on underdevelopment, poverty and backwardness serve as backdrop for many contemporary theories and explanations of development, underdevelopment, and social change as well. Smith (1776) emphasizes economic liberalism and free market economy. There is a great description of capitalism, production, trade, and economic behavior of human beings. Smith (2002) added that the free-market economy would lead selfish actors to seek the greatest profits which has positive impact on the economic growth and development. Smith's book is the foundation of modern economics. This book suggests that capitalism, economic growth, and free liberal markets would ultimately serve economic growth and development. Capitalism is a powerful and effective force of producing extraordinary wealth and assets, however, it is also a main source of poverty, social disruption, inequality, economic crisis, and underdevelopment.

There is considerable inequality, poverty, and underdevelopment in the capitalist world. Classical sociologist Karl Marx, Emile Durkheim, and Max Weber produced different theories about origins, character and features on economic growth and development. They had divergent ideas about the positive and negative impacts of the transition in development. Their theories of social change and development have

commanded the most attention which inspired in the 20th century the emergence of the ‘sociology of development’.

Karl Marx, Emile Durkheim, and Max Weber studied their contemporary time and tried to explain the main features of society and its development. Marx and Durkheim used an evolutionist approach on development and social change though Weber did not. In the twentieth century, basically two schools of thought modernization theory and underdevelopment theory dominated in the study of development and social change.

#### **2.4.1 Contribution of Durkheim and Weber on Modernization Theory**

The intellectual root of the modernization theory is the ideas of Emile Durkheim and Max Weber. To understand the idea of development of Durkheim, his theory of social order and stability should be understood first. Durkheim (1984) proposed two major types of societies: mechanical or traditional and organic or modern. The people of traditional society perform the limited tasks of a simple agricultural community. These communities are based on groups of families, kinships, clans, in rural and village settlements. All villages are similar, and all know what people do, think, believe, trust in each other. They live a simple lifestyle and beliefs. Durkheim called this kind of society as one based upon mechanical solidarity. In “mechanical societies” groups of people is self-reliant. The division of labor is within the capabilities of all in the group.

Traditional or mechanical solidarity is transformed into modern or organic solidarity. According to Durkheim, in modern society the division of labor became more complex, and people become mutually interdependent. Society establishes specialized organs for specific functions. People form specialized religious, economic, political, cultural, educational groups, as well as institutions to deal with the diverse needs of society. Society becomes complex, interdependent, and integrated with each other. Durkheim called this kind of society organic solidarity.

Max Weber explained the origin and emergence of industrialization in Europe. He gave more emphasis to rationalization in answering why capitalist manufacturing became dominant in the economies of Western Europe. According to Weber (1971)

the expansion of capitalist manufacturing was due to a rational organization of business expertise to establish stable prosperity and increase capital. Weber also identified major features of the transition from the traditional, 'or pre-capitalist culture to the diligent modern capitalism. Weber argues that the hard work of Western Europe has encouraged rational economic policy to contribute to economic growth and development.

Durkheim and Weber both provided basic themes and intellectual roots of the modernization theory. Nowadays sociologists combine both ideas into a grand theory of development. They incorporate an analysis of changing systems, differentiation, rationalization, business motivation and individual ambition. According to Webster (1990) modernization theorists find out the key features of 'development' which is a useful model to measure the stage of development of any society.

#### **2.4.2 Modernization Theory**

Various American social scientists have developed the modernization theory after the Second World War. This theory is heavily influenced by Talcott Parsons. During the 1950s to 1960s modernization theory was prominent in social science around the world. Parsons (1964) identified how relationships change when a society transits from non-industrial to industrial society. It was widely believed that the USA provided a non-communist solution to eradicating poverty and underdevelopment through modernization theory. Modernization theorists marked out the distinction between traditional and modern society like Max Weber and Emile Durkheim did. Weber and Durkheim explained the norms and values of both kinds of societies and their economic and social systems (Bauer, 1976). Development is a founding belief of modernity. Modernization always refers to the change in attitude and orientation of people towards a pattern of life. Modernization has basic theoretical orientations is economic and technological development brings about change in social structure and culture like west (Singh, 2017).

Based on Parson's ideas on the transit from non-industrial to industrial society, Rostow (1960) developed a modernization theory of economic growth. He outlined five stages of economic development all societies eventually experience as they mature into an industrialized society: traditional, pre-conditions for takeoff, take-off,

drive to maturity and age of high mass consumption. According to this theory the third world societies are backward because they are pre-dominantly agricultural and produce only a small level of surplus, and they are late comers in the development process.

According to the modernization theory, if backward countries wish to develop and rescue their people from poverty, they must leave their culture of poverty and they must adopt the culture of progress. They must also be associated with the industrial capitalist countries of the west (Rostow, 1960). Similarly, they must allow the industrial West to bring in the necessary capital, industrial technology, and expertise through TNCs investments, loans, assistance, etc.

According to the modernization theory, poorer nations are poor because of lack of sufficient capital, technology and modern organization and values. Modernization involves the adoption of new ways of material life. Increase in capital leads to a modernization process that would then affect the political, cultural, social, and other aspects of the society. According to Rostow (1960) the key elements in moving countries through the developmental path are entrepreneurship, rational and appropriate political system, and high levels of saving. The poorer countries which begin to achieve sustained economic growth later move through the stages rapidly.

Similarly, modernization is a complex process which includes major components such as urbanization, industrialization, free and fair press, and its expansion, increasing literacy, good health, and extensive political participation including at the bottom level. According to Huntington (1968) modernization is a by-product of rapid social change and of rapid mobilization of new groups into politics.

Modernization theory has the improvement of standards, qualities, and perspectives which are the driver of the great success of economic growth and development. Webster (1990) has explained the three differences between 'traditional' and 'modern' societies as follows.

**Table 2.2**

*Differences Between Traditional and Modern Society*

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<b>Traditional Society</b>	<b>Modern Society</b>
Value of the traditionalism itself is dominant; that is people are oriented to the past and they lack the cultural ability to adjust to new circumstances.	People are not slaves to traditions. They will change unnecessary parts or get in the way of continued cultural progress.
The kinship system is dominant in all social practices. It also controls economic, political, and legal relationships. An individual's position in this system is ascribed rather than achieved. Social status is not earned or achieved.	Kinship relations have a less important role in all areas of society. An individual's social, economic, and political position and status is earned through hard work not determined by kinship.
The nature of members of traditional society is emotional, superstitious, and fatalistic.	Members of modern society are not fatalistic but innovative and ready to overcome obstacles they find in their own way. People are engaged in business affairs, entrepreneurship, and rational and positive approach to the world.

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*Source: Webster (1990, pp. 49-50)*

Traditional society is non-participant kinship into communities isolated from each other and it lacks the bands of interdependence and interconnected with each other (Hagen, 1962). In contrast, in modern society more individuals exhibit higher empathetic capacity and interdependence than previous society (Lerner, 1964). Eisenstadt (1966) argues that modernization is the process of change towards those types of social, economic, cultural, and political systems that have developed in Western Europe and North America from the 17<sup>th</sup> century.

While analyzing the perceptions of the scholars it can be said that process of modernization encourages the development of several features in the developing countries like urbanization, industrialization, free and fair of mass media to create

social awareness, growth of quality education and health, increased business opportunities, capital investment, improved political awareness and increased political and social participation. Similarly, abolishing traditional authority like monarchy, as well as landlords and adoption of a rational system of law can be regarded as key features of modernity.

### **2.4.3 Criticism of Modernization Theory**

There were several criticisms of modernization theory by the early 1970s. One of the main criticisms came from Marxian sociology. Eisenstadt (1970) critiqued the difference between traditional and modern society. Penn (1986) argues that modernization and urbanization do not change kinship and family relationships. Modernization overlooks the impact of domination, exploitation, imperialism, and colonialism on the underdeveloped countries (Hoogvelt, 1976). Similarly other critiques of the modernization theory are summarized below:

- a) Modernization theory is ahistorical; and it also fails to make a distinction between countries, regions, structural conditions, or specific historical experiences of the countries.
- b) It is Eurocentric and pro capitalist.
- c) It also emphasizes a nation's internal problems as the causes of underdevelopment.

### **2.4.4 Theories of Underdevelopment**

Modernization theory has serious weaknesses and cannot fully explain the underdevelopment of developing countries. This theory does not have any conception of the inequalities of power and class conflict. On the other hand, class conflict does remain an important aspect of historical change and transformation. Marx (1976) explains the inequalities within and between societies and the class conflict in his writing. Marx's ideas are very important in the 'underdevelopment' school of thought while explaining about the world economy and the underdevelopment.

According to Marx (1976) the exploitation of workers creates conflict in the capitalist mode of production. It is not limited by national boundaries but also in the international arena. The development and the expansion of the western capitalism is founded upon capital accumulation from abroad and the West developed at the expense of African, Asian, and Latin American countries. Marxist and neo-Marxists



theorists mutually agree on the growth of capitalism in the west relies on the exploitation of the third world poor countries.

### **Colonialism**

Colonialism permitted a high level of profit because it developed an efficient system to control human and natural resources in the colonies. In the 19<sup>th</sup> century, colonialism was a very effective system to control foreign lands for the expansion of industrial capitalism. During this period, colonialist-controlled territories, natural and human resources, and raw materials of the third world. Colonialists also encouraged the use of modern information, technology, communication, and transportation systems in the third world countries (Webster, 1990).

Webster (1990) identified a few silent features of colonialism. First, the colonies were a source of cheap raw materials, second it also expanded the market for produced goods from Europe. Third, colonial capitalists sought cheap labor to work in the farms, mines, and industries. Fourth, colonialism imposes the western administrative law, mechanism, and system over the third world countries. Fifth, it not only exploited natural and human resources of the third world but also disrupted the socio-cultural, economic, and political values, beliefs, and character of the colonies. Colonialism also has heavy impact over local languages, gender relation, native tradition and culture, cognitive knowledge and technology, religion, idea, norms, values and so on. Based on it, Stavenhagen (1973) strongly believed that the penetration by colonial capitalism will lead to chronic poverty and underdevelopment.

### **Neo-Colonialism**

The concept of neo-colonialism is a new form of colonialism where the outsiders will dominate the local socio-cultural and economic aspects of the underdeveloped world countries. However, it does not rely on direct political control from outsiders. Nkrumah (1965) argued that the essence of neo-colonialism is that the state which is subject to it is only in principle independent and possesses trappings of international sovereignty. However, its economic policies, system and internal policies are directed from the outside.

The old colonialism was collapsed after the Second World War. The rise of nationalist power started in the third world and European power was weakened. In the

meantime, the USA became a superpower. The old colonialism was abolished though economic dominance of first world in the third world by the mid-1970s, though it got still sustained in different forms. The world capitalist enterprises and companies had more freedom to invest in the world economy at that time. The main sources of growth in the world economy after the second world war were Multinational Corporations (MNCs) promoted by the USA. Growth and Expansion of the MNCs all around the world is the main feature of neo-colonialism. MNCs increased their economic trap on the raw materials, wage labor forces, and other natural resources in the third world. A large world production was under the control of a small number of MNCs (Girvan, 1976).

According to the underdevelopment theory these all three stages; merchant capitalism, colonialism, and neo-colonialism historically shaped third world countries' development status. The developed capitalist countries controlled the third world through expansion of capitalism and advancement of industrial centers of the world economy. Through this, the development of the underdevelopment is expanding in the poor third world countries.

### **Imperialism**

The concept of imperialism was developed by Lenin, and he explained the international growth of capitalism and imperialism. According to Lenin (1966) imperialism is an economic phenomenon, and it is a result of the capitalist system attempting to resolve its crisis of profitability. Imperialism permits control over a global market, access to cheap foreign wage labor and a cheap supply of raw materials. Lenin strongly believed that the underdevelopment or lack of development in the third world is the uneven impact of imperialist penetration in the world.

Lenin (1966) explained that imperialism is a main obstacle to third world development. Imperialism is draining the human and natural resources and economic surplus from third world, and they become more underdeveloped. Though Roxborough has strong criticisms of Lenin's theory of imperialism. According to Roxborough (1979) Lenin's concept of colonialism is the unavoidable result of the emergence of monopoly capitalism. Though, colonial empires have all but gone at

international monopolistic corporations' flourish. Lenin's explanation on the emergence of colonialism went wrong.

### **Dependency Theory**

Like in the modernization theory, defining underdevelopment considering only the internal reasons means blaming the victims themselves. Dependency theory emerged in the process of critiquing the modernization theory. The theory states that the colonial era that started in early 1500 led to development of some nations and underdeveloped the rest. In this circumstance, by the late 1960s neo-Marxist theory emerged as a serious theoretical challenge to the modernization theory. AG Frank has made an important contribution to dependency theory. According to Frank (1967) argues that core countries exploit peripheral or satellite countries through cheap wage labor, raw materials, utilization of the natural resources like gas, mine, and larger markets they need to increase their prosperity. Similarly, peripheral countries always depend on core countries for exporting their products.

The wealthy countries were rich by long-term exploitation of the people and resources of third world (Frank, 1967). Dependency theories argue that this history goes back hundreds of years at least to the rise of mercantile capitalism, which was reliant on trading goods across the imperialist and colonized regions. Hite and Roberts (2007) also agree with it. According to them, this kind of unequal economic exchange has made a direct contribution to promote development of underdevelopment in the colonized poor countries.

During the 1960s, while there was great influence of modernization theorists such as WW Rostow and S.P. Huntington, A.G. Frank introduced a different set of ideas which extensively critiqued the capitalism-led development approach. Similarly, this theory asked the question why poor nations are poor. Answering this question, Frank (1971) argued that capitalism produces wealth and further development in the core capitalist countries and poverty, backwardness, and underdevelopment in the peripheral ones.

However, dependency theory is also incomplete. Reitsma (1982) criticized the dependency theory as incomplete, one sided, and therefore misleading. Dependency theory neglects the unfavorable effects of internal factors, such as weak governance, corruption, nepotism, weak and incompetent leadership, domestic power struggles

within the elites, poor planning and implementation which contribute to the third world countries for expanding the development of underdevelopment.

### **World System Theory**

The main proponent of world-system theory is Wallerstein (1976). According to him, there is one single underlying set of processes in the world system to which all economies are interconnected with each other. The worldwide system is a hierarchy consisting of three situations or zones: the core, semi-periphery, and periphery. According to Wallerstein, the core of the world system extracts wealth and controls, through various types of relationships the nations in the periphery which are dependent on trade and other relationships with those in the core. The process in extracting wealth from the periphery uses unequal exchange, active suppression, control marketing, and the high value ends of commodity chains as explained by the dependency theory.

The world-system theory engages the concept of semi-peripheral countries to identify an intermediate layer between core and peripheral nations. It promotes the stability and legitimacy of the three-tiered world economic order (Wallerstein, 1974). Rich or core countries exploit poor countries in the same world system. They bring raw materials at cheap prices from poor countries and sell the processed materials at high prices to the poor countries. The poorer countries become poorer, and the rich get richer. This creates a world system where the world is getting richer on one side and poorer on the other (Gereffi, 1989).

### **The Development of Underdevelopment**

The past economies and social history which gave rise to the present underdevelopment should be studied for formulating development theory of underdevelopment. The present underdevelopment of countries is typically the historical product of past and continuing nature and processes of socio-economic, political, and other relations between the satellite and the metropolitan nation-states (Frank, 1969).

Frank (1971) further explained the development of underdevelopment as a continual historical process. Similarly, a long participation in the process of

capitalism development gave rise to the ongoing underdevelopment in the third world. The economic structures of contemporary underdeveloped countries are the result of being involved in the world-economy as a peripheral, raw material producing area (Frank, 1967). The operation of unequal exchange plays an important role for underdevelopment of a country (Emmanuel, 1972) which is enforced by metropolitan states on satellite areas.

#### **2.4.5 Criticism of Theories of Underdevelopment**

There are many weaknesses of the theory of underdevelopment that could be identified. Frank unduly emphasized dependence on rich countries as the main reason for underdevelopment. O'Brien (1975) critiqued the concept of Frank. For instance, Canada is heavily dependent with United States of America capital though it is itself a developed economy. Therborn (1979) also criticized the dependency theory. He argued that all parts are dependent on each other in the world economy.

The arguments that in the third world countries exists no internal dynamism, and surplus is swept away, no indigenous development is possible in the third world is invalid. Looking at the economic growth that was occurred in Malaysia, Singapore, South Korea, Taiwan, Brazil, and Mexico, theorists have had to rethink their stances about dependency. Warren (1980), for example, argued that the productive system of persisting underdevelopment is a complex mix of capitalist and non-capitalist activities.

#### **2.4.6 Theories of Development and Underdevelopment**

##### **Theory of 'Urban Bias'**

While understanding the status of underdevelopment, Lipton (1977) has developed the theory of urban bias. It is different from many other underdevelopment theories. Lipton believed that the main reason for underdevelopment is the existence of parasitical and corrupt urban elites. Lipton argued that there is massive inequality and imbalance between the urban and the rural areas. It is the power of an urban over the rural rather than capitalist class exploitation that leads to underdevelopment. Lipton (1977) further argued.

Poverty persists alongside development largely because poor countries are developed from, by and for people in cities, urban people deny the fruits of development to the pressure-less village poor. Many villagers once migration has failed to secure entry to urban labor, return to an increasingly land-scarce village, a village that is by policy starved of public investment. Thus, from curing its own poverty (p.69).

Lipton (1977) thus argued that the primary explanation for the inequality between rich and poor is urban bias. Urban bias continues to increase poverty, backwardness, and underdevelopment in rural areas even as urban areas become more prosperous.

### **Extractive Institution**

Acemoglu and Robinson (2013, p.372) argue that the main reason of the underdevelopment is "institutions, institutions and institutions". They strongly argue that nations fail today because extractive economic institutions do not create the incentives needed for people to save, invest, and innovate. Extractive political institutions, instead create and support economic institutions by cementing the power of those who benefit from the extraction and the curse of natural resources. They further argued.

National dependence on certain types of natural resources like diamonds and oil tends to promote bad institutions such as corruption, civil wars, inflation, and neglect of education. For instance, the diamond boom in Sierra Leone contributed to the nation's impoverishment. The Nigeria's and the Congo's poverty despite their wealth in oil and minerals respectively are other examples. In all case selfish dictators, elites or rulers found that they themselves could become richer by taking the profits from natural resources for their personal gain rather than investing the profits for the good of their nation. But some other countries avoided the curse of natural resources by investing the proceeds in economic development and education (pp. 372-374).

Acemoglu and Robinson focus on institutional factors. They stress what they term inclusive economic and political institutions. It provides individuals with incentives to increase their economic productivity as they think best (p.377). Acemoglu and Robinson focus on the good institutions and argue that among the

good economic institutions that motivate people to become productive are private property rights, predicable enforcement of contracts, opportunities to invest and retain control of present funds, control of inflation, and open exchange of currency. For instance, people are motivated to work hard if they have opportunities to invest their earnings profitably, but not if they have few such opportunities or if their earnings or profits are likely to be confiscated (p. 378).

### **Population**

A growing population adds a crucial aspect to encourage economic growth, development, and industrialization in a country. Sustained economic growth is also balanced by the population growth contributing to industrial development. Boserup (1965) argued that population growth always leads to rural inhabitants developing more advanced and productive ideas, and population growth is a most important factor for economic development.

### **Political Instability**

Political instability in the developing countries seems to be common, and it makes state public administration weak (Mann, 1986). Webster (1990) argued that political instability, military coups, political bribery, and corruption, rigged elections, and removal of opposition parties by dictatorial regimes contribute to expansion of the underdevelopment. According to Webster, instability of the government authority, and national politics, and immaturity in politics leads to an underdeveloped socio-economic condition in the third world countries.

Economic crisis, backwardness, and underdevelopment are founded upon political weakness and decay (Fukuyama, 2014). In this situation, the military organize coups and take over the civilian authorities to establish their own control over the economic structure, law, education, media and so on (Webster, 1990). The metropolitan centre is captured by the bourgeoisie and dominant capitalists. Political instability and weak governance lead to underdevelopment in a country. As the political leadership becomes embroiled in internal strife, national development does not become a priority. As a result, countries suffer from underdevelopment.

#### **2.4.7 Rethinking Development Theory**

Latin American and East Asian countries picked up pace in development during the 1970s. These countries, also called Newly Industrializing Countries (NICs). During this time, several developing countries were involved in expanding their share in the world production and export of manufactured goods. Better economic performance in terms of exports, employment generation, and economic growth was led by outward oriented development strategies in the East Asian countries. Balassa (1981) argued that the NICs' development is attributed to substantial intervention in their economies to promote rapid capital accumulation and industrial progress.

The states tended to be strongly authoritarian and actively involved in economic affairs (Wade, 1990). The rapid growth of the East Asian countries has also refocused attention on the role of 'cultural factors' in national development (Johnson, 1987). According to Johnson (1983) Confucianism gave advantages over other traditions in the quest for economic development to those countries. The Confucian believes in hard work, loyalty, respect for authority, regularity, punctuality, and a national consensus on high-speed economic growth led to economic development.

Textiles and clothing were most important sectors in the East Asian countries initially during 1960s. Hong Kong, Singapore, South Korea, and Taiwan pursued an outward oriented industrialization policy during the 1960s. The policy heavily supported generation of foreign capital through exports of industrial products. South Korea and Taiwan emphasized heavy industrialization like steel, automobiles, ship building and petrochemicals from 1973 to 1979 (Gereff, 1989).

Wade (1990) found that the four types of transnational economic linkages are critical for the development of the third world. These are foreign aid, foreign trade, direct foreign investment, and foreign loans. The development strategies and outcomes in the third world are affected by these linkages. First, they represent economic resources which may be used in many ways to finance development. Second, factors beyond and within the control of national states condition the availability of these resources. Third, the destination and use of transnational economic linkages in a country directly affect the power of domestic actors.

Foreign assistance and aid were also important factor for the development of East Asian countries. Some countries got enormous help from the developed



countries. The USA assisted South Korea and Taiwan with a huge amount of funds during the 1950s, which supported the survival of these countries. During 1951 to 1965, 1.5 billion USD in economic aid and 2.5 billion USD in military aid were provided to Taiwan by the USA (Jacoby 1966). Similarly, during 1953 to 1961 South Korea received 2.6 billion USD in economic aid and 1.6 billion USD in military assistance (Cole, 1980).

According to Gereffi (1989) the success of the East Asian countries' export strategy is based upon the performance of locally owned exporting firms and its strong link to the foreign buyers. Gereffi (1989) examined that the commodity chain is a network of wage labor and production process whose result is a finished commodity. The concept of commodity chains and export and marketing networks became extensive during this time. Hopkins and Wallerstein (1986) identified that the commodity chains created four major segments. The first was raw material supply. The second was production, and the third was export. Finally, there was marketing and retailing. Thus armed the East Asian countries looked for their role in the world economy and then started to flourish.

You (2005) identify a few more causes for the development of East Asia. First, the East Asian countries have sharply moved toward technology and skill intensive exports focusing on high value-added products since the 1970s. Second, local private firms play an important role in exporting local products in the global market. Third, the East Asian countries adopted a mix of outward and inward oriented development strategies. Finally, all East Asian countries were coherent and autonomous.

#### **2.4.8 Role of Good Governance in Development: A Case of Singapore**

Singapore has advanced to developed stage within a very short period. The country joined the Federation of Malaysia in September 1963. There were fundamental disagreements over policies between Singapore and the federal government. At that time, Malaysia had taken Singapore as a burden because Singapore was drowned into underdevelopment and poverty. Suddenly, on 9 August 1965, Singapore became an independent nation. The country was not rich on natural resources and thus there was no role of natural resources in development of Singapore. The development of Singapore was totally man-made. The book, 'From Third World to First: The Singapore Story 1965-2000' written by the President of Singapore, Lee Kuan Yew is an important material to study for understanding the

developmental approach and process of Singapore. According to Lee Kuan Yew (2000), there were a lot of problems in Singapore when it got independence from Malaysia. The first was international recognition for Singapore's independence. The second was the difficulty of saving its territory. The third was the difficulty in making a living for the people. Fourth, Singapore was divided into several races, so it was very crucial to save united Singapore's multilingual, multicultural and multi-religious society (p.8). The employment problem was alarming with 14 per cent unemployed people. Singapore had to create a new kind of economy, strategies and never tried before anywhere else in the world because no country like Singapore had existed. The greatest asset of Singapore at that time was the trust and confidence of the people and their eagerness to learn.

Albert Winsemius first came to Singapore in 1960 when he led a UNDP mission to advise Singapore on industrialization and development (Lee, 2000). According to Lee there were two preconditions for Singapore's success: first, to eliminate communists who made any economic progress impossible and second, not to remove the statue of Stamford Raffles. Meanwhile, by March 1968, the British government approved a 50-million-pound aid package to be spent on British goods and services. Of this, 25 per cent were grants and 75 percent was loans (p.54). From that money, Singapore made investment on reliable and cheap air and sea transport.

As the first strategy of development, Singapore collaborated with American MNCs. American MNCs brought in higher technology and large-scale operations, creating many jobs (p.57). Neo-Marxists relied on the dependency theory thought considered MNCs to be exploiters of cheap land, labor, and raw materials. They believed that MNCs continued with the colonial pattern of exploitation that left developing countries only sell to raw materials to and buy consumer goods from the advanced countries. MNCs controlled technology and consumer preferences and formed alliances with host governments to exploit the people and keep them down. Most of the third world leaders believed this theory of nationalist exploitation. But Lee Kuan Yew was not impressed (pp.57-58). Lee (2000) strongly believed that Singapore had no natural resources for the MNCs to exploit.

In this situation, the government played a key role in attracting foreign investments. They built the infrastructure and provided well planned industrial estates, equity participation in industries, fiscal incentives, and export promotion. It established good labor relations and sound macroeconomic policies, the fundamentals

that enabled private enterprises to operate successfully (p.61). The Singapore government welcomed everyone, but when they found a big investor with potential for growth, they went out of their way to help it get started (p.62). Lee (2000, p. 68) wrote “If I have to choose one word to explain why Singapore succeeded; it is confidence and it was what made foreign investors site their factories and refineries in Singapore.”

Nurturing and attracting talent are crucial aspects of development in a country. Talent is a country’s most precious asset. It is a defining factor for a small, resource poor country like Singapore, with 2 million people at independence in 1965. Lee (2000) argued that without international talent, they would not have done as well. If Singapore did not work with top international talent, she would not make it into the top league (p.144).

The progress of Singapore with in a very short time is also attributed to the control of corruption and promotion of good governance. The ruler of Singapore seems to have developed a special mechanism to control corruption since inception. Lee Kuan Yew has ascribed keeping the government clean in Chapter 12 of his book. Lee (2000) further argues that the government had a deep sense of mission to establish a clean and effective government when they took the oath of office at the ceremony in the city council chamber in June 1959. All wore white shirts and white slacks to symbolize purity and honesty in personal behavior and public life.

The Corrupt Practices Investigation Bureau (CPIB) was set up by the British in 1952 to deal with the increasing corruption in Singapore. The Bureau specially investigated and punished the lower and middle levels of the police, hawkers and so on. But the government of Lee Kuan Yew decided to concentrate on the big players in the higher ranks.

In 1960, Singapore changed the outdated 1937 anti-corruption law and widened the definition of gratuity to include anything of value. The amendments gave wide powers to investigators, including arrest, search and investigation of bank accounts and bank books of suspected persons as well as their kins or agents (p.159).

The most effective change Singapore made in 1960 was to allow the courts to regard proof that an accused was living beyond his or her as sufficient evidence that

the accused had accepted or obtained a bribe (p.159). The power to investigate every officer and every minister, the director of the CPIB, who works at the prime minister's office, developed a justly formidable reputation for sniffing out those betraying public trust (p.160).

High-level officials including ministers involved in corruption were punished. Several ministers were found guilty of corruption, one each in of the decades from the 1960s to the 1980s. In November 1986, Minister for National Development the Cheang Wan's old associates admitted under questioning by the CPIB that he had given the two cash payments of 400,000 USD each, in one case to allow a development company to retain part of its land which had been ear marked for compulsory government acquisition and in the second case to assist a developer in purchasing state land for private development (p.162). The minister committed suicide after this incident.

Control of corruption and promotion of good governance seems to have paid off. According to research carried out by various independent researchers, Singapore today is one of the least corrupt countries. The Institute of Management Development's World Competitiveness Yearbook 1997 ranked the least corrupt countries in the whole world giving Singapore 10 points as the perfect score for the country with no corruption. Similarly, Transparency International (TI) placed Singapore in the seventh place worldwide in 1998 for absence of corruption (p. 163).

**Table 2.3**

*Corruption Perception Index (CPI) Rank of Singapore*

Year	CPI	
	Rank	Score
2020	3	85
2019	4	85
2018	3	85
2017	6	84
2016	7	84

*Source: Transparency International (2021)*

Favoritism, nepotism, and covert corruption had infected the higher levels of Singapore administration. On the other hand, it is a prerequisite for a country to possess and empower honest leadership and clean government to push system based in development along. A low-cost election is necessarily support to lower political corruption. When election costs are high the peoples' representatives are recouping the spent elections. Keeping this in mind, Singapore had made policies favor of low-cost elections (p.164)

From the inception, because the while the pillars of good governance and anti-corruption were established from the higher levels. It had positive impact on the economic growth and development of Singapore. With the founder generation of leaders, honesty had become a habit in Singapore. People wanted a good, honest, clean government that produced positive results in terms of economic growth and development. Similarly, the rule of law was in high priority in Singapore. The rule of law provided a good framework for the stability and rapid development in the country.

#### **2.4.9 Recent Trends in Development Theory**

Within the emergent political structure of East Asia, Latin America and even in China is state capitalism. The government relies on a central role of development as a provider of capital through foreign loans, local taxation, and economic planning. Apter (1988) tried to synthesize the culture and economic growth and argued that economic factors create underdevelopment which are influenced and shaped by local cultures and local political structures. Webster (1990) argued that a government can lead an accumulate wealth by having control over and access to the capital resources leading to economic growth and development. Mafeje (1997) also argues that state capitalism is a key vehicle through which third world societies begin to protect their underdevelopment.

#### **2.4.10 Development Planning and Development Aid**

Most of the third world countries failed to develop new development funds and new agencies were set up at national and international level which contributes towards the state restructuring and development plans. Such agencies provide support for sectoral projects like hydroelectricity, highways, irrigation, communications, buildings, bridges, and social and human development, food security, rural

development and so on (Webster, 1990). This assistance plays an effective role in stimulating the economic development in such countries. International agencies like the World Bank, ADB, IMF provide low interest loans to the third world borrowers from official sources. Webster (1990) argues that this low interest loan provided by the agencies is a good opportunity to make and implement development plans. However, these agencies often support these less developed countries which serve western interests. Looking at the situation of the third world countries, the aid proves to have misfired. Most aid is in the form of loans rather than grants or assistance to poorer countries; it has led to increasing debt in the Third World. Frank (1981) argued that development aid and loans encourage dependency with rich countries and weakening the internal capacity of the less developed countries.

Similarly, a large part of development assistance and loans goes to technical experts, staff of or from donor countries, expensive housing, luxurious transportation, etc. in the host country (Frank, 1981). Similarly, Frank (1971) argued that foreign aid and loan increase dependency when the country is provided loan with condition that the host country should buy goods and services from the donor country. Furthermore, beneficiaries of foreign loans and assistance in the third world are urban-centered bureaucrats, politicians, development activities, businesspersons, workers, and academics. The level of benefit that accrues to the rural regions is small. It also contributes to the development of underdevelopment in the Third World. This is what led to the approach of rural development.

Development aid is often mired in irregularities and mismanagement of aid and loans at the top and or with local corruption of politicians and bureaucrats who manage it. Hartmann and Boyce (1980) found evidence of misuse of funds by local politicians, bureaucrats, and the elite class. According to Mehata (1984), the rich and elite class accrue more benefit while poor people are hardly touched. The elites benefit more by means of access to roads, agriculture, communication, transportation, and irrigation that are brought about through support because poor people in the rural areas. These groups also possess adequate knowledge, skills, and appropriate attitudes to take required initiatives on their own. On the other hand, the poor, due to their socio-economic status, are dependent upon the national government. Mehata further explains that if poor people are educated, knowledgeable, and made aware of a government's program then they can benefit more from it. However, Chambers (1983) argues that the poor people do not need training, but they need education to inspire confidence in order that they can use the farming skills they already have.

The reason why the third world does not prosper in comparison with industrialized rich countries is because of inefficient use of resources and lack of entrepreneurial motivation. The third world, in fact, does not exist without foreign aid. Bauer (1981) argued that foreign aid seems to be the main obstacle to material and physical progress and development of the third world because it is inefficiently and unproductively used. Bauer (1981) further argued that foreign aid and loans create parasitic local elites, and they are not, in fact, interested in promoting economic development in their countries.

Many studies show that aid transfers are neither productive for donors nor for the receivers. Hayter (1971) believed that foreign aid and loans were vehicles continue to drive poor countries further towards underdevelopment. According to Bello et al. (1982) because resources and surplus capital are continually drained off by the core or metropolitan states, third world countries remain underdeveloped.

#### **2.4.11 Weak Governance, Corruption and Underdevelopment**

Many scholars have carried out research to identify the nature of relations between Weak governance and corruption with underdevelopment. Tanzi and Hamid (1997) found that Weak governance and high levels of corruption have negative impacts on development. They argued that Weak governance and corruption affect four major aspects of economic growth and development. According to Uneke (2010) corruption damages socio-economic and political development in a country. Panday (2009) strongly believed that underdevelopment was the result of a leadership's inability to understand the intricacies of development and articulate appropriate strategies and policies in its pursuit.

Scheifer and Vishny (1993) argue that corruption hinders development because it makes resource allocation inefficient. Mauro (1995) used statistics from 67 countries across the world and found that corruption always lowered this level of private investment, and it negatively affected overall economic growth and development. He suggested that Weak governance and corruption led to a decrease in private investment, misuse of the public resources and altered the structure of government expenditure and, thus, promoted the development of underdevelopment. Gupta and Mookherjee (1998) argued that corruption increased income inequality, decreased financial allocations to education and health and thus, promoted underdevelopment.

Panday (2009) argued that the main cause of underdevelopment is unequal allocation and distribution of economic, political, cultural, and other available resources. Inequitable distribution of resources leads to underdevelopment. While richer countries utilize excessive resources, this also leads to underdevelopment in many other countries. However, the developed countries have equitable mechanisms for distribution of available resources. Onimode (1988) stated that corruption is a serious obstacle to the legitimacy of nation-state and to a progressive state capitalist development in the third world. Onimode (1988) further argued.

Corruption operates as a 'lootocracy' or government-by-looting of the state treasury. It was the political elites that looted a country and stacked the money abroad. By breeding apathy and cynicism among the masses, such officials' corruption also operated to erode the legitimacy of government, and that had a persistent and an important role in Africa is underdevelopment (p. 231).

Andreski (1966) also strongly argued that corruption was the most prominent factor in promoting underdevelopment in the third world. He further argued.

Corruption paralyzed all development efforts and ultimately undermines social order. Policy decisions are taken with a view to the interests of the few rather than the needs of the larger of society. A public administration saturated by venality cannot respond to direction: worst of all public confidence in the state becomes virtually non-existent. Government decisions are met with hostility and suspicion. Societies in consequences hover on the edge of ungovernability (p. 67).

Lawal and Tobi (2006) emphasized that Weak governance and corruption caused a serious development threat in the third world. Corruption diverted limited public resources into private pockets and eroded the social and moral fabrics of a country. Sachs (2005, p. 311) argued that "Weak governance and corruption was the major cause of malaise of Africa. And Weak governance and high level of corruption explained the laggard economic growth and development performance in Africa". Bamidele (2013) claimed that corruption was the main reason of underdevelopment in the African region.

The elite theory also describes the power relationships in a society. This theory asserts that a small minority clique of elites controls disproportionate power and state resources. Vergara (2013) also agrees with it. He further adds that the political elite is a cabinet of people that controls the state. While analyzing the



findings of various scholars, it finds out that Weak governance and high level of corruption are the major reasons for development of underdevelopment.

While analyzing the preceding literature, on the development of underdevelopment, two concepts stand important. The first emphasizes external factors. This focuses on the existence of capitalist world economy. The second emphasizes internal factors such as landlocked-ness, geography, weakness of the internal institutions and so on. I strongly believe that internal and external causes are mutually linked and both lead to underdevelopment of a country. However, internal causes like Weak governance, high level of corruption, and illicit capital outflows are the major factors behind the underdevelopment.

## **2.5 Debate of Development and Underdevelopment in Nepal**

While examining the history of Nepal, Nepal had not been underdeveloped forever. Talking about the time between 1400 and 1800 AD, Nepal had been among wealthiest countries. According to Mishra (B.S. 2066), Kathmandu was wealthy at that time. The evidence for this can be taps, temples, sanitary pipelines and *Rajkulos* for irrigation in Kathmandu valley as well as international trade. Nepal was wealthy during the period of 900 BC to 880 AD (Uprety & Thapa, B.S.2053). At that time, Nepal, on one hand was far ahead in agriculture, animal husbandry, business, and trade and on the other hand, Nepal was developing as a business route between South Asia and Tibet.

The development of monetary system started right from early Lichhavi period. The system of *Manank* currency had already started from time of the ruler of Lichhavi period, late King Mandev in 521 B.C. This system is believed to have provided for the increase in business and urbanity (Uprety & Thapa, 2053). The Kathmandu valley had already become a business hub of Nepal during the Medieval Period (880 AD to 1768 AD). The three states of Nepal, Kantipur, Lalitpur, and Bhaktapur used to make and export currency. These states made much profit while exporting currency to Tibet. Uprety & Thapa (B.S.2053) wrote:

Business transaction had been continuing between Nepal and Tibet from the ancient time, though the arrangements for the businessmen to stay in these had been agreed during regime of Bhim Malla in 1240 to 1253 CE. It started

making currency for Tibet. In place of currency, it received gold and silver. Apart from Kantipur, Lalitpur and Bhaktapur also occasionally benefited from this arrangement (p. 51).

How did this country fall into the vicious circle of underdevelopment? Different scholars have different views on the answers to this question. Mishra (1987) gave emphasis to the socio-political and unequal economic relation of Nepal with British India as the reason for this. He believed that the reason for this accounts for the imperialist approach of India and other states. On the ground of provision of Sugauli Treaty of 1816 and Friendship Treaty of 1950, Nepal had further developed its dependency, and this long sequence led to the development of underdevelopment.

Mishra (1987) argues that while Nepal had been incorporated to the capitalist economy it went on falling in the vicious circle of underdevelopment. Nepali youths were legally being recruited in British India army force. This led to the increasing Nepal's dependency towards India. Nepal cancelled the earlier prohibition for Nepalis to be recruited in the British Army in 1885. In the meantime, the everyday consumption commodities were imported from India in ever larger scales. The state alliance systematically discouraged household crafts as well as local artists and traders. Mishra (1987) further added:

The rapid expansion of the Indian industrial economy after the First World War, in conjunction with the liberalization of imports following the 1923 treaty further undercut the basis of craft and industries in Nepal. Combined with the 'friendship treaty' which was exclusively directed against Nepali's only other neighbor, China, Nepal took shape as a near-full-fledged hegemony of the Indian state and the Indian mercantile bourgeoisie (pp. 256-259).

He further argued that the comprador bourgeoisie became more dominant after the 1960s. Old landlords, who were part of the national capitalist class lost dominance. The possibility of internal development got ruined. With this, external dependency blocked the independent socio-economic development of Nepal trapping it in a vicious circle of underdevelopment.

An important aspect of the development of underdevelopment is the restrictions under which the present state alliance lives, and option it exercises and/or fails to exercise. The state alliance cannot lead a coalition of national bourgeoisie and

engage in an expanded capitalist accumulation regime for several reasons. Mishra (B.S. 2063) identifies few reasons as below:

...first, peripheralized extensively and intensively for more than one hundred years, the national bourgeoisie- the national industrial bourgeoisie in particular-is a very weak force here; second, farms and industries at least in the short run cannot acquire a competitive edge, third, the existing scale of interstate commodity transaction cannot be drastically cut down-and national accumulation subsidized not only an account of local demand and interstate/international pressure for supply but also because a very large proportion of the annual national state revenue-varying between 25 percent and 58 percent in the last 20 years-accrues from interstate commodity trade, the bulk of it from import duties and associated taxes, fourth, the hill households, as well as the state as a whole, cannot forego the emigration and remittance routine, fifth, the state alliance cannot afford large scale proletarianization- an inevitable consequence of the capitalist accumulative process and finally, the comprador commercial bourgeoisie has become a prominent component of the state alliance (pp. 263-264).

In his article which is widely read critical in the context of development of underdevelopment in Nepal, Prof. Mishra has not focused much on internal reasons. Mishra (B.S. 2063), however accepts that internal situation is important. Analysis of the micro level as well as the distribution of internal political power should be duly analyzed.

Similarly, other scholars have attempted to identify the reasons of underdevelopment in Nepal. During both the *Rana* and *Panchayat* regimes, the public administration was almost exclusively concerned with maintaining internal security and to expropriate the surplus of farmers in the form of taxes, and profits made by traders, to sustain the state apparatus and to resume control of the state. Apart from this, the government, (particularly, the Rana government) did not seem to have any interest in the development related initiatives. The tendency to use the funds raised through taxes and revenue for personal gain but not to invest in the development of the country became an integral part of the Nepalese governance. This has led to an increase in the underdevelopment of the country (Blakie et al., 1979).

The autocratic Panchayat regime was imposed in 1960 by dissolving a recently elected parliamentary democratic government. During the Panchayat regime,

the privileged upper class exercised their power and exploited the peasants and workers. The 30-year long Panchayat regime closely controlled politics, administration, business etc. The higher ranks of the military, public administration, and politics in Nepal were captured by high class landlords (Beenhakker, 1973).

Nepal is landlocked between China and India. This is a major constraint to Nepal's development (Panday, 2009). Luitel (2009) has also argued that the geographical location of Nepal is an important cause of the underdevelopment. Nepal has suffered from higher border prices due to the lack of proper connectivity and high level of transportation costs. Due to difficult geography and its landlocked nature, Nepal faces huge problems in imports and exports. Other landlocked countries like Switzerland, and Austria possess compensatory advantages. Switzerland, for instance, may choose among several points of access to the sea across different countries. However, Nepal faces a big problem partly because India obstructs Nepal's access to the sea.

Furthermore, the construction of *Araniko* highway from Kathmandu to Kodari at Nepal-China border had no effect on the monopoly of India over access of Nepal to the sea (Rana & Malla, 1973). Due to this, Nepal has depended over India for the imports and exports. This dependency for road and transit through India has further strengthened India's domination over Nepal.

Many writers emphasize dependency and donor interest as the reasons for Nepal's underdevelopment. Nepal's poor economic situation and lack of proper management of human and natural resources has made it dependent on foreign assistance and loan. There has been excessive introduction of foreign assistance and loan from USA, India, USSR, China, World Bank, ADB, and IMF among other countries after the 1950s. The donor countries and agencies not only provide fiscal assistance and loan, but also impose their own vested interest over Nepal. Shah (1973) had argued that both India and China have expanded road connectivity to Nepal based on their economic and trade interests. As a result, Nepal became a trading center for Indian and Chinese goods. Small and cottage industries within Nepal came to a standstill. As a result, Nepal went on being underdeveloped day by day.

In case of India and Nepal, the relationship of domination and exploitation can be seen as characteristic to relations between the developed and underdeveloped countries. Because Nepal has fewer resources, Indian industrialists tend to keep Nepalese industrialization to the minimum by penetrating Nepalese markets and encouraging their own expansion. Indian industrialists also compel the poorer Nepalese to work as a cheap labor force. The interest of the upper class or ruling classes in Nepal and the capitalist transnational corporations in India play an important role for it (Luitel, 2009).

Similarly, the dependency of Nepal has been increasing due to the foreign aid. Before one month of the collapse of the Rana regime on 25 December 1950, an agreement "*Point 4 Nepal*" was held between USA and Nepal. According to the agreement, the USA had established a United States Operation Mission (USOM) in Nepal and had provided some support for the development of Nepal (Pathak, 2017). With this, several models of development started pouring into Nepal. The rulers in the country developed a mentality that development activities could not be carried out without foreign assistance. Panday (2011) argued that the Nepali rulers took development to be inseparable from foreign aid right from the beginning. These kinds of development thinking led to the development of further underdevelopment in Nepal. Luitel (2009) also agrees with it.

Bista (1991) emphasized on social factors as obstacle to economic growth and development in Nepal. Bhattarai (2003) argued that Nepal's underdevelopment is essentially a problem of transition of a pre-capitalist society, which was taking hold due to internal reasons and was facilitated by exogenous capitalist /imperialist interests. Panday (2009) provided a quantitative assessment of the sectors to demonstrate the poor performance and to identify the socio-political factors that hinder development in Nepal. He also argued that development had failed in Nepal because of corrupt agents of development.

Nevertheless, various planned activities have been carried out for Nepal to bring out of the vicious circle of underdevelopment. The "National Planning Committee" was established in 1993 during the eleventh hour of Rana regime for formulation of a fifteen-year plan during the period of Prime Minister Mohan Shamsher. But the plan was never implemented (Pande, B.S. 2076). Following the establishment of democracy in 1951, an annual budgetary system was introduced in

Nepal (Pathak, 2017). In the same year, a rural development program was introduced for improving the state of education, disease, and poverty. The main objective of that program was to develop agriculture and rural trade for uplifting the living standard of the rural people (Ghimire 2057). Similarly, the first five-year plan (1956-1961) initiated planned development in Nepal. The plan had a total budget was 330 million rupees (Ghimire, 2057).

It has been six decades since the formulation of that document. The 15<sup>th</sup> periodic plan (2019/20-2023/24) is in implementation at present. A total of 954.42 billion Rupees from public sector, 1327.30 from private sector and 143.24 billion Rupees from cooperative sectors have been estimated as total expenditure of this plan period (NPC, 2020). Planned development activities adopted for development of Nepal have not shown any positive results. Despite huge amount spent in developmental activities, Nepal is being trapped into the vicious circle of underdevelopment. What is the reason for such results? There exists no vigorous research to answer this question.

## **2.6 Governance, Corruption and (Under) Development in Nepal**

After nearly seven decades of development effort covering 15 development plans, the country remains one of the poorest and underdeveloped in the world. Despite various efforts, why development approaches have failed in Nepal has become most important issue today. Development is a process of social change and the efforts carried out for social changes in Nepal have consistently failed one after the other.

Weak governance, high level of corruption and illicit capital outflows are the major factors that seen to be playing important roles in creating obstacles in development and in promoting underdevelopment in Nepal. A high level of corruption has been a very old scourge. It is also pervasive in the country. Corruption is now so widespread and so routine that most activities of public interest are drawn into it. Corruption does not only cover the misuse of public resources for private gain but also includes specific unethical or illegal acts (Panday, 2009). Panday argues that a high level of corruption playing an important role in the underdevelopment of Nepal.

Similarly, there is a lack of good governance in Nepal. As a result, Nepal has not been able to carry out development works using the resources and capitals it does invest. Panday (2009) further added:

When resources are not utilized in an efficient manner, development programs and projects become burdens on the economy because the benefit cost ratio is distorted by corruption. Corruption seems to have been promoted systematically where policies are brought up for the sole purpose of enriching a group of individuals or a social or political clan (p. 386).

The problem of corruption enters to the mainstream of the political agenda in Nepal. All aspects, the bureaucracy, politics, police, private sector, civil society, etc. are seriously affected by widespread corruption. When all aspects of the state are involved in corruption, it cannot but have a negative impact on the economic growth of Nepal.

Until the country's leadership resolves to support corruption as a disease. Nepal's development cannot be ensured. Federalism was accepted in Nepal with a great thrill. After a few years of implementation, the federalization process in Nepal suffered from many criticisms. It has been said that federalism provided more opportunity for local elites to commit corruption. Federalism has not yet made substantial enhancement in accountability and public services; it has expected corruption to the local level.

With federalism, corruption previously existing at the central level has now reached the local level. Enormous political, administrative, and fiscal authority has been delegated to provincial and local governments. However, the local governments are now engaging in misuse of public property and authority, themselves, party cadres, families, and kins (Ghimire, 2018). Ghimire (2018) further argues that federalism allows the transfer and delegates huge amounts of money to sub-national and local government. But this has not been accompanied by corresponding improvement in financial management capacity, or by enhanced proper internal and external monitoring. Financial irregularities and corruption over funds allocated for development at the local level have directly affected the overall development of the country.

## **2.7 Research Gap**

While studying various theoretical and empirical literature about underdevelopment of Nepal two conclusions can be drawn. The first reason for underdevelopment is accounted to the external factors. Frank (1967) argues underdevelopment of countries is typically the historical product of past and continuing socio-economic, political, and other unequal relations between satellite

and the metropolitan countries. Frank (1971) further explains that the long participation in the process of capitalist development gave rise to the present underdevelopment in the third world. It also led to a regime of unequal exchange which plays an important role in the underdevelopment of a country.

The studies on this issue in Nepal specially seem to have been based on the dependency and world system perspective matured from 1960 to 1980. This system believes that there is no absolute freedom of any region, state, class, or community. Empirical evidence shows that unequal business and market relations also account for the underdevelopment of Nepal. It has argued that Nepal is falling into a vicious cycle of underdevelopment due to unequal trade and economic relations with developed countries.

The second reason for underdevelopment is attributed to internal factors like modernization, geography, land-locked condition. The modernization theory (Rostow, 1960) focuses on internal causes of underdevelopment. Modernization theory interprets economic backwardness or underdevelopment as an initial stage in a spontaneous evolution toward economic maturity. According to this theory underdeveloped or poor nations are poor because of lack of large capital, technology, and modern organization and values. Some scholars also strongly argue that geographical remoteness and landlocked conditions are additional reasons for underdevelopment (Panday, 2009).

In terms of Nepal's underdevelopment, it seems that both have been studied from a theoretical point of view. However, there is a research gap on how upon impact state institutions, policy making and its implementation on the development process. Furthermore, there does not seem to have been in depth studies on how Weak governance, high levels of corruption and illicit capital outflows are promoting the development of underdevelopment in Nepal. This intensive study tries to fill this research gap.

## **2.8 Weak Governance, Corruption and Underdevelopment**

There are many scholars who engaged and carried out research on identifying the relationship between weak governance and corruption with underdevelopment. Tanzi and Hamid (1997) found that weak governance and high level of corruption has negative impacts on development. They examined that the weak governance and corruption affect major four aspects of the economic growth and development. According to Uneke (2010) corruption is damaging to socio-economic and political



development in the country. Panday (2009, p. 151) strongly believed that underdevelopment is the result of the leadership's inability to understand the intricacies of development and articulate appropriate strategies and policies in its pursuit.

Scheifer and Vishny (1993) argue that corruption hinders development because it makes resources ineffective and alters economic growth. Mauro (1995) used the statistics from 67 countries all around the world and found that corruption always decreases private investment, and it affects overall economic growth and development. He suggested that the weak governance and the corruption leads to the decrease in the private investment, misuse of the public resources and altering the structure of government expenditure and promote the development of underdevelopment in the countries. Gupta and Mookherjee (1998) examined that corruption increases income inequality, decreases the financial allocations to the education and health sectors in the developing countries which contributes to promote the underdevelopment in those countries.

Panday (2009) argued that the main cause of underdevelopment is unequal allocation and distribution of economic, political, cultural, and other available resources. The inequitable distribution of resources leads to underdevelopment in the countries. While richer are using excessive of these resources with the poor left void of them, this leads to underdevelopment. However, the developed countries have equitable mechanisms for distribution of available resources. Onimode (1988) stated that corruption is a serious obstacle to the emergence of nation-state legitimacy and progressive state capitalist development in the third world. Onimode (1988) further argues that corruption operates as a 'lootocracy' or government-by-looting of the state treasury and political elites looted the country of billions of dollars and stacked the money abroad. By breeding apathy and cynicism among masses, such official's corruption also operates to erode the legitimacy of government, and this has been persistent and an important role of the African underdevelopment (p. 231).

Andreski (1966) also strongly argued that corruption is the most prominent factor in promoting underdevelopment in the third world. He further argued that corruption paralyses all development efforts, and ultimately undermines social order. Policy decisions are taken with a view to the interests of the few rather than the needs of society. A public administration saturated by venality cannot respond to direction:

worst of all public confidence in the state is virtually non-existent. So, all government decisions are met with hostility and suspicion. Similarly, societies hover on the edge of ungovernability (p. 67).

Lawal and Tobi (2006) emphasized that weak governance and corruption causes a serious development threat in the third world. Corruption diverts limited public resources into private pockets and erodes the social and moral fabrics of a country. Sachs (2005, p. 311) identified that weak governance and corruption is the major cause of malaise of Africa. He further argues that the weak governance and high level of corruption laggard economic growth and development performance in Africa. Bamidele (2013) strongly claimed that corruption is the main reason of underdevelopment in the African region.

The elite theory also describes the power relationships in a society. This theory asserts that a small minority clique of elites controls large amounts of power and state resources. Vergara (2013) also agreed with it. He further adds that the political elite is a cabinet of people that controls the state mechanism and government. While analyzing the findings of various scholars, it seems that weak governance and high level of corruption are the major reasons for development of underdevelopment.

While analyzing the above-mentioned theoretical and literature review, concepts, and dimensions about the development of underdevelopment, two concepts seem to be important. The first one gives emphasis on the external factors. This focuses on the existence of capitalist world economy. The second concept gives emphasis on the internal factors such as landlocked, geography, weakness of the internal institutions and so on. I strongly believe that internal causes lead to underdevelopment of a country. Among the internal causes, weak governance, high level of corruption, and illicit capital outflows are the major ones.

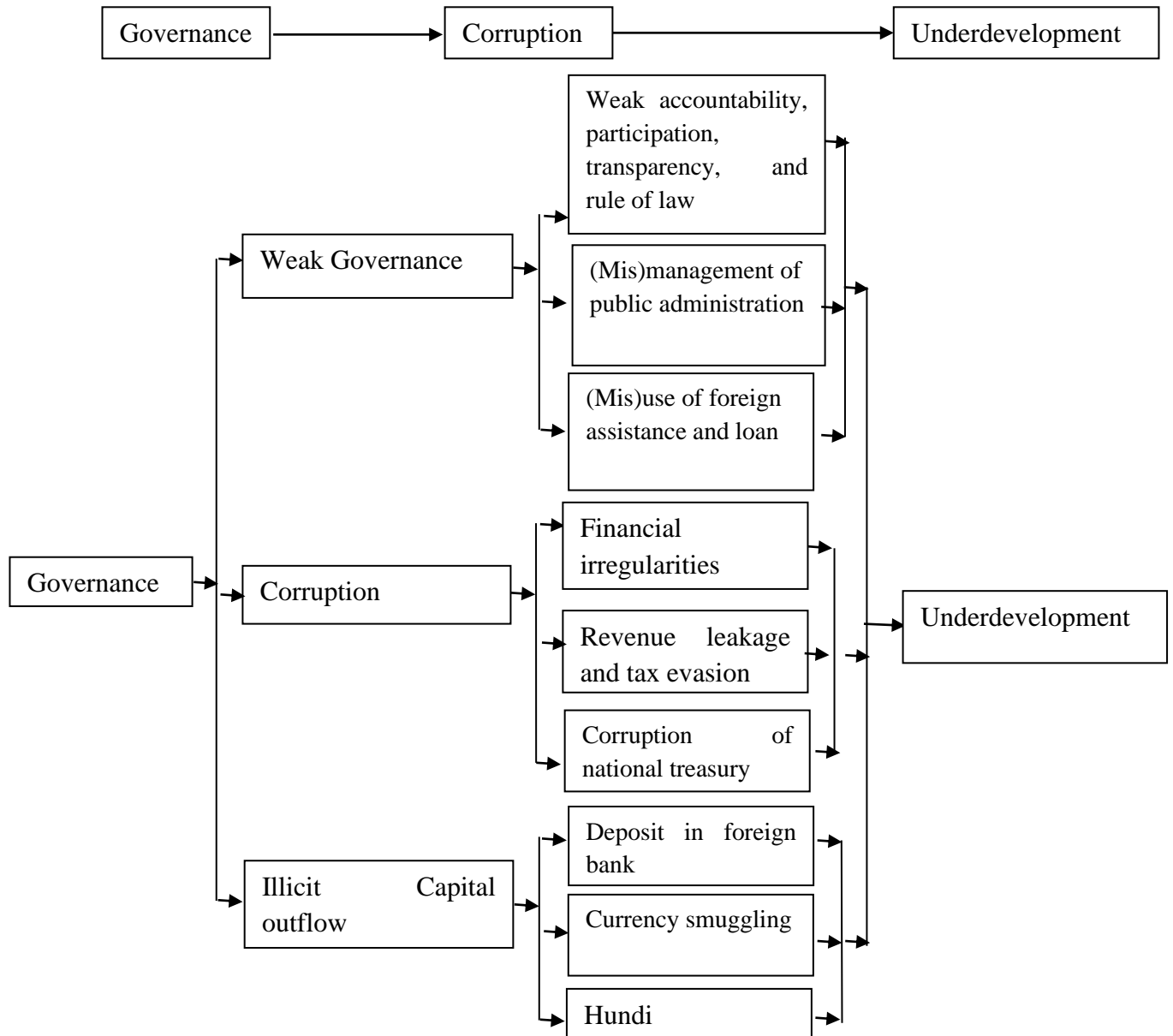
## **2.9 Conceptual/Theoretical Framework**

The conceptual and theoretical framework of this study includes three key concepts: governance, corruption, and development. Conceptual framework is developed on the basis of the theoretical argument that the weak governance that induces corruption and capital outflow leads to underdevelopment of any country. In this regard, governance is an independent concept and development is a dependent concept. Theories: modernization, dependency, world system, and governance, which argue

that form of governance with weak governance, corruption, and capital outflow leads to underdevelopment of any country.

**Figure 2. 1**

*Conceptual/Theoretical Framework*



Conceptual/Theoretical framework is the synthesis of multiple theories of governance and development. Based on the discussion above the conceptual/theoretical framework developed under this study is given in figure 2.1. Based on this conceptual framework the concepts; governance, corruption and illicit capital outflow and their relations with underdevelopment is dealt with in this thesis.

## **CHAPTER III**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter presents the research methodology utilized in this study. The study has chosen qualitative historical methodologies to collect primary and secondary sources, materials, and data. This chapter also describes the stages and activities undertaken during data collection, processing, and analysis during this research.

#### **3.2 Nature of Research**

The research comprises of both descriptive and explanatory designs. Qualitative data were used to describe the impact of weak governance, corruption, and illicit capital outflows upon underdevelopment in Nepal. Mahoney and Rueschemeyer (2003) argue that historical analysis is a field of research characterized by using systematic analysis of processes over time to explain large-scale outcomes such as political regimes, development, underdevelopment, and welfare states.

This research has investigated the history of Nepal's weak developmental state and the role of Weak governance, corruption, and illicit capital outflows in pushing underdevelopment along. The study has employed qualitative historical analysis method to study and analyze the nature and inclination of the historical development of Nepal. A single incident on a process that takes place at a time in the history of a country or a society many have an impact on subsequent situations for long. Various events that took place at some times in the history of Nepal continue to have important roles in terms of economic development. Cross-sectional identification of causes is not enough to analyze a situation in a society or a country. The status of underdevelopment or weak development today must be constructed historically. Without understanding the long-term historical process, the situation cannot be understood.

The political, economic, socio-cultural, political, and administrative policies and regulations adopted by the political regimes, nature of exploitation of national treasury, and the formation, utilization, and outflow of capital in the long history of Nepal bear important significance for Nepal today. Without analyzing these factors in a macro level, conclusion cannot be derived about the causes of underdevelopment of

Nepal. The identification, analysis and interpretation of historical causes are therefore essential to understand the contemporary context. In this context, this study has employed qualitative historical analysis method to identify the causes of underdevelopment and its relation to Weak governance, corruption, and illicit capital outflow.

Mahoney (2004) argued that historical methodology analyzes necessary and sufficient causes. Some scholars are skeptical that small 'N' or qualitative research can be utilized to generalize the findings (Gerring, 2001). On the other hand, Ragin (2001) argues that a small to medium number of cases or the qualitative research method will often be enough to achieve a standard level of statistical significance when analyzing necessary and sufficient causes. For instance, Dian (1998) showed that only five cases may be enough to yield a 95 percent confidence level about necessary causes. Braumoeller and Goertz (2000) also found that sufficient theoretical gain can be achieved with the small 'N'.

The main objective of this study is to explore the causes of development of underdevelopment in Nepal. It also describes the role of Weak governance, corruption, and capital outflow in reproducing underdevelopment in Nepal. Multiple methods of data collection have been employed and qualitative data and information collected from sources during the research period have been analyzed.

### **3.3 Why Qualitative Historical Methods?**

The concept of qualitative historical analysis, first, indicates the methodological approaches of qualitative interpretation and analysis rather than quantitative measurement. Second, it develops and examines the social status and incidents of a society based on historical documents or historians' definitions and analyses (Thies, 2002). Historical analysis is a method of the examination of evidence while coming to an understanding of the past. It is applied to evidence contained in documents, although it can be applied to all artifacts. The research is seeking to gain some certainty as to the facts of the past (Mahoney, 2004).

Quantitative methods basically analyze ordinal and interval level data. This method cannot analyze the qualitative states, causes and processes. Qualitative methods are often used when the concept to be studied is more amenable to labeling

by words rather than numbers (Thies, 2002). Thies (2002) further argues that qualitative analysis performs detailed study of any social phenomenon based on small number of cases or single case. This study has the objective of identifying the obstacles to Nepal's development and causes of underdevelopment. It is not possible to answer objective questions through the quantitative methods. The objectives of this study cannot be achieved through statistical analysis of many cases or interviews coded on a variety of attributes. According to Odell (2001) the conclusions of a study can be derived even by means of a study of a single event. Ragin (1992) also believes that generalization can be warranted from the findings derived from a small number of cases or even a single case.

Levy (2001) argues that history can be used for a variety of reasons in conducting qualitative analysis. Scholars of social science generally turn to history and the work of historians for 'facts' used in description and explanation of social phenomenon. Many a time, basic information is gathered from history and is analyzed to derive a conclusion. According to Topolski (1999) researchers are free to interpret and analyze data obtained from basic information. It is easy to understand manifest events and latent events during the historical analysis (Bailyn, 1982). Manifest events refer to the clearly aware events of the past while latent events refer to events that contemporaries were not fully aware of.

During historical analysis, interpretation of facts plays a crucial role (Kennedy & Krasner, 1997). According to Bailyn (1982) the integration of manifest and latent events and their interpretation and analysis can be done to derive the conclusion. Gottschalk (1963) argues that historical analysis basically describes and interprets what and how they operate. The researcher here has identified the research question and the qualitative method used to answer it.

### **3.4 Sources of Data and Analysis**

One of the crucial steps in the research process was the selection of historical sources of materials. Both primary and secondary data are utilized in this research. Qualitative historical analysis basically uses primary and secondary sources of materials (Thies, 2002). The primary sources of materials indicate the original source of an event. The primary sources include memories, diaries, memos, letters and so on. Historians prefer primary sources for historical analysis.

### 3.4.1 Primary Sources of Materials

The researcher has used primary and original documents available in libraries, personal collections, memories, and newspaper articles. Though, there were just a few of the primary materials sources available during this research. It was difficult to collect the primary materials. During the study, it was known that the family members of the rulers had letters, memories which could say about the economic status and expenditure system of contemporary times. However, the materials were not enough for researcher. Many of the people who had the materials did not want to publish them while many of them are out of the country. However, the primary data sources available in the libraries which were already published in the past have been included in the study. During the study, published and unpublished documents available in the library and newspaper content have been studied and analyzed at a micro level.

Autobiographies are one of the important primary sources' materials in historical analysis. However, relying exclusively on autobiographical accounts would be biased in the researcher's interpretation. Triangulating different sources of evidence in order to maximize researcher's archival coverage should be able to curtail inaccuracies or biases in the individual sources. It ultimately constructs a more accurate representation of history (Thies, 2002). Collaboration with historians or at least consulting with historians regarding the best sources of materials as well as secondary publications before, and during conducting research is necessary for minimizing bias George (1997). But Lustick (1996) suggests that researchers should carry out archival research themselves because historians could be biased as well. With this step, researchers could avoid selection bias or error of historian's work. Social scientists should objectively analyze all the available materials (Levy, 2001, p. 60). During this study, for minimizing the effects of selectivity and bias in the use of primary sources the following strategies were employed.

First, the researcher avoided documents that are suspicious in terms of their origin, authenticity, and reliability. Second, the researcher evaluated the documents relative to what is known about the actors, their interest and intention. Finally, the researcher also intensively consulted with professional historians, experts or well-informed persons experienced in conducting archival research.

### 3.4.2 Secondary Sources of Materials

The secondary sources of materials are secondhand accounts of events. These are found in textbooks, monographs, autobiography, journal articles, newspapers, encyclopedias and other media like films, or tape recordings. The researcher in this study has depended more on secondary source materials. Information from the secondary source materials were analyzed by means of content analysis. Basically, monographs written by historians or persons in close relation with the rulers, journal, and research reports have been studied in a micro level. Similarly, the news and thought sections of the newspapers, and audio/visuals have been analyzed. In many situations, published and unpublished study reports, *bansawali* (genealogy) of Shah and Rana rulers have also been studied. Similarly, study reports published by government bodies, annual reports of constitutional bodies, other annually published materials like economic survey, periodic plans published by the NPC, monitoring and evaluation reports of plans and programs, etc. have been analyzed.

The researcher collected much of the information from Nepal Rastra Bank, Ministry of Finance, NPC, Ministry of Industry and Trade, and other relevant sources and followed it up by analyzing and interpreting the data. During the study, facts and figures from various places were collected. The most important step was initial to carry out a historical review and to carry out content analysis. Published and unpublished journals, books, research works, newspapers, articles, magazines, notes, country report, and online information, newsletter of Nepal Rastra Bank, Ministry of Finance were reviewed for content analysis.

Historical research is defined in part by the analysis of sequences of events that occur within cases. Informally, analysts have long recognized that this kind of process analysis facilitates causal inference when only a small number of cases are selected (Mahoney, 2004). Under this approach, the researcher observes an association and then explores whether the association reflects causation by looking for mechanisms that link a cause and effect in particular cases. During this study, the process of every incident taken under the study has been analyzed in micro level and the conclusion derived has been presented.

Basically, there are two types of problems that face historical analysis bias and selectivity in secondary sources during historical analysis (Lustick, 1996) or in several



ways historical research can be biased (McCullagh, 2000). For instance, misinterpreting evidence, drawing an incorrect inference about the past events, use of unfair evidence are some such biases. In many cases, omitted variable bias can exclude important information leading to loss of authentic facts and information. To free research from omitted variable bias, a researcher should never rely on a single historian's account of an event. Rather the researcher should cross-reference with other historians (McCullagh, 2000). While two historians cannot agree on one view, the researcher can reach a conclusion by taking into account the standpoints of two or more historians (Mayr, 1990).

Similarly, in qualitative historical analysis, it is crucial to select certain historical monographs and not others because the historians who wrote a monograph has already engaged in a selection process by choosing some primary sources and excluding the rest. In this situation, the present researcher has employed the following strategies for minimizing the effects of bias in the use of secondary sources. First, the researcher refused to rely on any single historian's account of historical evidence. Second, the researcher observed the presentation of a historian's monograph. Third, the researcher viewed all claims of a historian with a degree of suspicion and tried to reconfirm the claims with the study of relevant materials. Fourth, the researcher was aware of the potential influence of politics as well as disciplinary culture on a historian's work. Finally, the researcher started the inquiry into secondary sources with the most recent publications on a subject. With this, the researcher was trying to assess historical 'facts' have stood the test of time. The researcher also constantly looked to improve the sources of data and evidence.

### **3.4.3 Theoretical Sampling and Saturation**

It was necessary for reconfirming many primary and secondary sources of materials. No published materials were found for many important incidents. Many a time, there was doubt about the reliability of the materials. In this situation, the researcher conducted in-depth interviews and informal discussions with historians and distinctive intellectuals who were known to be familiar with specific events and issues.

Interview is one of the most important tools to collect information in qualitative research. Baskota (2009) defines interview as a conversation with purpose.

In the same way, Majumdar (2005) also notes that interview is an interactive process between two or more individuals in which one person responds to another a verbal reply. According to Karyeija (2009), there are open-ended interviews where a researcher can ask a respondent to propose insights into certain questions; focused interviews that follow a protocol; and surveys, which have structured questions designed for qualitative data. A checklist-based schedule was utilized for in-depth interviews. A total of 17 in-depth interviews were undertaken with good governance experts, historians, policy makers, bureaucrats, journalists among others (Annex I).

The theoretical sampling method was employed for deciding who was to be selected for interview. Theoretical sampling is the process of data collection for generating theory whereby the analyst jointly collects, codes, and analyzes his data and decides what data to collect next and where to find them, to develop his theory as it emerges (Glaser & Strauss, 1967). He further argues that in theoretical sampling, extension of basic population was not known in advance and sampling finished when theoretical saturation was reached.

Saturation is a tool used for ensuring that adequate and quality data are collected to support the study (Walker, 2012). In qualitative research, this is the point in continuous data collections that signals little needs to continue because additional data will serve only to conform an emerging understanding (Walker, 2012). Data collection continued till a point of data saturation was reached. Data saturation occurred in the research when no longer hearing or seeing new information was there (Walker, 2012). Unlike quantitative researchers who wait until the end of the study to analyze their data, this research analyzed the data continuously throughout the study.

A few case studies are also included in this study. Information on some incidents found during the study was supplemented with additional materials which were used for comprehending special problems or causes of the problems during specific events or incidents. In this study, case study has been taken as a data collection tool for describing the real situation of the research topic. Information about specific cases was collected through secondary sources of materials. In many cases, the outcomes of case studies were reconfirmed through interview and discussion with historians or other persons familiar with respective incidents.

#### **3.4.4 Data Presentation and Analysis**

This study is based on basically descriptive and exploratory methods. Descriptive research method describes the characteristics of the phenomenon or population studied. This method focuses more on the “what” of the research subject rather than the “why”. And exploratory research is a methodological approach that investigates research questions that have not previously been studied in-depth. Thus, informal interviews and discussions were held time and again. During presenting the primary and secondary sources of materials and in-depth and/or informal interview, narrative and analytical study were carried out. Some interesting discussions and interviews are presented verbatim. Many incidents are presented in the form of tables or diagrams/figures for understanding the essence of the incidents. Historical details have been presented in chronological order and data were presented in the table while interesting incidents are presented in the boxes as well.

A set of five steps were followed during analysis and interpretation of the information. The first step was to prepare and organize the data, which included gathering of notes, documents, and other required materials. Sources and information were identified which helped to analyze the data. The second step was to carefully review the data and information. It was tried to understand the relevance and reliability of the information. The researcher had prepared notes on thoughts, ideas, and other questions. Third, initial codes were created by categorizing the information. Highlighting margin notes, concept maps were used to establish connection with the data. Fourth, a review of those codes was done, and the codes were combined into themes. The information was then categorized and analyzed thematically. Finally, the researcher presented themes in a cohesive manner in which all the data and information were brought together.

#### **3.5 Experience during Research**

The researcher faced various problems while collecting information. The problems were rooted in the use of qualitative historical methods. The first problem was a lack of access to primary sources of materials. Second, it was necessary to controversies found in historical data and materials. Different historians defined a particular incident in different ways. However, the selection of historical source material can produce controversy about the researcher’s judgments concerning interpretation and meaning of facts but there are pragmatic guidelines that can help to mitigate these problems (Thies, 2002).

This study is related to financial irregularities, corruption, misuse of power, and illegal capital outflows. The evidence related to these topics was found in different shapes. The third problem was the difficulty in selection of sources of materials. Many a time, historians could have misused history (Schroeder, 1997). Researchers can be biased during the selection of sources of materials. This is an unavoidable part of qualitative historical research methodology (Moore, 1966). Lustick (1996) argued that a historian does not produce theoretically neutral background narratives in social science. Collier and Mahoney (1996) argue that the selection bias occurs when some form of selection process in either the design of the study or the real-world phenomena under investigation results inference that suffer from systematic error. Every qualitative historical research involves some degree of selection bias. There is a possibility of bias and selectivity in primary or secondary source materials or both (Thies, 2002). The researcher also faced this problem during the study.

The fourth problem was a limited availability of historical materials. The unfamiliar language in the materials, restricted and limited access to personal collections, and often a complete many times lack of access to these materials were some of the problems faced. This could have led to biases as well. The fifth problem was that relying exclusively on autobiographical accounts would bias in the researcher interpretation.

### **3.6 Minimizing Selection Bias**

Problems of selection bias can only be minimized and never eliminated (Thies, 2002). To minimize it attention should be given to a proper selection of materials (Lustick, 1996). Lustick (1996) lists four specific approaches to minimize selection bias. First, is 'be true to your school'. The second, is to examine a particular school of historiography over an extended period.' Third, is 'triangulate' by using the interpretations of historians from different historiographical schools. Finally, researchers must use their own judgment about historian's accounts to pick and choose among various historiographical interpretations of events.

The study can be reliable only after minimizing the problems faced during the data collection and analysis process. Various sorts of bias can be minimized in historical research by justifying the selection of materials. According to Odell (2001),

the possible biasness can be minimized by describing and interpreting an incident with various related facts and figures. In this study, the focus of the researcher was to minimize bias in primary and secondary data sources. For this, a strategy was prepared by the researcher to minimize the potential adverse effect of selectivity and bias. For solving the problem of inherit bias, the incidents, materials, and subject matters were reconfirmed with the historians. Similarly, while amiss was seen in any material or information checking the authorship, period, style or origin of a document, the researcher attempted to uncover its past (Thies, 2002).

Larson (2001) says that newspaper can be one useful material when there is confusion in the primary source of materials. Newspapers allow the construction of a chronology of events and have an important role in the interpretation process. If some sort of bias is detected in a document, newspapers can provide useful information to the researcher (Larson, 2001). During the Rana Regime, Gorkhapatra was published; however, there was restriction to publish the records of income, expenditure, and other economic activities during the time (Wasti, 2063). Due to this, there was no possibility during the Rana Regime to publish any material on financial irregularities, corruption, or capital outflow.

### **3.7 Ethical Consideration**

The researcher assured the respondents that their privacy and confidentiality would be maintained, and it would never be exposed as to which answer was told by which respondent if they did not wish. Further, the respondents were assured that the thesis which was developed depending upon their responses would not be misused and misinterpreted. During the study, the opinions of the people who were interviewed are included only with their permission. The information or facts that there is no permission and of the record is not included in this study.

### **3.8 Limitations of the Study**

This study has some constraints and limitations. Development is a multidimensional process and there are various issues and obstacles to development. This study has incorporated only the historical issues to study on the obstacles to the development. The study is basically dependent on the secondary sources of data. Instead of quantitative and micro level study of the obstacles of development, it has focused on studying the historical evidence of the derail of development in Nepal. The study has incorporated limited primary data. So, the conclusion of this study might not always be generalizable among all societies, and at all times.

## CHAPTER IV

### HISTORICAL PROCESS OF (UNDER) DEVELOPMENT IN NEPAL

#### 4.1 Introduction

This chapter provides a brief sketch of the historical changes in political regimes and historical process of development in Nepal. During the last seven decades, development has been the hottest topic for discussion in Nepal. However, the realm of development never came into reality. The planned development started in Nepal in 1956. During the 65 years until now, 9 five-year and 5 three-year periodic plans have been formulated among which 15<sup>th</sup> plan is in implementation currently. It is aimed to uplift Nepal from developing countries status until 2022 and mid-income generating country by 2030. However, even though the SDGs indicators related to health and education have seen remarkable progress, the indicators related to physical infrastructure and economic growth are still weak. The implementation status and work completion status of the development activities being carried out in Nepal is poor. This chapter has presented the historical process of development in Nepal.

#### 4.2 Historical Changes of Political Regime in Nepal

After the unification campaign of Gorkha, King Prithvi Narayan, for the institutionalization of state in 1769, started *Bhardari Sabha* (assembly). This assembly was a political institution (Whelpton, 2005). Before the Rana regime, the Bhardari Sabha used to make every decision regarding the governance (Gautam, B.S. 2063). The Shah regime existed from 1769 when Prithvi Narayan Shah conquered Bhaktapur until the rise of Jung Bahadur Rana in 1846 (Regmi, B.S. 2074). The king used to exercise unlimited supreme power during the time. The king took the state as the extension of their property (Whelpton, 2005). Every decision about governance was made by the king (Regmi, B.S. 2074).

Despite the unitary and centralized governance system, the Prithvi Narayan Shah's rule was comparatively better in terms of economic policy and good governance (Nepal, B.S. 2055). Prithvi Narayan Shah had the policy to retain national capital inside the state and make the state prosperous by promoting domestic production. Nepal (B.S. 2055) argues that Prithvi Narayan Shah's governance policy was clean during his tenure. He gave importance to financial discipline during his time. The five kings directly ruled during the Shah regime from 1769 to 1846.

Janga Bahadur Kunwar came to power in 1846. He eliminated the opponent through *Kot*, and *Bandarkhal* episodes. He established the family rule by curtailing the power of the kings and queens then exercised by them. In the meantime, Janga Bahadur raised the status of him and his family by calling themselves 'Rana' through a Royal order in 1848. He also got dictatorial power of state and government in 1857 as the Prime Minister of Nepal (Manandhar, 1986). Through the Rana regime (1846-1951) the main motive of Rana rulers was to preserve and continue their dictatorial rule. Throughout the regime, Rana adopted pro-British policies for protecting their dynastic rule in Nepal. Jung Bahadur helped British rulers to suppress the Indian Revolt in 1857. Similarly, Chandra Shamsheer and Juddha Shamsheer also supported British rulers during the first and second world war respectively as the result of which the British recognized the independent status of Nepal in 1923 (Manandhar, 2018).

The 104 years long Rana regime introduced few reforms in socio-economic and administrative sectors. However, the Rana rulers and their family took the fruit of those reforms. General people did not get benefits from it. The Rana rulers deprived people of any privilege without giving any reason whatsoever (Jain, 1972). The traditional elements of society, which greatly served as the instrument for the rulers to inhibit people from raising their voice against the prevailing injustices and discriminations, were the main stay of the Rana rule. Amatya (2004) argues that dominated by traditional customs and institutions, the society was largely nourished by socio-ethical values of Hinduism.

Various movements unveiled in Nepal to topple the Rana regime. The *Nepal Praja Parishad* started a movement against the Rana regime (Upadhyay, B.S. 2054) and Nepali congress also started the movement from India (Koirala, B.S. 2055). The *Nepal Praja Parishad* was established by the alert youth of Nepal including Tanka Prasad Acharya, Dharmabhakta Mathema, Sukraraj Shastri, Gangalal Shrestha, Dasharath Chand and Ramhari Sharma in 1936. This was the first political organization, the main aim of which was to establish democracy in Nepal (Adhikari, B.S. 2071). The Rana rulers arrested and gave capital punishment to the cadres of this organization. Meanwhile, Shukraraj Shastri was sentenced to death in Teku, Dharmabhakta in Sifal, Gangalal and Dasharath Chand at the confluence of Bhachakhusi and Bishnumati rivers. More than 30 people were forfeited of the assets

and sentenced to jail while some people were exiled (Pushpalal, B.S. 2053). Similarly, the Nepali Congress Party was established in 1948 and the Nepal Communist Party in 1949 (Regmi, B.S. 2074). In 1950, the Nepali Congress announced the nation-wide armed movement against Rana regime (Koirala, B.S. 2055).

During the armed moment of Nepali Congress, King Tribhuvan went to the Indian Embassy for asylum on November 6, 1950 (Sangraula, B.S. 2064). After this, with the mediation of the contemporary Indian Prime Minister Jawaharlal Nehru, the three-party agreement was made among the King, Congress, and the Rana rulers (Pande, B.S. 2076). Democracy was then announced in Nepal on February 18, 1951 (Gautam, B.S. 2063). The 104 year long autocratic Rana regime started from the rule of Jung Bahadur Rana and ended during the rule of Mohan Shamsher. During this time, 9 people from Rana family became Prime Minister who belonged to three generations of the family.

There was no difference between public and private property during the Shah and Rana regimes. Huntington (2006) argued that corruption requires some recognition of the difference between public role and private interest. Though there was no difference between public role and private interest, the exploitation over the state properties during the Rana and Shah regimes is taken as the financial irregularity in this study.

The announcement of democracy provided legitimacy to the political parties for the first time in Nepal. With the establishment of democracy in 1951 the political parties in Nepal got legal recognition which led to the start of modern regime (Whelpton, 2005).

After this, the Corruption Control Act 1952 was promulgated for the first time in Nepal which was executed from June 8, 1953 (Subedi & Karki, B.S. 2065). With the execution of this law, the difference between public role and private interest became distinct. The act had clearly stated what are the corrupt activities. Before promulgation of this law, the rulers treated public property as their private one. The amount saved in the national treasury after deducting all administrative expenses would remain the private property of the rulers (Pande, B.S. 2076).

After the establishment of democracy in Nepal, rulers got changed and some new laws were made but their mindset remained unchanged. The predisposition



towards exploiting the state, corruption, and taint in governing persisted which continued after Rana regime too. The political regime changed but the governance system could not. The joint government of Rana-Congress, formed right after the end of Rana regime, also got dismissed within a year of establishment (Koirala, B.S. 2055). From 1951 to 1959, neither the Constitution was written nor was any election held in Nepal. During this period, King Tribhuvan and Mahendra governed the state. They also nominated Prime Ministers and ministers who took care of the day-to-day administration. Government changed eight times during this period (Gautam, B.S. 2063). The general election was held on February 18, 1959, and the result was published on May 9, 1959. The Nepali Congress won two-third majority and B.P. Koirala became the first elected Prime Minister of Nepal on May 27, 1954 (Devkota, B.S. 2058).

On December 15, 1960, King Mahendra dismissed the B.P. Koirala's elected government and established the autocratic Panchayat regime. He claimed that the multi-party democracy failed, and the leaders were corrupt. He formed a search commission and the department of police for investigating the property of the ministers. On April 9, 1961, a new Corruption Control Act was promulgated (Devkota, B.S. 2058). The Panchayat system which was said to advance the economic development of the country also got preoccupied for protection and strengthening of autocratic rule (Mahat, 2006). The party less Panchayat regime lasted for 29 years and 3 months. During this time, the government changed 16 times. During the Panchayat regime, corruption events, revenue misuse and exploitation of state property were seen with direct and indirect involvement of the royal palace. The king was the center of power then.

The major political parties made an announcement for the unified people's movement against the Panchayat regime on 19 January 1990 and decided to kick-start the movement from 18 February 1990 (Koirala, B.S. 2067). The two and half month-long movement finally restored the multi-party democracy on 8 April 1990 (Bhattarai, B.S. 2067). The interim government was formed, and this government promulgated the new constitution of Nepal on November 9, 1990. After that, the same government held the general election on 30 May 1991 and Nepali Congress got 113 out of 205 seats in parliament (Shah, B.S. 2067).

Girija Prasad Koirala became the Prime Minister of Nepal after the general election of 1991. The elected government, after the establishment of democracy in 1990, was supposed to upgrade the economic status of the country and people. However, this government also gave continuation to the predisposition of the past rules. The events of corruption, revenue embezzlement, and exploitation of the state property went on increasing in democratic regime too. A large amount of state property was expatriated. The laws for preventing the capital outflow were executed but the outflow did not stop. This government could not complete its five years tenure.

The NC's government collapsed within three years, not because of opposition but because of internal clashes within the party. A mid-term election was held in 1994 in which no party brought a clear majority. The NC won 79 seats while the Nepal Communist Party (UML) won 92 seats. There had been ups and downs in politics of Nepal during the decade of 1990s. During this period, there were transitions, inter-parties' conflict, unconstitutional acts, and games of forming and deforming the governments (Thapa, B.S. 2074).

The CPN Maoists kick started the armed movement on February 13, 1996, which led to a terrible loss to the nation (Mahat, 2006). During the movement, political transience and violent activities created negative impacts on development activities and service delivery mechanism. More than 17 thousand people lost their lives due to the armed conflict. Quite a few physical infrastructures were destroyed, and the conflict led to unmanageable migration. Private investment decreased, and the economic activities got constricted. The decrease in public expenditure affected the economic growth of the country. The conflict in Nepal from 1996 to 2006 summed up a loss of more than \$ 66.2 billion (Acharya, B.S. 2076a).

The reign of King Gyanendra began after the royal massacre occurred in Nepal in 2001 (Manandhar, 2018). The trend of political transience and pull got aggravated after this as well. On February 1, 2005, King Gyanendra embarked on a 'coup' dissolving the parliament and the cabinet and he rained of administration in his own hands (Mishra, 2006). He also imposed his direct autocratic rule with a cabinet of his own choice under his active leadership. He selected two vice-chairpersons of the cabinet and most of the ministers were bureaucrats and politicians of the Panchayat regime (Toffin, 2013).

From 1990 when the democracy was established until February 2005, 14 governments ruled over Nepal. In this transience, the Maoists and the mainstream political parties came together to fight against the King's autocratic regime. So, in November 2005 under the mediation of the Government of India, the seven political parties and the Maoists signed a 12-point agreement in New Delhi. They agreed to pledge to an end of the autocratic rule of the King and establish complete democracy in Nepal (Sharma, B.S. 2070).

After this, the Seven Parties Alliance (SPA), with the active support of the Maoists, started the people's movement on 6 April 2006. Two weeks long people's movement took an unexpected turn with the participation of hundreds of thousands of people on the streets. With the aggravating conflict, the King was compelled to bow in front of the marchers. Thus, with the restoration of the house of parliament, the 19-day long peoples' movement ended on April 24, 2006. The house of the parliament made a 25-point declaration which cut up the King's all powers and vested supreme power of the state and government to the cabinet and parliament on May 18, 2006. On November 21, 2006, a comprehensive peace agreement was signed between the SPA and CPN (Maoists) and the interim Constitution was promulgated in January 2007.

The election of the Constitution Assembly (CA) took place in April 2008. The CPN (Maoist) owned 120 out of 240 directly elected seats and emerged as the largest party. At first meeting of the CA the country was formally declared a republic on May 28, 2008, and monarchy got abolished with the establishment of the republican regime (Manandhar, 2018). As the rulers' and parties' activities during the last 15 years did not change, people are compelled to believe that the rulers in Nepal can neither govern the state properly nor take the nation to the path of development and prosperity.

The first CA extended its term from two to four years, though it was not able to even draft a constitution and got dissolved in 2012. This led to snowballing conflict among the political parties. There was debate on establishment of federalism and state restructuring. After that non-party government was formed under the leadership of the chief justice of the Supreme Court, Khilaraj Regmi with former bureaucrats. During the tenure of this government, CA election was held for second time in November 2013. A new constitution was endorsed by the second CA in September 2015.

Republican, secularism, federalism, and inclusion were the main features of the Constitution of Nepal. But the Tarai/Madhesh-based political parties boycotted the proceedings of the constitution making process. They also launched a movement with a demand to abrogate the Constitution (Dhakal & Giri, B.S. 2074).

There was a blockade of petroleum, gas, medicine, and other necessary goods by the Government of India for more than six months during this time. The Tarai/Madhesh-based political parties continued their demonstration and the government failed to address it. However, according to the constitutional provision, the elections of the local provincial and federal level were held in January 2018. In the election, the alliance of CPN (UML) and CPN (MC) won nearly two thirds of the majority in the federal parliament and six out of seven in provincial legislatures. Nevertheless, this alliance could not last for long. KP Sharma Oli led government was dismissed in July 2021. The leadership and government changed time and again in the five provinces except Sudurpaschim and Madhesh. The governance system could not improve even after the success of peoples' movement in 2006 until November 2021. While analyzing the history, it is found that there have been six times regimes changed in Nepal which includes Shah regime (1769-1846), Rana regime (1846-1951), Democratic transitional regime (1951-1960), Panchayat regime (1961-1990), Democratic regime (1990-2004), Royal regime (2005-2006) and Republican regime (2006-2021). However, for this study purpose, democratic transition and Panchayat have been taken as one. Even in the democratic transition period after the end of the Rana regime, the king used all the executive powers, which continued until 1990. Therefore, this period has been taken as a monarchical regime (1951-1990) in this study.

The governance system of Nepal did not improve in all the five regimes until 2006. Even after the establishment of republican regime that started in 2006, the positive reforms in system were not seen in the period of about 15 years until 2021.

#### **4.3 Status of Development in Shah and Rana Regime (1969-1951)**

In 1769 when Prithvi Narayan Shah conquered Bhaktapur, the history of modern Nepal is presumed to have commenced since then. Conquering the states and

geographical unification continued during the Shah regime after that. Due to this, there could not be much physical, economic, and social transformation in the country. During the Shah Regime, apart from running the daily administration and collecting tax, no remarkable development activities were carried out. There was no remarkable progress of Nepal from 1769 until the establishment of Rana Regime in 1846.

No remarkable physical infrastructure was developed; however, there had been some activities of trade during that time. A few small cottage industries were established. For the immediate benefit in national treasury by the rulers and enjoying the luxurious life, they adopted the policy to boost the business. The rulers imposed heavy tax on business during the Shah Regime. The heavy tax imposed on people and lack of favorable environment always discouraged people towards establishing or extending industries and other business (Regmi, B.S. 2074).

During the Shah regime internal dispute within Shah rulers was at its peak. It ultimately resulted in the establishment of the autocratic Rana regime in the country. Rana rulers did not show much concern for the development of the country. For example, when Jung Bahadur Rana visited Great Britain, he observed dance, wrestling, military shows, and historical palace and weapon factories. He did not show any interest in visiting agricultural farms or industries (Dixit, 2014). Many Rana Prime Ministers studied in the Indian Universities and had travelled to different countries. However, they showed no attention towards using their learnings in the development of Nepal (Regmi, B.S. 2074). Nepal was in isolation from the world during the whole Rana regime. The national treasury was exploited by the rulers and their relatives but showed no interest towards physical, economic, and social development of the country.

Rather, Rana rulers had monopoly in the business sector as well. The rulers' aim was always to increase the state income for their own benefit. During that time, there was no difference between private and public property. There was control of the state over business of important daily consumables (Kandel, B.S. 2055). The rulers had control over the basic needs of people like rice, beaten rice, salt, oil, ghee, and grains. The contract system was implemented for trading these consumables. The rulers provided the contracts to their relatives and kins.

The rulers received commission from profit made by the contractors. There was no free competition in contracts. The false deficiency of the basic needs was created, and the price was increased. This led to difficulty to the general people to survive while businessmen and contractors earned more. However, all the amount earned that way would be controlled by the Rana rulers who did not want the progress of the country (Regmi, B.S. 2074). They had an understanding that if there was economic development, people would be conscious, and the Rana rulers would not have easy control over the national treasury. They also thought that if there is rapid economic and educational development in the country, the people would go against the Rana rule (Pande, B.S. 2076a). The Rana rulers had reasons to believe that to the extent there was improvement in the economy, the people would demand political rights and reforms in the socio-economic arena. So, Rana ruler closed all windows of economic advancement and development of the country. Thus, the Rana regime was a dark period in Nepal's history of development (Amatya, 2004).

Due to the autocratic family-centered governance system that existed during the Shah and the Rana regime, development activities could not commence during that time. While there was no difference between the personal and public property for the rulers, the state resources were used for their personal benefit. During that time, the state of physical, social, and economic development was poor. Till 1950, no activity was vested for uplifting the living standard of people. The elderly literacy rate was less than two percent. The child and maternal mortality rate were high. Development work was of no priority during the Shah and Rana rule (Amatya, 2004). A few development activities carried out during the Shah and Rana regimes and their nature are described as follows:

**a) Economic Condition**

The state's economy was extremely weak during the Shah and Rana regime. More than 90 percent of the total population of the country lived in rural villages at that time. Only less than five percent of the population owned land. Most of the landless peasants took land on lease on tenancy basis (Koirala, 1950). There were fewer material tools and little inanimate source of power was used in the village (Redfield, 1953). The people largely depended upon agriculture which produced only

raw materials. People were constrained to live in a “hand-to-mouth” condition (Amatya, 2004). The whole economy was captured by the Shah and Rana rulers. Most of the tax collected was spent on their own luxuries in utter disregard of the country’s development and public will (Tuker, 1957).

Jang Bahadur Kunwar established the monopolistic control over trade and contracts in Nepal which was later followed by his successors. The rulers went on prospering, but the common people of the country were living in chronic poverty (Amatya, 2004). A survey showed that even during the post Rana period about two thirds of the farmers were in debt. The average debt for more than 200 farmers came to 300 rupees which corresponded to about a year’s income (Sharma, 1956). At that time, the employment opportunity in the country was limited. A survey conducted in 1951, showed that 86.5 percent of men left their homes to seek seasonal employment elsewhere. Majority of them went to India for working (USOM, 1958).

No budget was allocated to physical infrastructure development of the country. Rather, a huge amount was spent on the Prime Minister’s visiting purpose. A study showed when the country’s annual income was Rs. 90,270,000, only about Rs. 400,000 was spent on public welfare (Upadhyaya, 1948). According to Upadhyaya, within hundred years of Rana rule in Nepal they might have collected more than Rs. 7,000,000,000 at the cost of rising poverty in the country. According to Regmi (1948), various kinds of tax were levied during the Rana regime. Regmi (1948) writes:

Rana introduced many types of taxation. The poor peasants had to pay *malgujari* (land tax) more than rupees 150 per acre...the porters who were engaged in carrying loads to Kathmandu along the Thankot-Bhimphedi road in the hills had to pay 1/6 i.e., a little more than 16 percent of their daily income to the “Government. It was called the *bharyansaika* tax (commission for the portage accruing to the porter’s agents). A petty government official had to pay a feudal levy known as *salami* (Salutation). Those earning rupees 9 or more per month had to pay rupees 10 per year to the government as *salami*. Besides there were other taxes like *bankash* tax (road tax), cigarette tax (who bought imported cigarettes legally at the price quoted by the contractor) etc. As the Ranas were the only people who had an income of more than rupees

5,000 annually, they did not introduce any income tax, obviously to avoid any cut off in their income. Each higher-ranking Ranas had an annual income of at least several hundred thousand of rupees out of taxes (pp.1-8).”

The heavy taxation imposed led the countrymen to become poorer. However, Padma Shamsheer who became the Prime Minister of Nepal on November 29, 1945, tried to implement the liberal economic policy in the country. He announced an increase in the annual budget for the development of the country by Indian Rupees 2,250,000. This was an important attempt of Padma Shamsheer in the situation where the Rana rulers had been exploiting the national treasury to the extreme. Padma’s willingness to develop the country’s economy was in the industrial sector for which he increased the annual budget by rupees 200,000 (Amatya, 2004). But Padma was sacked out of the post before he could implement the policy. Throughout the Rana regime there was literally no economic development. Rana rulers were self-centered in acquiring power and enjoying the life of Gajlords that they never thought of the welfare of the people. As a result, the Nepalese economy became stagnant throughout Rana regime (Amatya, 2004).

The service sector is becoming important aspect of the economic growth and nation state building process in Nepal. Trade, banking, commerce are the key components of the service sector. However, the development of the service sector was poor during the Rana regime. The only economic institution that existed in Nepal was Nepal Bank Limited (Mahat, 2006). Regmi (1988) argues that during the Rana regime the state completely undermined the small-scale domestic cottage industries and trade. The rulers implemented Hindu caste-based system through civil code. They divided people based on caste. According to Bista (1991) it had direct impacts on the manufacturing, trade, prosperity, economic growth, and development of the country. There were nominal and limited commercial activities during the Shah and Rana regimes. There were no basic infrastructures of transportation, communication, and irrigation which hindered the economic growth and development of the country.



### **There was no lack of Resources for Development during the Rana Regime**

During the end of the Rana Regime in 1945, an industrial sub-committee was established. The sub-committee had kept electricity production as a top priority of the country. The Kaligandaki Project was identified as the most appropriate project. The cost of the project was contracted at 18 million rupees to complete within 3 years period. Nepal had received 33 million rupees from the British Government for providing military support to Britain during the Second World War. The British Government wanted Nepal to use that money in electricity development. There was no foreign loan in Nepal at that time.

The GoN had decided to use the amount received from the British Government in Kaligandaki Electricity Project to produce 22000 KW electricity. During that time, around 30 million rupees was collected as taxation and investing 18 million rupees in a project to produce 22000 KW of electricity was a good attempt. The resource was also managed for that.

The project was hog-tied by the contemporary Indian Ambassador Sir Chandeshwor Prasad Narayan Singh for no reason. He came to Nepal in June 1949 and was informed about small development projects being developed in Nepal and about Kaligandaki project by Rana Prime Minister Mohan Shamsher. The ambassador Singh told him that the Indian Government was preparing to produce huge electricity in Bara area and was planning to distribute the electricity to Nepal, North Bihar and Bangal in 2 paisa per unit. So, the amount that was allocated for developing Kaligandaki project should be used in some other development works and Nepal should use cheap electricity from India. Prime Minister Mohan Shamsher believed the ambassador Chandreshwor Prashad Narayan Singh and the project could not commence. (Based on Pande, B.S. 2076b, pp.141-144).

#### **a) Infrastructural Development**

Infrastructure development is one of the important bases for economic development of a country. The infrastructure always facilitates service delivery, financial activities, mobility of the people and ultimately to promote the economic growth and development of the country. Though, the status of infrastructure development like road, transportation, communication, electricity, irrigation, drinking

waters were poor during Shah and Rana regime. However, few physical infrastructures were developed during the Rana regime.

One of the important development activities during Jung Bahadur's rule was the maintenance of road from Mechi in the east to Doti in the west. He had spent 2 hundred thousand rupees on this work. Similarly, Chandra Shamsheer had built most of the traditional bridges along that road (Pande, B.S. 2076). Similarly, the hydroelectricity production started in Nepal during the Rana regime. Chandra Shamsheer built a 500 KW hydropower project in Pharping, Kathmandu in 1911. Likewise, 640KW Sundarijal Power Plant was built in 1935. Nepal had 6380 KW installed power capacity including diesel plants before the start of first five-year periodic plan in 1956. Singhadurbar was built in 1908. The major physical infrastructure during the Rana regime also includes *Swayambhu barudkhana*, leather factory in Balaju, establishment of Agriculture Department, Chandra Nahar in Saptari, Dhushing-Matatirtha ropeway, Bhimpheedi-Amlekhgunj Road, Amlekhgunj-Raxaul Train, and few suspension bridges (Pande, B.S. 2076). The telephone service was extended to Dhankuta in the east and Bhairahawa in the west (Pandey, 2002). During 1920s in the Chandra Shamsheer's tenure, 14 miles long Matatirtha-Dhursing Ropeway, Bhimpheedi-Amlekhgunj Highway and 19 miles long Amlekhgunj-Raxaul Train Track were built (Mahat, 2006). Until 1951, there was 5 km black topped road, 83 km gravel road and 288 km unmetalled road built in Nepal (Pande, B.S. 2076). An airport, 51 miles long narrow train track, 1 hundred post offices and more than 3 hundred telephone lines were extended in Nepal during the Rana regime. A total of 50 thousand hectares of land were provided with irrigation facilities (Mahat, 2006). Similarly, the railway in Janakpur was built in 1925 and the railway track connecting Raxaul, India to Amlekhgunj Nepal was built in 1927 with the support from British India (Panday, 1999).

While few development works commenced during the Rana regime, these were carried out for the personal benefits and use of the rulers. The general people did not get any benefit from those development works. The public resources were used for their personal benefits that were left after the daily administrative expenditure. There was not any proper mechanism, policy, or system for public expenditure management. There was lack of skilled manpower, professionalism in bureaucracy, and utilization policy of the resources that could be employed for development works.

The rulers did not have willpower to manage all these. As a result, the development process could not commence appropriately in Nepal.

### **b) Industrial Development**

The status of industrial development in Nepal during the Rana regime was weak. The limited connectivity accounted for the slow industrial development in the country. However, during the tenure of Juddha Shamsheer Rana (1932-45), there had been few attempts for industrial development. The industrial council was established in 1935. The company act was promulgated in 1936. After this, a few industries were established with the ownership of the state (Bajracharya & Agrawal, 1980). During the downfall of the Rana regime, the National Planning Council was established with the aim of starting planned development in the country. The council started the first five-year plan in 1948 (Pande, B.S. 2076a). However, the plan did not get implemented.

Few Indian investors came to Nepal to establish industries and investment sharing with Rana rulers. They had established 21 industries in Nepal including Biratnagar Jute Mills in Terai, Biratnagar Cotton Mills and Nepal Soap Industries. The capital investment was more from Indian than the Ranas. From 1934 to 1950, there was an investment of 70 million Indian Rupees and 21 million Nepali rupees to establish 63 companies (Bhusal, B.S. 2059). While Nepal lacked skilled manpower to work in the industries, the labor force was also imported from India. The Nepali workers thus were not benefited by the establishment of the industries. While the Rana families did not have family background of investment and industries, they spent major part of the collected tax and profit of the industries in luxury and entertainment rather than investing and reinvesting in more business. The Indian investors took the profit to their country after investment in Nepal. As a result, these industries could not last for long. Thus, half of the industries established during the Rana regime did not exist until 1963 (Regmi, B.S. 2074).

In this way, the industrial sector could not flourish much during the Rana regime. Some processes started in 1947 for industrial development in the country. For this, Bhim Bahadur Pande went for visit to Norway, Sweden, Denmark, Germany, Austria, Italy, France, and Switzerland in Europe to study about the industrial development. After the visit, he had concluded that the development of Nepal should follow the economic development model of Switzerland (Pande, B.S. 2076). However, neither the environment was created, nor any infrastructure development

was carried out during the Rana regime. As a result, industrial development process could not take a good pace in the country.

Towards the downfall of the Rana regime, few works were started for industrial development in the country. However, due to heavy tax levied by the government, Nepalese entrepreneurs and industrialists vanished. In place of creating environment for industries, Rana rulers established the industries in partnership with the Indian capitalist and businesspersons. The industries established in this way impacted the development process of the country in three ways. First, the skilled human resources needed for these industries were imported from India due to the lack of manpower in Nepal. A huge amount of money was out flown to India through the manpower as salary and bonus. Second, the profit earned by the Rana rulers was not reinvested in Nepal. The money earned by the Rana rulers was either deposited in the Indian banks or was spent for luxury items. Third, the Indian capitalist and investors also did not reinvest money in Nepal; rather, they took it back to India. The capital of the country was out flown, and the industrial development could not progress in the country either.

### **c) Social Development**

While the modern education system was introduced in Rana regime in Nepal, the education status was weak (Dahal et al., 2000). Dubar High School was established by Jang Bahadur Rana in 1854. The school was built to teach the sons of the Ranas. Jang Bahadur Rana also established the Department of Education in 1858 (Sharma, 1990). However, his successors did not show much concern towards educational development in the country. But on March 5, 1901, Dev Shamsher made the school available for the public children. Similarly, he had issued an ordinance to open schools all around the country (Maskey, 1996). But Dev Shamsher was sacked out of power within 4 months of his tenure on June 27, 1901, by his brother Chandra Shamsher (Sharma, 1990). After this, the works initiated by Dev Shamsher in the educational sector got halted.

Chandra Shamsher had initiated few works in education sector in Nepal. First, he sent eight Nepali students to Japan for studying Engineering in 1902 and he also established Tri-Chandra Campus in 1918. The Rana government also introduced the School Leaving Certificate examination in 1946. The girl's school was opened in 1947 (Parajuli, 2012). However, the initiations were not very effective. The aim of the

initiative was not to develop human resources for the benefit of the country but to serve the regime and help it maintain its grip on power (Aryal, 1979). The Ranas thought that educating the general people was a threat to their autocratic rule (Pande, 2076). The education sector remained extremely poor, the literacy rate being less than two percent before 1951 (Sharma, 1990). There was one college, 11 secondary schools, and 2 hundred primary schools in Nepal till 1951 (Mahat, 2006).

Similarly, the infrastructure for health and availability of health workers both were poor during the time. In 1880, the contemporary Prime Minister Bir Shamsher established the Bir Hospital. Similarly, Chandra Shamsher established the Military Hospital in 1925 (Pande, B.S. 2076). Before 1951 there were 6 hundred 49 hospital beds and 50 doctors in Nepal. Half of this number was limited to the Kathmandu Valley. The modern medicine was scarce in most of the part of the country.

There was no preventive medicine prior to 1954 (Shakya, 2018). There is not much data related to the health sector available before 1951. During that time, more than 30 percent of people lived in malaria prone areas (Mahat, 2006).

**Table 4.1**

*Summary of the Development during Rana Regime in Nepal*

<b>Physical Development</b>	<b>Social Development</b>	<b>Economic Development</b>
A total of 6380 KW installed electricity capacity including diesel plants.	Established the Department of Education 1838	About 63 Company were established during 1934-1950.
5 KM metaled road, 83 km gravel road, and 288 km unmetalled road.	1 college 11 Secondary	Establishment of Udyog Parishad in 1935
1 airport	200 primary school	Promulgated the Company Act in 1936
51 miles narrow-gauge railway	649 hospital bed	Establishment of Nepal Bank Limited on November 5, 1937.
100 post offices	50 health workers	
300 telephone lines		
50,000 hectares of irrigated land.		

Source: *Content Analysis, 2021*

Until 1951, the average life expectancy was 27 years and literacy rate were less than 2 percent in Nepal. This social and economic development status of the country had direct impacts on development. As a result, the country could not go ahead in development.

No significant works had been carried out for the development of the country during the Shah and Rana regimes. There are a few reasons behind this. First, the war for unification process continued during the Shah regime. Unification of the states was the priority of the governments. A major part of the public resources was spent on war. Second, there was no difference between public and private property during both the Shah and the Rana regimes. As a result, the rulers used the public resources for their personal and family benefits rather than spending for the country's development. Third, heavy tax was levied for the small cottage industries due to which there was no environment for establishing new industries. The employment opportunities got contracted. Fourth, during the Rana regime, the rulers were afraid that if the people became aware of the development, it would be a threat to the overall Rana regime. As a result, the Shah and the Rana regimes were proved to be the dark period in Nepal's history of development.

#### **4.4 Status of Development in Monarchical Regime (1951-1990)**

The Nepal's journey towards democracy started in 1951. With the downfall of 104 years long Rana regime, the state power was handed over the Rana-King-Nepali Congress' tripartite joint new government. At that time Nepal was in underdevelopment and backwardness stage in terms of physical, social, and economic development. Most of the people were engaging in subsistence agriculture and they struggled for their basic needs like food, clothes, and shelter (Joshi & Rose, 1966). The Rana rulers left the national treasury almost vacant. It created difficulty for the government formed after the establishment of democracy to commence the development works (Mahat, 2020).

Interim constitution of 1951 had an aim of rapid economic development by fulfilling the basic needs of Nepali citizen. The political leaders had urged to give importance to the economic growth and development in the country. However, the budgets during the 1950s were focused mainly on administrative activities. Because

of political instability, the contemporary government did not think much about the country's social, economic, and physical development (Pant, 1956). The first budget was announced by the contemporary Finance Minister Subarna Shamsheer in February 1951 through the Radio Nepal. The total budget was Rs. 5,25,29,000 while the budget had aimed to collect a tax of Rs. 3,06, 19,000. The rest of the budget was depended on foreign assistance and loans. The budget gave priority to roads, airports, postal services, irrigation, communication, health, education, and rural development (Mahat, 2020). The Village Development Ministry was established in 1951 for carrying out well managed development activities in the rural areas of Nepal (Pande, B.S. 2076).

The closed society during the Rana regime gradually became an open society after the establishment of democracy in 1951. However, the development process suffered the political transition, lack of skilled human resources and basic infrastructures. The expectation of people towards development increased with the establishment of democracy. However, transient politics and fight for power acted as an obstacle for the development process forever. The royal palace was also involved in the political game of the parties. Though few development works commenced, the development work could not go forward as desired.

The monarchical regime was autocratic and traditional in nature. The governance system was not transparent and highly unaccountable which had negative impacts on development. However, during this time, the planned physical, economic, and social development began. Nevertheless, the process of development could not take a good pace.

The institutional and planned development activities started in Nepal during 1950s. The National Planning Commission (NPC) was established in 1956. The first five-year plan (1956-1961) was formulated and implemented by the NPC. Until 1956, there was only 310 miles of road in Nepal. The first five-year plan had aimed to build 4000 miles of road within 20 years. Of this, 300 miles metaled road, 300 miles fair weather road and 300 miles nine-foot jeepable track was aimed within the first five-year plan. The first plan focused on infrastructure development in Nepal. It allocated about 37.5 percent of the total budget in infrastructure and communication development. Similarly, 22.5 percent of the budget was allocated for rural development and in agricultural sectors. The rural development was also the top priority of the plan. As stated in the first five-year plan, there were 30000 villages in

Nepal at that time. So, 8.3 percent of the total budget was focused on rural development (NPC, 1956). Shrestha (1989) argues that the first five-year plan had safeguarded the monopoly of the state in transportation, electricity, and irrigation sectors.

B P Koirala became the first elected Prime Minister of Nepal on May 27, 1959. The first five-year plan was reformed a bit and was implemented by the government. The public expenditure was negligible. Of the total 330 million budget of the first five-year plan, only 60 million was spent until the first 3 years of the plan. The first annual budget proposed 140 million rupees for development expenditure of which only 79 million was spent (Mahat, 2006).

On December 15, 1960, the contemporary King of Nepal Mahendra sacked off the Prime Minister Koirala accusing him of not being able to fulfill the development expectation of the country. Due to this, most of the goals and plans remained unimplemented. Most goals were limited to the papers only (Mihaly, 2002). During the political instability and transitional period of the state from 1951 to 1959, the government only focused on day-to-day general administration and did not pay attention towards physical and infrastructure development (Bajracharya et al., 2019). Until the end of the Monarchical regime in 1990, seven periodic plans were formulated and implemented (details of the five years plan in Annex II).

The periodic planning process started but the implementation was not in line with the objectives. Only a part of the allocated budget was spent. The implementation status of the seven periodic plans until the Panchayat regime was very weak in terms of implementation, budget expenditures, and achievement of the expected results. Due to lack of clear monitoring and evaluation mechanism, the development works could not commence well. The investment could not yield the desired result.

#### **a) Infrastructural Development**

Infrastructure is the precondition for economic growth and development, and it always helps to raise labor productivity, capital formation, poverty alleviation, and good human capital too. Transportation and connectivity contribute to improving the



people's livelihood through connecting to each other. The government after 1951 thus mainly focused on physical infrastructure and connectivity.

### **Road and Connectivity**

The construction of the Tribhuvan Highway (Kathmandu to Hetauda) started in 1951 and was completed in 1956. During the first five-year plan, 790 km of road was built including Kathmandu-Raxaul Highway and Kathmandu-Hetauda Ropeway (Mahat, 2006). While sacking off the elected government and implementing the autocratic Panchayat regime, King Mahendra had announced for rapidly commencing the development works (Joshi & Rose, 1966). However, no development works were carried out as aimed during the Panchayat system. Only a few of the works have been carried out, including East-West Highway. Construction of 1027 km long East-West Highway started in April 1962 with the financial and technical support of Government of Indian. Similarly, Butwal to Pokhara Sidhhartha Highway with the support of UK, Pathalaiya-Dhalkebar Highway with the support of USSR, and Narayangadh-Hetauda Road with the aid of the USA were built. Similarly, Araniko Highway was built with the support of Chinese government (Mahat, 2006).

The overall length of the roads increased during the Panchayat period. The total highway at the end of the Panchayat regime was improved. 276 km of road until 1950 increased to 7330 km until 1990 (Shakya, 2018).

### **Hydropower**

Another important aspect of physical infrastructure is hydroelectricity. Hydroelectricity production started in 1911 during the tenure of Chandra Shamsheer. However, the development of that hydroelectric project was sluggish. Before formulation of the first plan there were a total of 6280 KW power generation in Nepal. Before 1956 the total installed capacity of the country was concentrated in the main two cities Kathmandu and Biratnagar. The first plan had aimed to produce 52650 KW electricity for which 11.6 million rupees was allocated (NPC, 1956). However, the goal was not achieved. Due to lack of skilled manpower, and resources for building the hydroelectric projects, the state could not give much concern towards this.

The Koshi treaty was done with India in 1954 while Gandak treaty was done with India after four years of Koshi treaty in 1959. India was more benefited with the construction of electric power houses, irrigation facilities according to these treaties. The important work for development of hydroelectricity during the Panchayat system was establishment of Nepal Electricity Authority in 1962. This authority worked for managing the electricity development of the country. Although there is immense potential of hydroelectricity production in Nepal, its development was poor during the democratic transitional and panchayat regime. During the Panchayat period, only 9 percent of the total population had access to electricity (Mahat, 2020). Until the end of Panchayat Regime, there was generation of 220 MW of electricity (NPC, 1992). Table 4.2 below shows the hydroelectric projects over one MW that were built during the Panchayat Regime before 1991.

**Table 4.2**

*The Detail of Hydroelectric Projects Built with Foreign Aid During the Panchayat System*

<b>Year</b>	<b>Name of Project</b>	<b>Capacity</b>	<b>Supporting Country</b>
1966	Panauti Hydropower	2.4 MW	USSR
1967	Trisuli Plant	21 MW	India
1969	Fewa Plant	1 MW	India
1979	Gandak Plant	15 MW	India
1972	Sunkoshi Plant	10.05 MW	China
1991	Adhi Khola Plant	9.4 MW	Norwegian
Total		58.85 MW	

*Source: NPC (1992)*

### **Irrigation**

Before 1960 11,428-hectare land was provided with irrigation facilities. The periodic plans during the Panchayat Regime had kept the irrigation as top priority. Few projects were proposed for development of the irrigation sector. However, the implementation status was weak. The economy could not derive maximum benefit from the huge investment made in the irrigation sector. Many projects discontinued

due to the lack of budget while some of them were defunct due to lack of proper maintenance and repair (Mahat, 2006). A total of 539, 030 hectares of land were irrigated until 1989/90 (NPC, 1992). Similarly, 46 percent of total population had access to improved drinking water until then (Mahat, 2020).

### **b) Industrial Development**

Few works of industrialization commenced with the political transformation in 1951. The major political parties in Nepal announced to create employment opportunities, reducing poverty and develop the country. The first budget in Nepal in 1951 had adopted the concept of mixed economic model (Joshi & Rose, 1966). The first five-year plan had also adopted this mixed economic model too. The plan focused on the role of both the government and private sectors in industrial developments (NPC, 1956).

The Panchayat system had adopted state led development model. With the establishment of the Panchayat system, King Mahendra promoted small and cottage industries in the rural part of Nepal (Shrestha, 1981). During the regime, the government had control over the national economy. From 1956 to 1961, 3 industrial zones and 21 cottage industry centers were established for management of industries. There were 459 industrial firms until 1961 (Mahat, 2006).

There was a discouraging environment for private sectors due to the state led development approach adopted by the Panchayat regime. According to Regmi (1994) the government set industrial priorities and used the licensing mechanism for the investments during panchayat regime. Due to this, both the domestic and international private sectors had very limited opportunities to choose for investment. The economic and technical capacity was weak for industrial development. A huge amount of foreign aid and investment was essential for this. However, this kind of investment was discouraged during that regime.

The involvement of the Royal Palace in business during the Monarchical regime had negative impacts on industrial development. The royal family had been involved in industries and tourism sector since the tenure of King Mahendra. The tax related facilities were used only by the royal families and not provided to the general people. Nawaraj Subedi (B.S. 2069) Minister for Industry and Commerce during the Monarchical regime writes:

“...Omega Watch sent a proposal for establishing a factory in Nepal... Dr. Bhesh Bahadur Thapa, Dr. Puskar Nath Panta and I visited the Omega factory in Switzerland. We also talked about establishing the factory in Nepal. The company had a condition that it was not ready for partnership with both private sectors and the government of Nepal. They were willing to establish the factory within a year with this condition. We agreed on the condition, but Prince Gyanendra wanted half the share in that factory. Due to this the Omega factory could not be established in Nepal (pp.11-12).”

The interference of the royal family in politics, administration as well as business created hindrance to progress, prosperity, and development of the country (Bhatta, 2071). It was a closed society during the Rana regime, which slowly entered an open society with political transformation of 1951. However, the private sectors could not be encouraged in industrial development and uplifting business sector. While dissolving the democratic government and establishing the autocratic regime, the King Mahendra had stated that the import would be replaced with increase in export for poverty alleviation and independency of Nepal (Shrestha, 1981). However, no solid initiatives were taken, or the environment was created during the whole regime for independence of the country.

Public enterprises were established with foreign assistance during the Monarchical regime. During the time, countries including USSR, China, Japan, and the Netherlands had important contribution towards establishing public enterprises (Savada, 1991). Ten industrial zones were set up from 1951 to mid-1980s in Nepal. The industrial growth increased to 8.14 percent in 1990/91 from 3.19 in 1964/65 (Table 4.3).

**Table 4.3**

*Contribution of Industrial Sector of Nepal*

<b>Fiscal Year</b>	<b>Share of Industrial Contribution in GDP (In%)</b>	<b>% Of Economically Active Population in Industry</b>	<b>Industrial Growth</b>
1964/65	10.28	-	-
1970/71	10.90	1.21	3.19

1980/81	5.79	0.56	3.47
1990/91	17.53	2.72	8.14

*Source: Bajracharya et al. (2019)*

Industrial growth increased from 3.19 to 8.14 during the period of 1960 to 1990. However, there was no notable involvement of private sectors in industrial development. While industrial development could not be effective, it could not have positive impacts to the economic growth of the country. Until the end of the Monarchical regime, only 2.72 percent of the total population of the country were active in the industrial sector.

### **c) Social Development**

After the political transformation of 1951, the state had given priority to the major sectors of social development, education, and health. The state started to work on the development of health and education in an institutional and well-managed manner.

#### **Education**

There were very few schools and other educational institutions before 1951. The major problems at that time included the shortage of trained teaching personnel, shortage of schools, lack of university among others. The first five-year plan aimed for recruiting 1800 primary teachers, 504 middle school teachers and 100 high school teachers. Similarly, it had aimed at building 630 primary schools, 126 middle and 10 high schools (NPC, 1956). With the downfall of the Rana regime, the government of Nepal had presented various plan for development of education in Nepal. According to Sharma (1989) the contemporary government developed education system through promoting Sanskrit, vocational and adult education, and teacher's training. Around the mid-1950s the US Government had stated to provide technical and financial support for improvement of educational level and system in Nepal (Bista, 1991). Tribhuvan University was established in 1959. The schools established in the rural areas were with poor buildings, no library facilities, and no quality and competent teachers (Sharma, 1989).

During the democratic transitional period, a few social and economic infrastructures have been built. Until 1961, the number of primary schools reached more than 4 thousand. The number of students being admitted in the primary schools crossed 200 thousand. At that time, there were more than 5 hundred mid-level schools and 32 colleges. Until 1961, the literacy rate of Nepal was 9 percent (Mahat, 2006). Similarly, B.P. Koirala led government launched a program to set up 2200 primary schools throughout the country. 1600 were established in a single year (Mahat, 2020). However, within less than one and half years of the democratic government's tenure, King Mahendra established the autocratic Panchayat regime. This hindered the plan of educational development in the country then.

The government introduced the National Education System Plan (NESP) in 1971 with the main objective to promote vocational and technical education and produce qualified and skillful human resources in the country (MoE, 1971). Similarly, the Council for Technical Education and Vocational Training (CTEVT) was established in 1989. These educational activities brought some progress in the educational sector of Nepal. The literacy rate was less than 2 percent in 1951 which reached 39.6 percent until 1991 (NPC, 1992). However, there was a huge gender gap in educational progress during the Panchayat regime. According to a study carried out by Khaniya (2007), the literacy rate was 39.6 percent 1991, 54.5 percent men were literate while only 25 percent women were literate. The number of institutions for higher education also increased during the Panchayat regime but the quality could not improve. Only 10 percent of students passed bachelors and masters level at that time (Sharma, 1989).

The basic characteristics of Rana regime was carried out until the Panchayat regime which hindered the improvement of quality of education in Nepal. The culture of nepotism, favoritism, *chakari* and *chaplusi* of the Rana regime aggravated in the Panchayat regime too. There was no value of merit system. As a result, the quality, skill, innovation could not be developed in the educational sector. The well-educated people were also compelled to do *charaki* and *chaplusi* for employment opportunities (Bista, 1991). The education system produced graduates with certificates, but it was not able to produce skilled and innovative human resources (Sharma, 1989). Sharma

(1989) further argues that lack of concrete vision, policies, and program the educational sector was weak in Nepal during the Panchayat regime.

### **Health**

Various activities were carried out for improving the health status of people during the Panchayat regime. To improve the low-quality health status during the Rana regime, the first five-year plan had aimed for building 423 (42 ayurvedic) beds and 51 dispensaries, 138 doctors, 276 nurses and 205 other health workers (NPC, 1956). The B P Koirala led government had aimed to establish one hospital in each electoral constituency which would sum up to 109 hospitals around the country (Mahat, 2020). Until 1961, there were 39 hospitals, 1019 beds, 55 health posts, 93 health centers, 63 ayurvedic centers. Until the end of 1990, there were 1 thousand 2 hundred doctors, and 3 thousand nurses (Shakya, 2018). Similarly, the life expectancy increased to 53 years until 1990 (Mahat, 2020).

During the autocratic and party-less monarchical regime, the members of the palace, political leaders supporting the Panchayat system, high level administrative officers and high-level military officials were above the state. The state governance and use of national treasury was done on their will. Due to this, the rule of law and peoples' participation in governance system was weak during the time. This kind of governance system has negative impacts on development and economic growth of the country. Nevertheless, the planned development started during the monarchical regime, the plans could not succeed according to the objectives. This hindered the development of the country.

#### **4.5 Status Development in Democratic and Republican Regime (1990-2021)**

The restoration of democracy in 1990 raised hopes of economic growth and development in Nepal. People had hoped that the country would take a long pace of modern development after the downfall of the Monarchical regime. During the Monarchical regime, there was a semi-controlled economy (Shrestha, 1981). However, after the political transformation of 1990 the economic restructuring was done, and Nepal adopted liberal economic policy. It stimulated the open market, and the private sectors were welcomed by the government (Acharya, et al., 1998). This

kind of policy intervention led to restructuring of the country's economy over the last five decades. Between 1975 and 2020 agriculture share of the GDP declined continuously from 71.3 percent to 23.13 percent and the service sector's contribution increased from 20.2 percent in 1975 to 53.31 percent in 2020. Similarly, the contribution of remittance increased from 1.3 percent in 1995 to 27.6 percent in 2015 and 24.1 percent in 2020 (Table 4.4).

**Table 4.4**

*Sectoral Contribution to the GDP (In percent)*

<b>Sector</b>	<b>1975</b>	<b>1985</b>	<b>1995</b>	<b>2005</b>	<b>2015</b>	<b>2020</b>
Agriculture	71.6	51.2	41.7	35.2	31.7	23.13
Industry	8.2	15.0	19.4	17.2	14.8	11.8
Service	20.2	33.8	38.9	47.6	53.5	53.31
Remittance*	-	-	1.3	14.9	27.6	24.1

*Source: MOF (2020) \* The World Bank (2021)*

However, after the establishment of democracy too, the country could not develop as expected. Political parties and their leaders could not make a concrete plan for economic growth and development after restoration of democracy in 1990. During the democratic regime, the development planning process remained ritualistic, and its visions, goals, objectives, and strategies disoriented. The eighth five-year plan commenced after 1990 which had changed their approach after monarchical regime. Unlike the state-led development approach in monarchical regime, the market oriented, open, and liberalized economic policy was adopted later. Similarly, devolution of power to the local bodies was adopted and the development process focused on public sector's role mainly in physical infrastructure and social services in rural areas (NPC, 1992). (The total budget in the various periodic plans is provided in annex II).

With the establishment of democracy, people's expectations also increased for development and economic growth of the country. The country, however, could not fulfill the expectations of the people and people had to face a decade long Maoist armed conflict. The Maoist insurgency also disorientated the development of Nepal



(Shrestha, 2004). After this in 2006, the collective movement of seven political parties and Maoists led to the establishment of federal democratic republican regime in Nepal. The republican regime got institutionalized after the Constitution of Nepal 2015 came into effect.

The problems during the Panchayat regime also continued up to the democratic regime. For example, dependency on foreign aid did not decrease. The total budget of the eighth plan was 113.47 billion, 65 percent of which was relied on external assistance and loan (NPC, 1992). However, the extent of dependency during the latest time has decreased comparatively (Table 4.5).

**Table 4.5**

*Foreign Aid, Internal Revenue and Public Expenditure (Rs. In ten million)*

S. N	Heading	Fiscal Year						
		1989-90	2000-01	2005-06	2010-11	2015-16	2016-17	2017-18
1	Total Expenditure	1966.5	7983.5	11088.9	29536.3	60101.6	83724.8	10668
2	Internal Revenue	928.7 (47.2%)	4889.4 (61.2%)	7228.2 (65.2%)	19981.9 (80.2%)	48196.2 (80.2%)	60918 (72.8%)	72672.5 (68.2%)
3	Foreign Aid	793.5	1879.7	2204.2	7625.2	7625.2	8994.5	10739.5
A	Grant	197.5	675.3	1382.8	3247.8	3247.8	3193.2	2843.2
B	Loan	596.0	1204.4	821.4	4377.4	4377.4	5801.3	7896.3
4	Contribution of the foreign aid in total expenditure (in%)	40.3	23.5	19.9	12.7	12.7	10.7	10.1

Source: *Mahat (2020)*

The internal revenue has been increasing slowly due to the reforms, growth and expansions of the private sector and increase in remittance after 1990. Also, reforms on VAT, income tax and customs are other major contributors to revenue

generation in post 1990 Nepal (Mahat, 2020). In the meantime, after 2006 peoples' movement, the governance system of Nepal has been transformed to federal system from unitary and republican from monarchical system. However, it shows that the pace of poverty alleviation process is slow. Statistics show that only 18 percent of poverty has been alleviated in a four-decade long period (Table 4.6).

**Table 4.6**

*Status of Poverty in Nepal*

<b>Year</b>	<b>1978*</b>	<b>1995/96**</b>	<b>2003/04**</b>	<b>2010/11*</b>	<b>2021***</b>
Poverty Level (%)	35.3	42	30.8	25.2	17

*Source: \*CBS (2011), \*\* CBS (1996), CBS (2004) \*\*\*NPC (2021)*

The political regime has changed, however, the working modality, plans, budget allocation process, implementation approach, and monitoring and evaluation mechanism remains unchanged. The government is investing huge amount of money in poverty alleviation planning in Nepal. A large amount of budget is also being allocated for this. The Poverty Alleviation Fund (PAF) was established to support the poverty alleviation process. But there was widespread corruption in the PAF. The CIAA had filed a case in a special court alleging that the employees of the PAF had embezzled more than Rs 40 million (CIAA, B.S. 2073). This kind of activity has created hindrances to economic growth and development. Sapkota (2009) argues that the GoN is not yet clear on the strategy it has been adopting for poverty alleviation in Nepal. The situation is similar for economic growth and development status in the country. The social, economic, and physical targets and achievements are summarized in table 4.7 below.

**Table 4.7**

*Social, Economic, and Physical Targets and Achievements*

<b>S.N.</b>	<b>Indicators</b>	<b>Base Year FY 2016/17</b>	<b>Target until 2017/18</b>	<b>Progress Until 2017/18</b>
1	GDP per Capita (in Thousands)	79.4	116.5	117.5
2	Population living below the poverty line (%)	21.6	17	18.7

3	HDI	0.54	0.57	0.579
4	Life Expectancy (at birth, year)	69	72	69.7
5	Population with access to drinking water facility (%)	83.6	90	89
6	Net enrollment rate at secondary level (%)	37.7	45	46
7	Literacy Rate of 15-24	88.6	92	92
8	Electricity generation (installed capacity MW)	85.1	2,301	1,250
9	Family with access to electricity (%)	74.0	87	88
10	Irrigation (in 100,000 hectare)	13.9	15.2	14.7
11	Population with access to internet service (%)	44.4	65	65.9

*Source: NPC (B.S. 2075)*

The above table shows that there is a positive impact on the social development sector. There has been a significant improvement in the condition of education and health, while the condition of physical and economic development shows that it is still weak. It seems that many people across the country are deprived of electrification, internet access, irrigation facilities, transportation facilities, drinking water facilities.

Growth, employment generation, poverty alleviation, infrastructure, and good governance with very strong strategy to control corruption and control the impunity are the backbone of the economic growth and development in Nepal (Dahal, et al., 2000). However, even after the end of Monarchical regime and the establishment of democracy, the state did not pay attention to these issues.

The state adopted the liberal economic policy from the democratic regime. However, no government could make concrete plan for economic growth and

development. A total of seven periodic plans have already been implemented after the establishment of democracy in 1990. The objectives of the periodic plans could not be achieved due to weak project implementation status, inability to spend budget, lack of good governance, high level of corruption among others. Meanwhile, a decade long Maoist insurgency has had negative impacts on the development process of the country (Bajracharya, 2013). The amount of foreign loans and grants increased. The governments did not give priority to corruption control and establish good governance. The effective mechanisms could not be developed. As a result, the country continuously drowned in the vicious cycle of underdevelopment.

Nepal faces serious challenges in its development. Rural areas and disadvantaged people lag in receiving the basic services like transportation, communication, safe drinking water, irrigation, health care facilities, and quality education as well. The economic policy of Nepal has been shifted from state-led to liberal market-led and is promoting the private sectors after 1990s. The political parties implemented the mixed economic model, both liberal and welfare system. Similarly, Nepal entered democratic republican political system after promulgation of the Constitution 2015. Though, Nepal's development status has remained almost same. The development activities and their status during the democratic and republican regime are stated below:

#### a) **Infrastructural Development**

##### **Road**

The government of Nepal focused on the improvement of connectivity in the country after the political reform of 1990 (Table 4.8).

**Table 4.8**

*The Expansion of Road in Nepal (in KM)*

<b>FY</b>	<b>Black Topped</b>	<b>Graveled</b>	<b>Fair Weathered</b>	<b>Total</b>
1990/91	3083	2181	3064	8328
1995/96	3609	2867	4761	11237
2000/01	4566	3786	7350	15702
2005/06	5048	4727	7658	17433
2010/11	9902	5670	7637	2309
2015/16	12173	6460	9675	28308
2016/17	12803	6822	9492	29117
2020/21*	13355	7326	9776	30457

*Source: MoF (2018) MoF (2021) \*till mid-March 2021*

The expansion of road has been increasing in Nepal during the democratic and republican regimes as well. Except that of Humla district, there is road connectivity to all the district headquarters of Nepal. After 1990, the private Nepali contractors started the road construction related works. There are 125000 construction enterprises working in Nepal. Among them, 231 are A-class contractors engaged in big construction in Nepal (The Federation of Contractors' Association in Nepal, 2018). The increase in construction enterprises has led to the extension of local roads (Table 4.9).

**Table 4.9**

*The detail of Road (km) Constructed from 2013/14 to 2016/17 in Local Levels in Nepal*

<b>Description</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>
Earthen Road	37402	38768	38940	42840
Graveled Road	12336	12425	12513	12830
Black Topped	1690	1784	1857	2269
<b>Total</b>	<b>51428</b>	<b>52977</b>	<b>53310</b>	<b>57939</b>

*Source: MoF (2018)*

The decentralization process started after 1990 promoted peoples' participation in local development works. The constitution of Nepal 2015 has also provisioned autonomous provincial and local government. The local governments have adopted a policy of involving the users' groups in the construction for the purpose of promoting peoples' participation in the development works. The users' committees which have been formed under the law adopting financial accountability, quality ownership have become the source of defacement. In the latest times, corruption and financial irregularities have been increasing in the local levels (Ghimire, 2018). According to the data of CIAA, OAG, and NVC, the users' committees were found to have spent more than 15 billion rupees within one year without following the rules and regulations (Ghimire, B.S. 2078). The 30<sup>th</sup> annual report of CIAA states that the legal provisions should be made for managing the works to be done through users' committees (CIAA, B.S. 2077). Similarly, the 58<sup>th</sup> annual report of OAG (B.S.2078) has stated that the directives should be developed for the users' committee to conduct development works through the committees.

According to the OAG (B.S.2078) the construction works carried out by the users' committees are quality less, there is no audit and lack of accountability and transparency exists. However, the government of Nepal has not been able to bring policy level reforms for continuation of development activities with peoples' participation in the local level. This has helped to institutionalize corruption at the local levels.

The road projects started with huge investments have not shown satisfactory progress. Mid-hill Highway can be taken as an example. In 13 years of the commencement of the work, only 58 percent of the construction work is completed. The project started in the fiscal year 2006/07 which was supposed to be completed in the fiscal year 2016/17. However, the project could not be completed and has been extended until 2022/23 (Mahat, 2020). The total estimated cost was 33.36 billion rupees. However, the cost of the project has increased by Rs. 68.14 billion to Rs. 101.50 billion in FY 2013/14 (Basnet, B.S.2078). The status of most big investment road projects is like the Mid-Hill Highway (Table 4.10).

**Table 4.10**

*The implementation Status of Some Big Investment Projects*

S.N.	Name of Project	Starting Date	Ending Date	Progress (In %)
1	Kathmandu-Terai Fast Track	2017	2023/24	42
2	Postal Highway	2008/09	2022/23	55
3	Mid-Hill (Puspahal)	2007/08	2022/23	48.94
4	North-South (Kaligandagi) Highway	2010/11	2022/23	30 (Maldhunga-Ramdi-Gaidakot)
5	North-South (Kaligandagi) Highway	2016	2023/24	80 (Jomsom-Korala)
6	North-South (Koshi) Highway	2009/10	2022/23	20
7	North-South (Karnali) Highway	2008/09	2022/23	78 (Hilsa-Simikot)

8	Galchhi-Trisuli- Mailung Syafrubesi- Rasuwagadhi	2015/16	2023/24	29
9	Madan Bhandari Highway	2018	2025/26	85 (Chatara- Dharan- Hetauda)
10	Narayangadh-Butwal	2018	2023	2
11	Kanti Lokpath	2007	2020/21	82

*Source: Khatiwada (B.S.2077)*

Nepal still suffers from poor transportation connectivity. The road network is inadequate and suffering from poor maintenance. The quality control institutions are weak in Nepal. Due to poor quality roads, many road accidents happen every year due to which many passengers are losing their lives (Table 4.11).

**Table 4.11**

*Number of Dead and Injured by the Road Accidents*

<b>FY</b>	<b>Number of Death</b>	<b>Seriously Injured</b>	<b>Normal Injured</b>	<b>Number of Accident</b>
2016/17	2384	4250	8290	10178
2017/18	2541	4144	8247	10965
2018/19	2789	4376	10360	11366
2019/20	2251	4615	11219	15559
2020/21	2500	6448	18600	20640
<b>Total</b>	<b>12,465</b>	<b>23,833</b>	<b>56,716</b>	<b>68,708</b>

*Source: Ghimire (B.S.2078)*

The public procurement act is responsible for accepting the lowest bid, which is a reason for delay construction and low-quality performance (Upadhayaya & Ghimire, 2017). Furthermore, there is role of corruption for the low-quality physical infrastructures. According to a study carried out by the World Bank & GoN (2013), engineers have been involved in approving technical part of quality less works, setting of the contracts, lingering the projects even after the works have been completed and so on. Engineers working on sectors like road, irrigation, electricity are being trapped in corruption scandals. The last three annual reports of CIAA show that the number of engineers involved in corruption has been increasing (Table 4.12).

**Table 4.12**

*Number of Cases Filed in the Special Court by CIAA Against Engineers Accusing of Corruption*

<b>Fiscal Year</b>	<b>Number of Case</b>	<b>Number of defendants</b>
2017/18	13	18
2018/19	18	22
2019/20	32	44

*Sources: CIAA (B.S. 2077)*

According to a study carried out by CIAA, 1,848 projects under seven different ministries and departments involve Rs 118 billion rupees at risk without following the procedure in construction. The expenditure modality in every public sector in Nepal has contributed to a misuse of huge amounts of money. The public procurement act allows the 20 percent mobilization cost to the contractor before starting the project. The trend of taking 20 percent mobilization amount of contract and not commencing the works has been increasing in the public offices. According to the data of CIAA, a huge amount has been misused as a mobilization amount from big contracts in various ministries and departments (Table 4.13).

**Table 4.13**

*The Discontinued Development Projects (In 10 million)*

<b>Ministry/Department</b>	<b>Incomplete contract</b>	<b>Incomplete contracts with no extension of time.</b>	<b>Contract amount</b>	<b>Mobilization (20%)</b>	<b>Performance bond (5%)</b>
The Ministry of Physical Infrastructure and Transportation/ Road Department	906	623	2076	415	104
Ministry of Urban Development/ Department of Urban Development and Building Construction	442	171	693	139	35
Ministry of Energy, Water Resources and Irrigation/ Department of Water Resources and Irrigation	235	94	1866	373	93
Ministry of Federal Affairs and General	97	75	660	132	33



Administration/ Department of Local Infrastructure					
Ministry of Energy, Water Resources, and Irrigation/ Nepal Electricity Authority	91	45	3843	769	192
Ministry of Culture, Tourism and Civil Aviation	37	6	727	145	36
Ministry of Communication and Information Technology	23	8	1546	309	77
Ministry of Water Supply/ Department of Water Supply and Sewerage Management	17	10	390	78	20
<b>Total</b>	<b>1848</b>	<b>1032</b>	<b>11801</b>	<b>2360</b>	<b>590</b>

*Source: CIAA (2019)*

Studying the documents and descriptions provided by the related offices to the CIAA, 1848 contracts with contract amount of 118 billion rupees are seen incomplete within the contract deadline. Among them, 1032 (55.84%) contracts are found to have not extended the contract time. The GoN has provided 236 billion rupees as mobilization amount to the contractors. The contracts do not have a bank guarantee for the already paid mobilization amount as well. Similarly, the contract amount is of concern for those contracts for which time has been extended without bank guarantee.

One of the reasons why the contracts are not completed on time is the relation of the contractors with political parties. They are involved in politics, being affiliated to a party, and provide donations to the party as well. In return, the contractors are protected from the party in even the criminal acts. In the latest time, the trend of buying the political seat with a huge amount has been increasing. Several contractors have been elected as the peoples' representatives in federal, provincial, and local governments. Not only the political party but also the contractors are found to buy voters with money. While the contractors are in the government, there is no possibility of them being punished. Many of the contractors have provided advantages to the powerful politicians and have been getting their protection in return (Upadhyaya & Ghimire, B.S.2073). Tnazi and Davoodi (1997) argued that the quality

of physical infrastructures which are constructed through public procurement process is not satisfactory because procurement process itself is engulfed with corruption, which leads to weakening of the quality of public services and physical infrastructures.

There is a lack of effective mechanism for regulating monitoring, supervision in quality control, and construction deadlines. The majority of the places around the country lack road facilities. Rather, the places furnished with the road facility also contain poorly constructed roads with no proper technical design and supervision. The poor quality of roads, lack of regular proper maintenance, and environmental degradation have been increasing. The roads constructed without environmental impact assessment have aggravated environmental problems. The new road standards promulgated in 2013 by the GoN had provisioned certain criteria for road safety and quality. Similarly, with the motive of environmental protection during the physical infrastructure development, the Environmental Protection Act 2019 has been promulgated. However, the irregularities in contract agreements and excessive politicizing, the quality of roads in Nepal is low and Department of Environment fails to properly implement the environmental protection act (World Bank & GoN, 2013).

While more focus is given for extension of road, maintenance of road remains big challenge in Nepal. The road maintenance is neither organized nor qualitative. The maintenance work is carried out normally during the end of the fiscal year. Due to this, the quality control works cannot be effective. In local levels, the road users' committees have been formed. However, the formation process of the committees is also interfered with by the political parties. The high politicizing in the committees leads to irregularities and poor quality of work (Ghimire, 2018). There are other great problems in the physical infrastructure development sector. The road construction works is not effective in Nepal. Many times, the bridges across the rivers get broken even during construction, and the roads are less quality (PERC, B.S.2075).

### **Irrigation**

Nepal has 2.64 million hectares (ha) of cultivable land and 66% of this land, i.e. 1.76 million ha, is irrigable. Around 60% of the irrigable land has irrigation

facilities, and less than one-third has round-the-year irrigation. Agriculture production was 7.2 million tons in 2003, which just meets the minimum requirement of the nation's edible grains. Out of this, only 3.3 million tons were from the irrigated (MoEWRI, B.S.2077).

There have been few works related to irrigation development and extension during the democratic and republican regimes. The government has been working for extension of irrigation facilities in the irrigable land. However, the process is sluggish. Until the fiscal year 2016/17, 1 million 433 thousand 3 hundred and 57 hectares of land has irrigation facility (MoF, 2018). The government has given priority to the national pride projects for extension of irrigation facilities. However, the implementation status in these national pride projects is not satisfactory (Table 4.14).

**Table 4.14**

*The Status of National Pride Irrigation Project*

S.N.	Name of The Project	Target	Achievement
1	Sikta Irrigation Project (42,766 hectares) Banke	Was targeted to be completed by FY 2020/21.	The physical progress was only 63 percent
2	Rani Jamara, Kulriya Irrigation Project (20,300 hectares) Kailali	Targeted to be completed by FY 2023/24.	Physical progress of the project by the end of the FY 2019/20 was only 48 percent
3	Bheri Babai diversion multi-Purpose Project	Targeted to be completed by FY 2022/23.	Till FY 2019/20 only 40 percent work of the project completed
4	Mahakali Irrigation Project (Phase III)	Targeted to be completed by 2023/24.	Till FY 2019/20 the physical progress of the project was 10.4 percent
5	Babai Irrigation Project	Expected to be completed in FY 2022/23.	Achieved only 52.12 percent progress by end of FY 2019/20

*Source: MoF (2021)*

17 projects were kept in priority from 2011/12 and 4 other projects were added in 2013/14 with altogether 21 national pride projects. NPC (B.S.2072) found out that lack of implementation capacity, poor management of contractors, lack of

coordination between related stakeholders and unclear implementation modality are few reasons for sluggish and poor performance of the projects. In 2020/21, only 58 percent of the total budget was spent on the national pride projects. No national pride project has been completed on time, with the estimated cost and expected quality. (MoF, B.S.2078). Not only the national pride projects, but the situation of the other projects is similar.

### **Hydropower**

Nepal has great potential in terms of generating electricity from the available water resources. A study shows that theoretically Nepal has a potential of hydropower production of about 83,000 MW and 42000 MW potential in terms of technical perspective (Shrestha, 2017). Hydroelectricity is one major resource for economic growth, development of the country and earning foreign currency. However, Nepal is not able to progress as expected in hydroelectric sector. The government had made a policy to encourage private sector investment in hydroelectric development after 1990. The government formed after the general election of 1991 promulgated Hydropower Policy and Electricity Act 1992. The act adopted the Build-Own-Operate-Transfer (BOOT) model for construction of hydroelectricity of more than 100 MW capacity. However, due to lack of investment friendly environment, the private sector investments could not be attracted as expected (Table 4.15).

**Table 4.15**

*The Hydroelectric Development in Nepal after 1990*

<b>FY</b>	<b>Hydropower Generation (in Million KWH)</b>
1990/91	872.5
1995/96	1188.9
2000/01	1641.9
2005/06	2514.68
2010/11	3064.32
2015/16	3294.32
2019/20*	56877

*Source: MoF (2021) \*Till mid-March 2019/20*

After 2005/06 the huge gap between electricity demands and supply widened in Nepal. The loadshedding increased to more than 12 hours per day after 2006 which increased to more than 18 hours daily until 2013/14. The total power generation as of mid-April 2018 stood at 1,073 MW of which 1016 MW was produced from hydropower. The total demand of energy in 2017/18 was 1508 MW (MoF, 2018).

Though rich in water resources, the state must pay a lot to overcome the inability to produce hydroelectricity. Mahat (2020) finds out that Nepal spends about 22 billion rupees for importing power and other electrical equipment like diesel, generators, and inverters from India annually. It results in huge economic losses, affecting industrial production and the service sector and creating a discouraging environment for domestic and foreign investment. Similarly, there are technical, political, and financial constraints for inability to produce required hydroelectricity. There is huge politicizing in hydroelectric development sector which also leads to over costing. The unwanted political interference has put negative impacts in hydroelectric development in Nepal.

Similarly, the donor communities are not interested to provide grants and loan in big hydropower projects in Nepal (Ali & Basu, 2007). The foreign investment in hydroelectricity also led to a great loss financially. During mid-1990s, Norwegian company invested for 60 MW Khimti Hydropower Project and US company invested for 42 MW Bhotekoshi Project. The agreement was made in US dollars. Nepal is continuously bearing loss due to depreciation in Nepalese currency after that (Mahat, 2006). Similarly, there is excessive corruption and irregularities in NEA and other hydropower sectors. The corruption and malpractices within NEA have discouraged the private sector investment in hydropower (Bajracharya et al., 2019). 23 percent of hydroelectricity produced is lost as system loss and leakage annually (Mahat, 2006).

### **Politics in Development: An Example of Arun Third Project**

The Arun III hydroelectric project in Sankhuwasabha district was in peak popularity during the 1990s. This project was identified by the inception study from JICA. The prefeasibility study was carried out with the assistance from the Canadian International Water and Energy Consultant in 1987. In 1990, the least Cost Generation Expansion Plan had re-confirmed that this project was least cost project. NC led government commenced the project in 1991. In 1992, the project was re-structured to complete in two phases 201 MW each. In 1994, the total cost

of the project was estimated to be 1.8 billion US dollars. The foreign donor agencies had promised to provide two thirds of the cost as grant and low interest loan. The total foreign assistance package included 70 percent of the total cost. According to various studies, the Arun III project would add 5 billion rupees annually after production. Only one part of 5 billion rupees, i.e., 1 billion rupees was supposed to be repaid as loan and the rest of the amount, i.e., 4 billion rupees would be earned as revenue by the government.

There were various controversies about the Arun III projects. It became victim of Nepal's hydroelectric potential, some business interests and excessive politicizing. Many I/NGOs and their local partner organizations raised campaigns against this project. Similarly, the contemporary CPN (UML) party chairman Madhav Kumar Nepal wrote a letter to the chairman of the World Bank on October 18, 1994, that the project was not studied for the alternative possibilities and with no national acceptance. The letter was sent in the context that the World Bank had prepared for the final board meeting for approval of the project on November 3, 1994. The World Bank took it seriously and the letter proved to be the obstacle for the approval. CPN (UML) formed the minority government after the mid-term election. The government did not show any interest in the project after that. In August 1995, the World Bank notified that the project was cancelled with the acceptance of the GoN. The World Bank had stated three reasons for cancellation of the project. First, the managerial capacity of Nepal to handle such big project was doubted. Second, it seemed that there would be difficulty in collecting peoples' support in prioritizing the public expenditure and setting the electricity tariffs. Third, the delay in project implementation would incur an additional 30 to 40 million US dollars and difficulty in mobilizing the additional cost (Mahat, 2006).

During that time, the road construction works commenced considerably but the quality was poor. The emphasis was given only to take the road to the villages leaving back the maintenance and upgrading. Due to this, the number of road accidents increased, and a lot of people lost their lives. The events of financial irregularities increased, and the number of cases filed against engineers by CIAA has increased. The big road projects are not completed within the deadline and estimated

budget. The practice of taking mobilization amount and leaving the projects without starting has been flourishing. Similarly, the implementation status of irrigation projects is equally unsatisfactory.

While the country was not able to prepare the required policy and investment friendly environment in hydropower sector, the country had to face load shedding for a long time. Also, a huge amount of capital was out flown from the country to import fuel and electric equipment. The factories and industries closed and the domestic as well as international investments got discouraged. While the political leaders politicized the development process of the country, the country continuously drowned in vicious circle of underdevelopment.

### **b) Industrial Development**

Various attempts have been made for industrial reform after the political transformation of 1990. NC got the majority in the 1991 general election. This government initiated liberal economic reforms and promoted the private sector and foreign investors. It also started the privatization of the public enterprises that were running on loss for the time being. The government of CPN (UML) and CPN (Maoist) after NC government also followed the liberal economic policy initiated by the NC led government. The contribution of industrial sector in GDP even after implementing the liberal economic policies continuously decreased (Table 4.16).

**Table 4.16**

*Contribution of Industrial Sector in GDP*

<b>Year</b>	<b>GDP Contribution (%)</b>
1994	21
2010	14.2
2011	13.59
2012	13.98
2013	13.8
2014	13.56
2015	13.16
2020	11.8

*Source: MoF (2021)*

The industrial sector made a 21 percent contribution to the GDP in 1994 which decreased to 14.2 in 2010. The contribution even decreased to 11.8 in 2020. Lack of clear vision, proper policy and implementation plan, business friendly political environment led to weak industrial sector in Nepal. On one hand, there is no investment friendly environment and on the other hand confusing and contradictory policies, Weak governance, high level of corruption, and political instability continuously impeded the industrial development in Nepal (Bajracharya, et al., 2019).

The rulers after 1991 also followed the same rent-seeking mindset during that of Rana regime. The rulers could not do more than importing goods from India and collecting custom from the imports. They could not do any new work for economic growth and development of the country (Panday, 1999). The state of physical infrastructure and industrial development was weak during the democratic and republican regimes. However, the service sector was comparatively better (Table 4.17).

**Table 4.17**

*Contribution of Service Sector in GDP*

<b>Fiscal Year</b>	<b>Contribution of Service Sector in GDP (%)</b>
1964/65	24.49*
1970/71	21.59*
1980/81	28.74
1990/91	34.79
2000/2001	46.13
2010/2011	51.55
2015/16	54.19
2019/20	53.31

*Source: \*MoF (1971) MoF (2021)*

The above table shows that the condition of service sector in Nepal is gradually improving. However, the status of industrial development in the country seems to be weak. Number of industries has been decreasing in Nepal. There are some reasons behind this. The unstable politics, political transition, weak infrastructure, weak institutional arrangement, unfriendly investment environment are some reasons leading to discourage investment in Nepal. Nepal's economic growth has been sluggish. The slow economic growth has led to an increasing trade deficit.



Due to the inability to create an investment friendly environment the status of industrial development was weak in the country. The status worsened during the democratic and the republican regime due to Weak governance, high level of corruption, political transition, and the lack of business-friendly political environment. This status created a lack of employment opportunity and acted as an obstacle to the development of the country.

## **b) Social Development**

### **Education**

Various improvement works have been initiated in Nepal for improving quality of education sector in Nepal. However, it seems that the educational quality has not been improved as per the target. The education sector was also affected by liberalization adopted after the 1990s. Various donor agencies provided grants and loan assistance to Nepal for better education. The government started the basic and primary education program with the financial support of various donor agencies. The prime objective of the program was improving the quality of education and promoting free primary education to all Nepalese children (MOE, 1997). After this, various projects including education for all-2004, secondary education support program-2003, five-year school sector reform program-2009, school sector development plan-2016 were implemented. This initiation had a positive impact on the development of the education sector in the country (Table 4.18).

**Table 4.18**

*The Number of Schools and the Students in School and Higher Education in Nepal*

<b>Year</b>	<b>Number of Schools</b>	<b>of Numbers of Students in School (in thousand)</b>	<b>The Number of Students in higher education (In thousand)</b>
1990	23,759	3,498	123
1995	29,168	4,279	101
2000	37,566	4,923	134
2005	41,035	6,464	122
2010	52,182	7,464	244
2015	62,090	7,824	348

*Source: MoF (2015)*

The Table 4.18 clearly shows that during the 1990 to 2020 period the number of schools and students were increasing. However, the quality could not be ensured

with the increase in the number of schools and students. Various studies show that the quality of education in Nepal is weak. A study conducted by ADB (2017) shows that an average citizen in Nepal has received only 4.23 years of schooling. Similarly, another study carried out by ADB (2004) showed that poor school facilities, lack of trained teachers, delay in course book distribution, high levels of school dropout rates are the main reasons behind the low-quality of education in Nepal. The basic indicators of education in Nepal are still weak. If we give a glance at literacy rate, it was 54 percent in 2001 which increased to 67.2 percent in 2012 and 75 percent in 2018. Similarly, the net primary enrollment rate was 81 percent in 2001 which increased to 95.3 percent in 2013 and 96.6 percent in 2015. But only 76.6 students enrolled in grade one reached grade eight in 2015 (MoF, 2015).

Table 4.18 shows that the number of students in higher education seems to have been increasing. However, most of the students choose education, humanities, and management faculties. A report of UGC (2018) clearly shows that most of the students are enrolled in education, humanities and management programs and the number of students in science, information technology, agriculture is less. This leads to less-skilled manpower in Nepal. The problem of unemployment is aggravating due to this trend. A study of ILO (2015) shows that unemployment rate for graduates is 26 percent in Nepal.

The GoN has invested huge means and resources in education sector. The private sectors have invested likewise. However, the number of outflows of Nepali students in foreign countries for getting higher education is increasing rapidly. The number of students taking No Objection Letters (NOL) from GoN has been increasing (Table 4.19).

**Table 4.19**

*Number of Students who took the No Objection Letters from GoN*

<b>Fiscal Year</b>	<b>Number of Students</b>
2008/09	24,824
2009/10	26,929
2010/11	11,912
2011/12	10,258
2012/13	16,499
2013/14	28,025
2014/15	30,696
2015/16	32,489

2016/17	50,659
2017/18	58,758
2018/19	63,259
2019/20	330,037
2020/21	27,978

*Source: Gautam (B.S.2079)*

Due to the lack of trust and quality education system in the country the students are going abroad to get higher education. However, the government is not serious in this matter. The outflow of students for foreign education has two major impacts on the development of the country. First, the students do not return after completing their studies. This has led to increasing ‘Brain Drain’ problem in Nepal. Second, a huge amount of money has been outflowed abroad. This has affected the balance of payments. The Ministry of Education in Australia published a data in 2019 according to which Australia received 2.6 billion Australian dollar in 2019 only for higher education from Nepal (Khadka, B.S.2076). Table 4.20 below shows the outflow of money each year for study abroad.

**Table 4.20**

*The Amount Outflowed in the Last 3 Years for Study*

<b>Year</b>	<b>Amount</b>
2018/19	46 billion 240 million 300 thousand
2019/20	25 billion 813 million 200 thousand
2020/21	24 billion 959 million 400 thousand

*Source: NRB (2021)*

Not only in the higher education but the government of Nepal also focused in technical and vocational education after 1991. Various educational institutions are providing technical and vocational courses to students through CTEVT. However, the institutions are not able to provide quality vocational education. If we look at the data of workers going abroad, we see an opposite scenario. Only 2 percent of Nepali labor migrants going to gulf and middle east countries for work are skilled while 23 percent are semi-skilled, and 75 percent are unskilled workers (ILO, 2015). After democratic and republican regimes, access to education increased rapidly. Though, the quality of education has not improved well.

The GoN has been formulating various policies and programs for progress of education status in Nepal. But the implementation part is weak. For instance, 470 million rupees was collected in girl education fund for distributing scholarships to girl students in FY 2020/2021 which could not be distributed. The government could not make any criteria, working procedures and directives for the distribution which led to inability to spend the amount (Gautam, B.S.2078a). The 58<sup>th</sup> annual report of the Office of the Auditor General stated that the fund contained 470 million rupees which could not be spent because no work procedures were developed. (OAG, B.S.2078).

Similarly, the status of literacy programs conducted by the government is poor. The literacy program which started in 2008/09 for eradicating illiteracy within two years in Nepal has not been achieved until 2020/21. More than 8 billion rupees have already been spent on this program. However, until 2020/21, 270 local governments in 23 districts are not able to announce their local levels literacy (Gautam, B.S.2078) (Table 4.21).

**Table 4.21**

*The Policy and Budget Allocated for Literacy Program*

<b>Fiscal Year</b>	<b>Budget</b>	<b>Policies</b>
2008/09	1 billion 40 million	<ul style="list-style-type: none"> <li>• Making all people literate within 2 years was stated in the policy and program of 2008/09.</li> </ul>
2009/10	1 billion 40 million	
2010/11	688 million	<ul style="list-style-type: none"> <li>• Making all people literate within 3 years from 2012/13.</li> </ul>
2011/12	700 million	<ul style="list-style-type: none"> <li>• Making all people literate within 1 year from 2014/15.</li> </ul>
2012/13	632 million 100 thousand	<ul style="list-style-type: none"> <li>• Making all people literate within 2 years from 2018/19.</li> </ul>
2013/14	998 billion 900 thousand	<ul style="list-style-type: none"> <li>• Within 2 years form 2019/20, announcing Nepal as country with 100 percent literacy rate.</li> </ul>
2014/15	1 billion 50 million	<ul style="list-style-type: none"> <li>• Making all people literate within the fiscal year 2020/21.</li> </ul>
2015/16	345 million	
2016/17	304 million 800 thousand	
2017/18	346 million 200 thousand	

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2018/19	40 million
2019/20	204 million 200 thousand (except local salary)
2020/21	579 million 800 thousand
2021/22	606 million 900 thousand

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*Source: Gautam (B.S.2078)*

The above table shows that huge amounts of money are spent every year to run the literacy program. But illiteracy has not been eradicated yet. The government of Nepal formulates plans to eradicate illiteracy every year. It costs a lot of money, but the targeted result is not achieved. These kinds of programs with foreign grants and loan assistance could neither increase the standard of education nor produce globally competitive human resources (Poyck et al., 2016). Education is the backbone of the economic growth and development of the country. However, weak infrastructures, managerial and policy level weaknesses made the education sector weak which has negative impact on economic growth and development of the country.

Nepal has been facing a problem of skill gap from time being while the goals in the education sector is not achieved compared to the investments made. The skill gap is a big barrier for Nepal's development. GoN does not give priority for fulfilling the country's needs of human resources (World Bank, 2018). Nepal has been depending on skilled manpower from the neighboring country rather than producing the skilled manpower within the country.

During the democratic and republican regime, the number of schools and students increased considerably. But there has always been a problem in retaining the students in school. There is adequate physical infrastructure, but the quality of education remains poor. The schools lack trained and skilled teachers. Due to the lack of quality education, the trend for students to go for foreign study has been increasing. This trend has been assisting the underdevelopment of the country in two ways. First, the brain drain has been increasing in search of quality education. The high-achieving students relocate to foreign countries and get settled there. This trend of migration has created scarcity of qualified and skilled manpower in the country. Second, this trend

has out flown a huge amount of money from Nepal. On one hand, a huge amount goes to abroad for higher education and on the other hand, those who settle down abroad take their property from Nepal legally and illegally. This has ultimately led to the underdeveloped of the country.

### Health

There have been various attempts to reform the health status in the country after the political transformation of 1990. There are altogether 7,221 health institutions functioning in the country including 125 hospitals, 205 primary health centers, 3870 health posts, 395 ayurvedic hospitals, 2,626 sub-health posts till mid-March 2021 (NPC, 2021) (Table 4.22).

**Table 4.22**

*Availability of Health Institutions, Hospital Beds and Human Resources in Nepal (2014-2021)*

S.N.	Details	Mid-July 2014	Mid-July 2015	Mid-July 2016	Mid-July 2017	Mid-July 2018	Mid-July 2019	Mid-July 2020	Mid-March 2021
1	Health Institutions	4485	4505	4599	4503	4513	5717	7154	7221
A	Hospital	107	116	116	116	123	125	125	125
B	Primary Health Centre	215	215	216	200	203	203	203	205
C	Health Post	2175	3790	3883	3803	3803	3805	3805	3870
D	Aurvedic Hospital	293	384	384	384	384	384	395	395
E	Sub Health Post/ Primary Health	1695	-	-	-	-	1200	2626	2626
2.	Hospital Beds	7550	7640	7748	8172	8172	8172	8172	11640
3.	Total Human Resources	87320	76894	772580	88882	90803	90946	90946	90369

*Source: MoF (2021)*

After 1990, there is significant improvement in the number of health institutions and health workers. However, very few health workers are available in the remote areas in the country. The health service has not been distributed equally around the country. Provision of quality health facilities is lacking in the rural part of Nepal. Also, specialist health services are available only in urban areas. As a result, there is no significant improvement in the health condition of the rural areas. There is a lack of infrastructure for good health and quality education. The status of social development of the country is shown in table 4.23.

**Table 4.23**

*Social Sector Development Indicators in Nepal*

<b>Social Sector</b>	<b>Indicators</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>
Education	Expected Years of Schooling	12.6	12.8	12.8
	Net Enrolment Rate (1-5)	97.2	96.5	97.1
	Net Enrolment Rate (1-8)	92.3	92.7	93.4
	Net Enrolment Rate (9-12)	43.9	46.4	47.6
	Literacy Rate (15+)	-	58	-
Health	Life Expectancy at Birth	70.2	70.5	70.8
	Neonatal Mortality Rate (At Per 1000 Live Births)	17	21	16
	Infant Mortality Rate (at per 1000 Live Births)	26	26	25
	Health Institutions	4513	5717	7174
	Health Worker	90803	90946	90946
Drinking Water and Sanitation	Population with Access to Basic Drinking Water Facility (in %)	88	89	91
	Population with Access to Basic Sanitation Facility (in %)	98.6	99.7	100
	Population with Access to High-Medium Level Water Facility (in%)	19	21	23

*Source: MoF (2021)*

The health sector got developed quantitatively after 1990 in Nepal. However, this development is not distributed equally. While the private sectors have been made responsible for providing health facilities, the malpractices and taints have been increasing. The health of general people has been directly affected. Similarly, increasing corruption and financial irregularities have decreased the quality of health services in Nepal.

#### **d) Human Development**

Human development explains human conditions. The UNDP (1997) defines human development as "the process of enlarging people's choices and allowing them to "lead a long and healthy life, to be educated, to enjoy a decent standard of living" It also includes political freedom, human rights, and self-respect as well. Human development gives more emphasis to incorporate the social, cultural, and political dimension in the economic growth and development discourse.

The economic growth and development during the last seven decades have not been impressive in Nepal. Development activities are continuously conducted in the country. However, there does not seem notable progress in all the sectors except education and health. According to the human development report 2020 of the UNDP, human development index of Nepal is 0.602. Based on human development index, Nepal stands 142<sup>nd</sup> position in the 189 countries around the world (MoF, 2021). The status of human development seems to have been progressing slowly due to the low level of investment in the social sector. However, various problems are seen about the effectiveness of the investments.

**Table 4.24**

*Human Development Status of Nepal in the last 3 Decades*

<b>Year</b>	<b>Life Expectancy at Birth</b>	<b>Expected Years of Schooling</b>	<b>Mean of Years of Schooling</b>	<b>Per Capita GNI (Per Capita PPP)</b>	<b>Human Development Index</b>
1990	54.4	7.5	2.0	1372	0.387
1995	58.6	8.1	2.2	1553	0.419



2000	62.3	9.0	2.4	1793	0.453
2005	65.3	9.5	2.8	1993	0.482
2010	67.6	11.9	3.3	2372	0.537
2015	69.5	12.7	4.7	2957	0.583
2019	70.8	12.8	5.0	3457	0.602

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*Source: MoF (2021)*

However, looking at the data from 1990 to 2019, it seems that there has been a gradual improvement in human development in Nepal. But comparing with other countries, Nepal's situation seems to be weak. While health, education and livelihood have not been improved, this has negative effects on overall development and economic growth of the country.

#### **4.6 Conclusion**

While describing the historical process of development of Nepal from Shah Regime to the republican regime, the number of physical and social infrastructures seems to have been increasing. However, the development is sluggish and unbalanced. The pace of development is extremely slow. The quality of development is poor. The incapability of the government for public expenditure has not progressed for seven decades. The causes behind such poor socio-economic development in Nepal has been explained in chapter five.

## **CHAPTER V**

### **CAUSES OF UNDERDEVELOPMENT IN NEPAL**

#### **5.1 Introduction**

This chapter attempts to provide a brief sketch of the historical trends of the governance, corruption, and capital outflow from Nepal. Nepal's unification campaign gained momentum soon after conquest of Bhaktapur by Prithvi Narayan Shah on 29 November 1769 (Nepali, B.S. 2060). Various historical indentures support this statement of Nepal entering towards the modern era (Gellner, et al., 2008, Acharya, B.S. 2068, Subedi, B.S. 2061). This chapter includes the time of Nepal entering to modern era until 2021 during which many political regimes got changed while the governance system remained unreformed. The country went on drowning into the viscous circle of corruption and high level of capital was out flown from Nepal. This chapter has also analyzed the effect of governance, corruption, and capital outflow on development in Nepal.

#### **5.2 Weak Governance, Corruption and Capital Outflow**

##### **5.2.1 Weak Governance**

Weak governance is the main cause of underdevelopment of the Third World (Rotberg, 2002). While we look at the regimes of Nepal historically, the rules seem to have been weak and poorly governed. Political accountability, participation, decentralization, efficient and effective administrative, transparency, accountability, responsibility, rule of law are the key components of good governance (Onichakwe, 2016). Onichakwe (2016) further argues that good governance is a prerequisite of development. If we look at the history of governance in Nepal, there has been lack of transparency and accountability. Political instability is a major part of governance in Nepal. This led to the situation when only the rulers took the benefit, and the general people could not get one.

From time being, transparency and the status of accountability in public financing is very weak. No budget was announced during the Shah and Rana Regimes. The first annual budget was presented in 1951. The characteristic of all the budget announced thereafter was the lack of transparency during the budget cycle

right from allocation to evaluation processes. No financial discipline is seen during budget allocation and implementation (Acharya, B.S. 2076a).

The Panchayat regime was inclined more towards development than Rana regime. However, some autocratic and hardship character of Rana system transferred to the Panchayat regime. For instance, Kings had a direct access to the national treasury without any legal account system. Lack of transparency and accountability continued. Laws were made according to the desire of Kings. Opportunities were received based on access to power and kinship and public properties were always treated as private properties of the rulers and families (Shakya, 2018).

The World Bank (2021a) accepted the six dimensions of governance; voice and accountability, political stability and absence of violence/terrorism, government effectiveness, regulatory quality, rule of law, and control of corruption. Studies show that the control of corruption has weakened since 1996. As shown in table 5.1, Nepal’s percentile rank, at 44.2 in 1996, was better than the average of 35.2 for South Asia, but it declined to 30.4 in 2007 against the South Asian average of 33.9.

**Table 5.1**

*The Worldwide Governance Indicators, Nepal*

Year	Indicators and rank					
	Voice and Accountability	Political Stability	Government Effectiveness	Regulatory Quality	Rule of Law	Control of Corruption
2006	23.8	4.35	19.51	32.35	31.58	28.78
2011	32.39	8.06	18.01	25.12	21.13	23.22
2016	37.97	17.14	19.71	23.56	21.15	22.12
2020	42.3	41.51	15.87	24.52	34.13	29.81

*Source: World Bank (2021)*

The 2007 Global Integrity Report ranks Nepal as “weak” in “anti-corruption and rule of law” (Global Financial Integrity, 2007). The report considers a weak anticorruption law as the main bottleneck and rates the Commission for Investigation

of Abuse of Authority and the National Vigilance Center under the Ministry of Home Affairs, the national level agencies responsible for control of corruption, as “moderate” in control of corruption.

If we analyze the history of modern Nepal carefully, it seems that there is a Weak governance in all regimes. The status of governance in different regimes of Nepal is explained in this sub-chapter.

#### **a) Governance in Shah Regime**

The rule of Prithvi Narayan Shah seems to have been neat. He had attempted to form a welfare state which can be clear through this *divyopadesh* (Acharya & Nath, B.S. 2069). However, his successors could not promote good governance in the country. The Kings after the rule of Prithvi Narayan Shah were sluggish and unqualified who could not rule the country smoothly (Levi, 2005). The rules after the Prithvi Narayan Shah time became transient (Regmi, B.S. 2074). There was a big struggle and competition to become *Nayabi* (regents) of the infant King led to the transient situation for many years (Acharya, B.S. 2068, Regmi, B.S. 2074).

The struggle for power which flourished during the unification of Nepal continued in all the regimes in Nepal. Rana Bahadur Shah who had gone to Kashi by handing the throne to his son Girvanyuddha Bikram in May 1800 returned to Nepal in 1802. With his return, there had been a struggle for power at the royal palace. The governance of the country became problematic and weak. During that time, the nationalization of public property like *birta*, *guthi* raged. Money was collected illegally and spent likewise. After the death of Rana Bahadur Shah, Bhimsen Thapa became the Prime Minister of Nepal. With this, he and his family got hold of the politics, governance, and finance. The state was run in their will and the family got control of the national treasury (Acharya, B.S. 2069).

At that time, the King and his other high-level officials spent a huge amount from the national treasury for their luxury. The successor of King Rana Bahadur, Girvanyuddha Bikram died at the early age. His son Rajendra Bikram Shah became the King at 2 years of age. During his rule the *Nayabi* (regents) Kings excessively exploited the national treasury for the benefit of them and their family (Regmi, B.S.2074). The governance of the country was poorest during the rule of Rajendra

Bikram Shah (Pushpalal, B.S.2053). From 1769 to 1846, no Prime Minister or regents died naturally, they died in various conspiracies (Joshi & Rose, 1966).

### **b) Governance in Rana Regime**

The *Kot Parva* (Kot Massacre) occurred in 1846. After this, Jung Bahadur Kunwar established his rule and turned the state property as his private one (Acharya, B.S. 2068). The dictatorship existed in Nepal during the Rana rule. The governance system was excessively centralized in Rana Prime Ministers. The state property and resources were used for family benefits and luxury rather than for the country and its people and the governance system was arbitrary.

After Jung Bahadur Rana returned from England tour, he started to keep records of revenue collected. According to the data, 1.4 million rupees revenue was generated in Nepal in 1850. It reached 9.6 million rupees until the last year of the Jung Bahadur's rule in 1876 (Shakya, 2018). After this, the Rana rulers decided not to keep the record of the revenue collected. However, some historical evidence states that the amount reached to about 29 million rupees during the end of the Rana regime. Jung Bahadur had understood that record keeping was important, but it was used for personal benefit only. The Kings treated the land owned by the state as the King's property and the income of land as their personal income (Shakya, 2018).

Several crimes were committed to get state power during the Rana Regime. After the death of Jung Bahadur Rana, Ranodhip was killed on October 31, 1885 (Acharya, B.S.2068) and Bir Shamsheer became the Prime Minister of Nepal (Nepal, B.S. 2055). He ruled the country for 16 years but did no good to improve the governance system. Bir Shamsheer died on 5 March 1901 and his brother Dev Shamsheer became the Prime Minister of Nepal. Dev Shamsheer was comparatively democratic and liberal Rana ruler. He tried to make the governance system transparent, and people centered. Likewise, he made some liberal policies as well. Because of his liberal policies, he was expelled from power by his brothers within a three-month period (Baskota & Sharma, B.S. 2055).

During the Rana Regime, people did not have any right to know about the income and expenditure of the state. A decision was made on April 24, 1901, before the establishment of Gorakhapatra Publication during the rule of Dev Shamsheer. The decision included the directions on what to publish in the Grakhapatra and what not. It

stated that the income and expenditure of the state were not to be published (Wasti, B.S. 2063). Until 1950, nobody except the Rana Prime Minister had information about the income and expenditure of the state. This was the policy of other Rana rulers as well (Pande, B.S. 2076a).

After Dev Shamsher, Chandra Shamsher became the Prime Minister of Nepal. According to JBR (B.S. 2059) if Chandra Shamsher knew anyone possessed some money, he used to call the person with money and convince him to invest that money in any contract or business. Chandra Shamsher took fifty percent of the profit from that investment. The businessmen extensively exploited people to earn money. Since the PM also got fifty percent share, the complaint of the people was not heard. The governance system of Juddha Shamsher Rana who became the Prime Minister of Nepal after Chandra Shamsher was like the former Prime Ministers (Sharma & Devi, B.S. 2033). After Juddha Shamsher, Padma Shamsher became the Prime Minister of Nepal. The decision of the Rana Prime Minister was considered law; no people could go against the law. The rule was centered in the Rana Prime Minister in Kathmandu (Shrestha, 1989). The important military posts were taken over by the Rana rulers. Thus, their rule seemed to be the military rule.

The authoritarian regimes had been extremely harsh, incompetent, or corrupt, or where they had been unwilling to give up power to the people (Huntington, 2010). The rulers were not accountable toward the people's expectations and concerns. There was no practice of power separation during the Shah and Rana regimes. There was not a transparent mechanism of managing public income and expenditures, the amount of annual revenue collection was unknown. This led to the increase in poverty in Nepal (Pande, B.S.2076). The control of state treasury by the Rana rulers for their personal benefit proved to be the hindrance for the country to progress.

The national property and resources were used for personal benefits and luxury rather than for the country's development during the Rana and Shah regimes. The people were totally unaware of the governance system of the state. The rulers were in benefit with the underdevelopment of the country. The people were unwitting about the development. As a result, the environment for discussion and commencement of the development works could not be made.

### **c) Characteristics of Governance in Shah and Rana Regime**

The fundamental characteristics of the governance system in Shah and Rana Regimes are described below:

#### **Culture of Sycophancy and Flattery**

There had been pervasive culture of sycophancy and flattery during both the Rana and the Shah regimes. To acquire power and post during that time, it was impossible without flattering the rulers and building intimacy with them (Bista, D.B., 1991). The bureaucracy remained largely in the hands of Shah and Rana. *Chakari* (Sycophancy) and *Chaplusy* (Flattery) dominated the 1950s (Joshi & Rose, 1966). There were no professional and knowledgeable people in bureaucracy during the Shah and Rana regime. The civil service commission was formed in 1951 for the management of bureaucratic staff (Shrestha, 1975). Due to the lack of professional and knowledgeable people in bureaucracy, no plan could be prepared and implemented for the development of the country. While the regimes survived with the governance system run by sycophancy and flattery, it had negative impacts on economic growth and development of the country.

#### **Lack of Rule of Law**

Nepal was a poor state and there was not any modern law institutions of governance and anti-corruption during Shah and Rana regime. There was no annual budgeting system as well. The State treasury was exploited by the rulers as their personal property. In this situation, the rulers were concerned to increase their own property rather than using the state property for development works.

The tax was collected through land revenue, customs, tax in sale of timber and in other forms. Before 1951, the data and information of income and expenditure of the state treasury was accessible to the Rana Prime Ministers and nobody else (Mahat, 2020). Uprety (1996) said, as lack of transparency is taken as one of the major elements of underdevelopment, the lack of accountability also played role in creating hindrance to development of Nepal.

#### **Lack of Professional and Efficient Bureaucracy**

Few physical infrastructures and social development activities took place during the Rana regime which were focused for the benefit of Rana families and

relatives and not for the general people. For example, Chandra Shamsher built the Singha Durbar using state property in 1908 which he built for his personal use. Later, he claimed the palace as his personal asset and sold it back to the government (Bajracharya, et al., 2019). Amatya (2004) wrote.

“The Janakpur-Jayanagar railway with its extension to Bijalpura was intended not as much for the people in that region as for certain big Rana landlords who needed easier transportation facilities of timber of the forests owned by them and help to earn by the sale of the timber to India. The Chandra Nahar (canal) in Saptari was constructed at the expense of the National treasury but was exclusively meant to irrigate the birta of Chandra Shamsher who, obviously to acquire more wealth, increased revenue for the land in the birta to make it the highest in the country on grounds of irrigation facilities. Several of the mills and factories set up at Birganj and Biratnagar almost wholly belonged to some rich Ranas (pp. 326-327).

Regmi (1988) also agrees with them. According to him, the infrastructure developed was more focused for benefit to Rana family and relatives than the public in the Rana regime. They spent the state treasury when and where they thought would be a benefit for themselves. Durbar High School for their children, Bir Hospital for their own treatment, and *Pharping* Powerhouse for them to get electricity were few examples.

### **Lack of Transparency**

There was not any mechanism during the whole Shah and Rana regime for data keeping of income and expenditure of the state. After expenditure, all the income of the country was used for rulers and their family luxury. The status of expenditure was not published at that time. They were never accountable towards people (Amatya, 2004). There was no annual budgeting system (Mahat, 2006). Nobody except the Shah king and Rana Prime Minister would get information of the income and expenditure of the country (Pande, B.S. 2076a).

### **d) Governance in Monarchical Regime**

The separation of power among the peoples’ representatives and King started after the establishment of democracy in 1951. Interim constitution was promulgated in



Nepal on April 19, 1951, which accepted the basic concept of separation of power. That interim constitution made provision of democratic structures such as independent judiciary, constitutional commissions like Public Service Commission (PSC), Election Commission (EC), Office of the Auditor General (OAG), and the Attorney General (AG) (Mahat, 2006).

After the dissolution of Rana-Congress joint government, Matrika Prasad Koirala became the Prime Minister in Nepal. After downfall of his government, the palace had amended the Interim constitution by promulgating the “Special Conditions Right Act.” The King took the executive power on his hands by suspending the system of cabinet which was provisioned in the constitution. He formed the government in his leadership. He had haphazardly appointed the personnel in the important administrative posts (Whelpton, 2005). After this in 1953, the King again amended the interim constitution and increased his own rights extensively. Mahendra became the King of Nepal on March 13, 1955, after death of Tribhuvan. Right after the state power in hand, King Mahendra started strengthening his power (Regmi, B.S. 2074).

A general election was held from February 18 to April 3, 1959 (Regmi, B.S. 2074). Due to the pressure of the political parties, the King had promulgated the Constitution of the Kingdom of Nepal 1959 just before one week of the general election. The constitution had provided special power to the King according to which, the King could disapprove the bill passed by the parliament (Manandhar & Sharma, B.S. 2053). In the election, the NC secured a two-third majority. This government promulgated the Land Reform Act with which some landlords with *birta* and Rana family got mobilized against the government. Yogi Naraharinath’s *Karmabir Mahamandal*, formed with the help of the King instigated various royal family to go against elected government (Whelpton, 2005). With the support of this transient state, King Mahendra dissolved the two houses on December 15, 1960. Meanwhile, he accused the elected government of deactivating administrative mechanism, misusing the rights, and increasing corruption, and being unable to maintain peace and security in the country (Manandhar & Sharma, B.S. 2053).

During the Panchayat regime the governance was not people friendly. Every mechanism and institutions were mobilized on the interest of the king and high-level politicians in Nepal. For instance, the Panchayat Constitution was amended in 1966.

After this, Surya Bahadur Thapa became the Prime Minister of Nepal. He had made three decisions in favor of the members of National Panchayat rather than in favor of people. First, the national Panchayat members would be provided with license for exporting various things including ration. Second, the members of the national Panchayat could exchange up to two hundred dollars annually even if they did not visit abroad and third, they would be provided with a contract to exploit the forest (Dhakal, B.S. 2060).

In the history of Nepal, the centralized governance system was in place for a long time. The centralized governance system during the Shah and Rana Regime got more centralized after the establishment of democracy in 1951. During the Panchayat system, the center of all administrative and political rights was the secretariat of the palace. The secretary of the palace had the right to control over the ministers and their ministries. The ministers and secretaries of the government had to submit and clarify even small affairs to the palace secretariat. The government acted as a character to implement the orders of the palace rather than the desires of the people (Dangol, 1999).

Myrdal (1992) argues that due to a series of shortcomings in social discipline and poor implementation of state laws, the country's governance system has become extremely corrupt and bad. Not only during the autocratic regime but also during the democratic regime, the implementation status of the law in Nepal is weak. Political instability is one of the important aspects of Nepali democratic regime. In 1959, a coup occurred, and the two-third majority government was dissolved within one year of general election. During the panchayat regime after this, the government changed time and again. No government rule lasted for complete five years tenure in Nepal.

The state was in a transition phase from 1951 to 1959 which had a direct impact on the economic growth and development of the country. The two-third majority government of 1959 could not last for long, and the King led party less Panchayat system was established. Bajracharya et al. (2019) argues that many development opportunities were missed during the panchayat system. There was influence of Royal Palace, political transition, Weak governance, and corruption during the Monarchical regime. The governance system in the monarchical regime

was also autocratic in nature. Except during a short period after the election of 1959, there existed a party-less system during the regime. There was no system of electing the peoples' representatives. Thus, there was no transparency, accountability, or rule of law during the time. There had not been remarkable progress in the issues of public administration, planning, and budgeting process. Rather, the foreign loans increased.

#### **e) Characteristics of Governance in Monarchial Regime**

The characteristics of governance system during the monarchial regime which had direct impact on development process are described as follows:

##### **Weak Public Administration**

The public administration and bureaucracy were based on complete conservative orientation during the monarchial regime. The conservative public administration would neither help in economic development nor the social transformation of the country. As a result, the Panchayat regime was not able to effectively institutionalize the proper development plans and activities (Bajracharya, et al., 2019). Ministers and cabinet had to take permission from the palace to prepare major plans and programs as well as to implement them (Dangol, 1999). The bureaucracy was focused on pleasing the Royal Place and its officials in fear of getting punishment for even small mistakes. This culture promoted in increase of sycophants and flatterers in the public administration (Bista, 1991).

##### **Centralization of Planning and Budgeting Process**

Adoption of an appropriate planning and budgeting process are major prerequisites for the development of the country. The planning process became institutionalized in Nepal after the establishment of the NPC in 1956 (Pant, 1956). However, the planning and budgeting process was highly centralized in monarchial regime. During the panchayat system, the development planning and budgeting process was not participatory and had no long-term vision. During the beginning of the regime, King Mahendra had stated that decentralized development planning and budgeting process would be adopted. However, during the whole 30-year period of Panchayat regime, this process was not adopted (Mahat, 2006).

Baskota (1989) argues that during the panchayat regime the planning process was highly centralized and lacked financial discipline. The central body was not

responsive and accountable to local-level problems. There was no planning process at the local level and no peoples' participation in planning. The development projects were diverted to the high-level politicians of the Monarchical regime.

### **Poor Capacity to Spend Budget**

The ability to spend public budget was weak in the whole Monarchical regime. It was a common problem faced by the seven periodic plans implemented during that time. A major part of the budget allocated during the first five-year plan could not be spent. For example, the first five-year plan had aimed for constructing 1 thousand 4 hundred 50 km of road for which 576 million rupees was allocated. Of this the government was able to spend only 383 million rupees (Shakya, 2018). This kind of disability of the government to spend the allocated budget persisted during the whole monarchical regime. The plans were ambitious, however, the ability to spend the allocated budget was limited. No project was completed within the deadline during that time. This led to persisting poverty, deprivation, and unemployment in the country. While the projects could not be completed on time, this led to allocation of budget each year in the limited projects which became hindrance for allocating budget to the new projects required for the development activities.

### **Increasing Dependency on Foreign Aid and Loans**

The foreign aid in Nepal increased for physical infrastructure, social and economic development after the political transition of 1951. The assistance of the donor community played an instrumental role in taking the country in development initiatives. During the 1950s, capitalist, democratic, socialist, and communist foreign donors played very influential roles in planning and designing development plans and strategies. However, while the country was being more and more dependent towards foreign aid, the originality went on disappearing and the vested interests of the donor agencies dominated (Ali & Basu, 2007).

Financial dependency increased during the Panchayat system. For instance, the first five-year plan (1956-61) with a planned outlay of Rs. 330 million, 71 percent expenditure was expected from the foreign aid, grant, and loan (NPC, 1956). The Third plan (1965/66-1969/70) had been announced with total Rs. 1,780 million expenditure, 58.4 percent of which was expected to be contributed from the external sources (NPC, 1965). The total expenditure of the fourth Plan was Rs. 2570 million

and 58 percent of it was expected to be covered by foreign aid and loans (NPC,1970). Similarly, the sixth and seventh plan also relied on foreign aid and loans. About 60 percent of the total outlay of both plans was expected to be covered through foreign loans and grants (Khadka, 1991).

Nepal made bilateral agreements with both the capitalist and socialist countries for financial and technical assistance in developing physical infrastructures including road in the country (Pant, 1982). The donors were able to continue to influence development planning and policy making (Panday, 2011). Foreign aid was extensively increasing during the Panchayat regime. The internal revenue was constricting, and the external loan was increasing (Table 5.2).

**Table 5.2**

*Sources of Government Budget During Panchayat Regime (in NRs. Million)*

Details		1975	1980	1985	1989
Total	Government Expenditure	1514	3471	8395	18005
Government Revenue to total	government expenditure	66.62%	54.17%	46.66%	43.19%
Foreign Aid to total	Government expenditure	25.55%	38.62%	31.90%	40.81%
Domestic loan to total	government expenditure	6.61%	5.19%	21.44%	7.39%

*Sources: Bajracharya et al. (2019)*

The foreign aid to the total government expenditure was 25.25 percent in 1975 which increased to 40.81 percent in 1989. According to Mihaly (2002), while a country depends on the foreign aid, donor country starts to play in Nepal's internal politics.

### **Lack of Transparency and Accountability**

There was a lack of basic features of governance system such as transparency, accountability, and rule of law during the monarchial regime. During the time, the palace, high political leaders, and high military officials governed the state in their will. The interference by high level government officials and lack of accountability and transparency had a negative impact on economic growth and development of the

country during the Monarchical regime. The size of informal economy was high during this period. That also had a negative impact on the development process (Bajracharya & Shrestha, 1983). Most of the economic activities were focused in informal sector in Nepal. The informal economic activities had direct impact on revenue generation related activities.

#### **f) Governance in Democratic and Republican Regime**

The political regime changed in 1990 through the peoples' movement. The democratic governance was established abolishing the party-less autocratic regime and multi-party democracy was established. However, the desired change could not be seen in the governance system. The development activities seem to have increased with the restoration of democracy in the country, however, there has not been progress in quality of those activities. The corruption has been increasing in those activities which have put negative impacts on the quality of development works. The development process after 1990 became victim of political transition, Weak governance, high level of corruption, Maoist insurgency, and coup from King Gyanendra in 2005. The situation did not change much even after establishment of federal democratic republican system. Any regime in Nepal is not able to fulfill the development expectation of the people. The peoples' movement took place later in 2006 as well. This movement abolished the monarchical system to establish a republic state.

However, the state has not been able to break the vicious cycle of underdevelopment even after establishing the republican regime. All the political parties were supposed to focus on rapid economic growth and development of the country after the political transformation of 2015. The status of development remains the same and the aspirations of the people towards development have not been supported by policy and actions of the state mechanism (World Bank, 2017).

The transience continued during the democratic regime after 1990 as well. Further, this became more pronounced after 1994. The parliament could not work for their full tenure. Whenever the Prime Minister felt to have crisis over his/her government, the house of representatives was recommended to be dissolved. The contemporary Prime Minister Krishna Prashad Bhattarai and Lokendra Bahadur Chand were an exception. Girija Prashad Koirala recommended dissolving the

parliament two times. The first recommendation was challenged by the Supreme Court but got approved later. Second was recommended with the approval from the other parties and hence got approved easily. After the motion of non-confidence, Man Mohan Adhikari had recommended for dissolving the parliament which was disapproved by the Supreme Court. Recommendation of Surya Bahadur Thapa was disapproved by the King with the consultation of the Supreme Court. The recommendation of Sher Bahadur Deuba was challenged by the Supreme Court but was later approved. Parliament of 2017 election (Except the constitutional assemblies) was dissolved by the contemporary Prime Minister K P Sharma Oli on December 20, 2020, which was later disapproved by the Supreme Court. On May 22, 2021, he dissolved the parliament for the second time. The Supreme Court disapproved this on July 13, 2021.

**Table 5.3**

*The Parliament and their Dissolution*

<b>Elected in</b>	<b>Term</b>	<b>Start</b>	<b>End</b>	<b>Dissolution</b>
1959	First house of representative	May 1959	December 1960	Dissolution by King Mahendra
1991	Second House of Representative	May 1991	August 1994	Dissolution by PM Girija Pd. Koirala
1994	Third House of Representative	November 1994	May 1999	Dissolution by Manamohan Adhikari Dissolution by Suryabadur Thapa
1999	Fourth House of Representatives	May 1999	May 2002	Dissolution by Sher Bahadur Deuba
	Interim Legislature	April 2006	April 2008	
2017	Fifth House of Representatives	March 2018	First 20 December 2020 Second 22 May 2021	Dissolution by KP Sharma Oli

*Source: Content analysis (2021)*

During the tenure of the first parliament after the Panchayat regime, the government ruled for 3 and half years. The second parliament formed 5 Prime Ministers. The formation and dissolution of the government took place shortly during this period. During the third parliamentary tenure, the Nepali Congress had secured good majority but due to the internal conflict within the party, 3 Prime Ministers changed during the tenure. Due to the transience and pull, not only the Prime Minister but several ministers were appointed. For example, during the tenure of the second parliament, among 265 members of both the houses, 121 (45.7 percent) members became ministers (Mahat, 2004).

After the people's movement in 2006, the situation did not improve during the republican system as well. From 2006 to 2017, 10 Prime Ministers ruled over the country. The contemporary Nepal Communist Party had secured majority in the general election in 2017. But due to the pull within the party, 3 Prime Ministers have already sworn the oath. The transient situation has led to a desperate state of public investment.

The concept of separation of power was materialized after the establishment of democracy. However, no change was seen in the governance process. The highly centralized governance system persisted. The laws and regulations were made but only implemented for the general people rather than being implemented equally for all. The political transition continued. The persisting political transition affected the development process of the country in two ways. First, the rulers who came into power for a short period focused on their own benefit, their cadres', and relatives' benefit rather than the benefit of the country. Second, due to the political transition, the budget allocated for development works was spent towards the end of the fiscal year. The expenditure towards the end of the year invited financial irregularities and corruption. As a result, the development activities were either not commenced or were of less quality.

### **Increasing the Arrears**

With the motive of carrying out the final audit of the public entities and reporting, the Office of the Auditor General (OAG) was established in Nepal on June 29, 1959, based on the provision of the Constitution of the Kingdom of Nepal 1959. Through audit, OAG protects the public means and resources of the country.



According to the article 241 of the Constitution of Nepal 2015, OAG performs the audit of all constitutional institutions, court, security guild, as well as all offices in federal, provincial, and local levels.

Since OAG was established in 1959 only, the data of arrears expenses cannot be found in the historical chirography. However, Juddha Shamsheer is found to have cleared the arrears when he became the Prime Minister of Nepal on September 1, 1932. When he became the Prime Minister, he had dismissed 8.5 million rupees arrears because of unmanageable data in the register due to the susceptible amount collected. There is no clear information about the history of arrears except this.

The annual report of the Attorney General also mentioned the fact that financial crimes increased after the decision of cabinet during Panchayat regime. The financial control from the center was loosened and mobilization responsibility was passed on to the subsidiary. No one bothered for this; the payment from subsidiary based on data in the center was also not clear (OAG, 1968). Financial arrears were 36 Lakhs 5 thousand in 1973 while it increased 78 crore 75 lakh 99 thousand up to the year 1978 (OAG, 1978).

The expenditure modality being used by the public offices is unviable. According to a report published by the Office of the Auditor General, there is a huge arrears amount (Table 5.4).

**Table 5.4**

*Arrears Amount during the Republican Regime (in Hundred Thousand)*

Year	Total Amount Audited	Arrears figures			
		To be Recovered	To be Regularized	Unsettled advances	Total
2078	532791*	271495	622634	149714	1043843
2077	5171640*	243284	621713	464932	1329959
2075	516092*	354758	516933	538814	1410505
2074	468791*	187079	487187	534835	1209101
2073	12954492	413867	304810	255692	974369
2072	251495*	48704	256424	261402	566530
2071	23541505	42048	214053	181094	437195
2070	20858010	37494	188058	140461	366013
2069	7425943	38997	164751	147003	350751

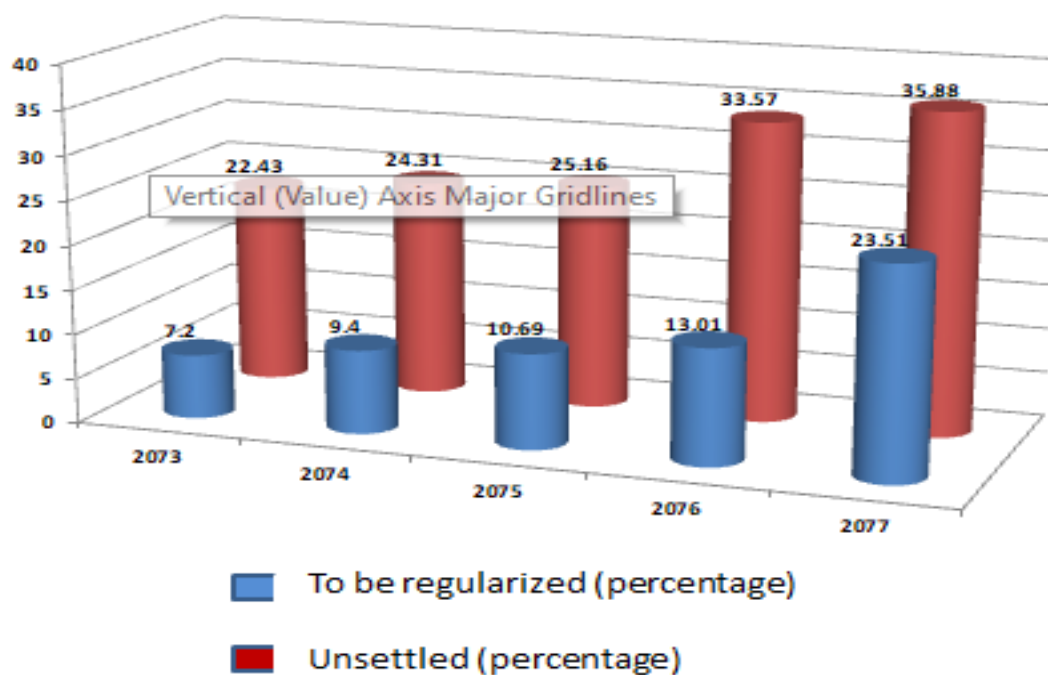
Source: OAG (B.S.2078)

\* Amount in 10 million

While analyzing the data provided above in a micro level, it is seen that the financial disorderliness has been highly increasing in Nepal. The arrears have been increasing with the increase of the practice of unlawful expenses from the national treasury. The amount of arrears reached to 676.41 billion in 2078 (OAG, B.S. 2078).

**Figure 5.1**

*Increasing Amount to be Regularized*



While the government is not able to clear the amounts to be regularized, the arrears amount is increasing. The unlawful expenses from the province and local levels are being increased. According to the annual report of 2075 B.S., the arrears of the local levels were 24 billion rupees (OAG, B.S. 2075). Similarly, according to the annual report of the year 2076, the arrears were 38 billion rupees (OAG, B.S. 2076) while this amount increased to 41 billion in the year 2078 B.S. (OAG, B.S. 2078).

The undeclared arrears public expenditure got increased in Nepal. This proves that there is weakness in the public expenditure process and system. However, there seems no work for minimizing the weakness in the expenditure system.

### **Budget Deficit**

In the history of Nepal, the political regime has changed a lot of time, but the governance system could not get improved. The national treasury could not grow, and the appropriate expenditure system could not be established either. Nepal has been

facing difficulty to manage the general expenditure since inception. For example, before 3 years of the death of Prithvi Narayan Shah, there were around 9 thousand armies in Nepal. 450 thousand rupees was needed to manage the military. At the same year, only 3 hundred rupees revenue had been collected (Shakya, 2018). The total annual budget of Nepal has reached to 1647 billion rupees until 2021. However, the internal revenue contributes only 1025 billion rupees and there exists a budget deficit of 559 billion rupees. The deficit is fulfilled from 63 billion of foreign funds, 309 billion foreign loans and 250 billion internal loans (MoF, B.S. 2078).

The governments in every regime did not make any attempt to identify the internal resources and increase it. As a result, the country was dependent on foreign aid and loans for even small development works and administrative costs. The vested interests of the donors dominated in such dependency.

### **Power of Good Governance**

Nepal Electricity Authority (NEA) is a strong example that good governance can improve the public institutions. Kulman Ghising was appointed as the Managing Director (MD) of NEA on 14<sup>th</sup> September 2016. Before his appointment, load shedding existed in the country for about a decade. At the time of his appointment people had to endure a power outage of up to 18 hours during the winter. There was excessive problem in the internal administration of the NEA as well. Electricity theft was 25.78 percent in the fiscal year 2015/016 (NEA, 2016). The hydroelectricity projects that were being built by the NEA were in poor condition. There were problems with the distribution line to the transformer or substation and other units. NEA's accumulated loss worth 28 billion rupees before the appointment of Kulman Ghising (The Kathmandu Post, 2019). The Weak governance system in the NEA not only impacted the people's daily life but also it hit the country's economy hard. Mahat (2020) finds out that Nepal spends about 22 billion rupees for importing power and other electrical equipment like diesel, generators, and inverters from India annually.

The country turned into a load shedding –free country after Kulman Ghising was appointed as the MD of the NEA in 2018 (The Kathmandu Post, 2018). The electric loss which was 25.78 percent in 2015/016 gradually decreased after his appointment. The electric loss was 22.9 percent in 2016/017 (NEA, 2017), 20.45 percent in 2017/18 (NEA, 2018) and 15.32 percent in 2018/019 (NEA, 2019).

During the four years tenure of Kulman Ghising, the electricity loss decreased by 11 percent.

Similarly, the NEA which was running in a great loss until 2072/073 earned 2.4 billion profits in 2016/017. Similarly, NEA earned 35 billion rupees in 2015/016 which increased to 50 billion rupees with the increase in income of 15 billion rupees in the year 2016/017 (NEA, 2017). In the fiscal year 2017/018, NEA was able to earn a profit of 2.84 billion rupees (NEA, 2018). The revenue loss decreased to 23 billion 597 million 900 thousand during the time (OAG, B.S.2075). In 2016 September, when Kulman Ghising was appointed, the accumulated loss in NEA was 7 billion 890 million rupees. In the year 2016/017, the profit of NEA was 1 billion 467 million 300 thousand rupees which increased to about 2 billion 85 million rupees in the fiscal year 2017/018 (NEA, 2018). Similarly, with the reforms made by Kulman Ghising, NEA was able to earn a profit of 9 billion 810 million rupees in 2018/019 and 11 billion 60 million rupees in the year 2019/020. In these two years, NEA was the highest profit earning public enterprise in Nepal.

The contemporary government of K P Sharma Oli did not add the tenure of Kulman Ghising who did a lot of reforms in NEA. On September 2020, the Oli government appointed the contemporary Deputy Managing Director of the NEA, Hitendra Shakya as the MD of NEA. The profit decreased excessively with the appointment of Shakya as MD of NEA. In the fiscal year 2020/021, the profit of NEA decreased to half. The profit earned by NEA was 11 billion 60 million rupees in the previous year which contracted to about 5 billion in that year. Similarly, the electricity loss also increased in the year 2020/021. The loss increased to 16.3 percent from 14.27 percent in July 2020 (NEA, 2020). There was excessive dissatisfaction from the general people. The new government reappointed Kulman Ghising as MD of NEA on August 11, 2021.

After his appointment he gave more emphasis to better management and focused on strengthening the internal governance mechanism in NEA. Ghising says that with the governance reform in NEA, the country has turned into an excess electricity selling country. He says:

There were excessive problems in the internal administration of NEA before I was appointed as MD. I had been experiencing the problems closely from time being. After my appointment, I commenced the work of improving the

governance system of it. I worked on controlling electricity loss, completing incomplete projects, improving the distribution system and various other taints. The NEA has come to the present state by the governance reform works which were identified and reformed. If we do not continue the reforms, the problems will arise again. The only thing I worked on in the NEA is governance reform. Every improvement seen in NEA is due to the governance reform (Based on interview on October 2021).

With the managerial knack of Kulman Ghising, not only the country was freed from load shedding but also NEA was in profit. It was possible only with the governance and financial reforms in NEA.

Various studies have shown that there is a direct relationship between good governance and development. However, until the republican regime the good governance could not be established and improved in Nepal. While good governance could not be established by improving the Weak governance, the country went on drowning in the vicious circle of corruption. If we take the example of NEA, the reform in the governance system has transformed the whole institution. The good governance at NEA not only helped to eliminate the load shedding but also helped NEA earn profit which was in loss for time being.

### **(Mis)management of Public Administration**

During the Shah regime, apart from the King, the central government consisted of *Chautaria, Mulkaji, Kaji, Rajguru, Purohit, Sardar, Kharidar, Kapardar, Khajanji, Taksari, Dharmadhikari, Dithha, Bichari* and so on. Third level employees included addai, pradhan, baithake, nausinda, bhansari, sipahi and tahaluwa (Regmi, B.S. 2074). There was influence of the Rana family and their relatives during the Rana regime. The situation did not improve even after the establishment of democracy. Buch Commission was established after the establishment of democracy for independence of administration. Some improvements were made by the initiative of that commission. However, well managed and institutionalized attempts have not been made for revolutionary change in administrative system (Nepal, B.S. 2075).

During the Panchayat regime too, rulers took the administration as the institution to fulfill their will and desires. The first elected government established the Administrative Reform Commission in 1990. The commission was provided with the

responsibility of identifying the weaknesses of the public administration and providing suggestions for adopting efficient and low-cost administration. The commission submitted a report on April 5, 1992, to the Prime Minister. According to the report, there is lack of motivation, unrolled and extravagant expenses, lack of accountability in the administration of Nepal. However, the government did not implement the recommendations of the report. Rather, the politicizing of the administration went on increasing (Thapa & Bhandari, B.S. 2065). The situation is similar during the republican regime as well. The administrative reform commissions are formed during the tenure of every government in Nepal, but the recommendations remain unimplemented (for details see Annex III).

Altogether eight commissions were formed from 1952 to 2014 with the motive of reforming the administrative system in Nepal. However, the implementation status of the recommendations made by the commission is not satisfactory. One common recommendation of all eight commissions was to reduce the number of ministries. In addition, the number of ministries was to limit to 12 after the implementation of federalism. However, the recommendation has not been implemented. The cabinet has the right to decrease or increase the number of ministries and government offices. While the executive body can increase the ministries in its desire, the contemporary Prime Minister Sher Bahadur Deuba had increased the number of ministries to 27 from 22 in 1996 to sustain his government. While there were limited buildings for the ministries, two to three ministries were adjusted in one building (Thapa & Bhandari, B.S. 2065). After the implementation of federalism, the number of ministries was 21 while the recommendation was to limit it to 12. Fukuyama (2004) argues that able and effective governance is only possible with compact government not the crowd. In contrast, there is practice of establishing institutions and offices excessively and that act as political intake system, which has become a characteristic of democratic and republican regime.

During the democracy today, the public administration is like the administration of United Kingdom before 1853. At that time, there was practice of appointing the family and relatives in public administration. The practice of appointing public officials through competition on a merit basis started in 1853 (Kingston, 2011). The administrative reform commissions formed in Nepal in various

times have provided recommendations for administrative reform. The reports have recommended of inert administration for development of a country. The merit-based administration with competition is one of the recommendations. Further, decentralized administration is another expectation of the commissions. However, from the Shah regime to republican regime, the recommendations of these commissions have not been implemented. As a result, the public administration of Nepal is not efficient until today.

### **Promote to Relatives Rather than Merit.**

In Nepal, the party in state power heavily influences the bureaucracy. Thapa, Basnet, Kunwar and Bhandari had greater domination in Nepalese administration during Shah Regime (Whelpton, 2005). There was hegemony of the first Prime Minister of Nepal, Bhimsen Thapa's family and relatives in bureaucracy and politics during his tenure. His nephew, Mathawar Singh Thapa had been in power during that time. Bhimsen Thapa's family and relatives worked being in the majority of important posts (Subedi, B.S. 2061).

This kind of practice continued during the Rana regime as well. There had been hegemony of their family and relatives in the administrative system. Further, they also captured business and contracts. With the condition of offering a big part of profit to the Prime Minister, the monopoly was certified to the relatives. Only the Prime Minister's relatives and their confidant were permitted to establish big shops in the border area between Nepal and India (Shah, 1982).

The Rana administration was not based on a merit system. Employees were selected for administrative duties based on family and personal preferences. The public administration was characterized by favoritism, nepotism, and bribery at all levels (Amatya, 2004). By birth, Ranas were provided with the colonel post in Nepal Army. They were provided with money to spend from national treasury for the occasions and rituals in their homes like, *Chhaiti*, *Nwaran*, *Pasni*, *Brata Banda*, marriage and death. Their children got allowances from an early age. They were also provided with guards as security at their gates (Regmi, B.S. 2074).

After the movement in 1951, the first alliance government of NC and Rana had prepared a few policies for introducing merit-based appointment in bureaucracy. During this, the practice of providing allowance to Rana and families, money as gifts

and land to the public employees was ended. The practice of taking exams to appoint the public employees started. After this as well, the relatives and families were favored. No drastic change in bureaucratic structure and characteristics was seen. Nepotism continued in the public administration rather than promoting the capable candidates (Mahat, 2006).

Neither did this practice changed in the republican regime. For example, on April 1, 2007, to September 30, 2007, Rajendra Mahato was the Minister for Industry, Commerce and Supplies. During his tenure, he had provided 14 different political appointments in various public enterprises and corporations in the post of chairman and managing director most of whom were his relatives and party leaders. Among them, he had appointed his own brother, Yogendra Mahato as the chairman of Nepal Transit and Warehousing Company Limited (Thapa & Bhandari, B.S.2065). Another example is of contemporary Minister for Physical Infrastructure and Transport, Hisila Yami, a leader of UCPN (Maoists) who had excessively appointed her relatives and cadres during her tenure. On June 3, 2007, she had appointed her party cadre Laxmi Prashad Devkota in the executive committee of Nepal Water Supply Corporation. Similarly, her sister Chiri Shova Tamrakar was appointed as a member in the corporation. Later, Tamrakar was provided with the responsibility of chairperson of the recruitment committee in the corporation. During her tenure, Tamrakar had appointed 130 family members, relatives, and party cadres in the corporation (Thapa & Bhandari, B.S. 2065).

Similarly, the Minister Yami appointed her sister Timila Yami as the chairperson of Kathmandu Upatyaka Khanipani Limited (KUKL) in September 2007. In addition, she appointed her brother Bidhan Ratna Yami as a member of Rural Water Supply and Sanitation Fund Development Board. She appointed her relative B K Man Singh Pradhan who had been accused of involving in corruption in Nepal Industrial Development Corporation and Nepal Airlines Corporation, as the chairperson of Kathmandu Valley Water Supply Management Board. On June 3, 2007, she appointed her party cadre Krishna KC as the chairperson of (Thapa & Bhandari, B.S. 2065).

The concept of nepotism that flourished during the Shah and Rana regime has been continuing in the Panchayat, democratic and republican regime as well. Public



institutions act as offices to provide employment to the family, relatives and party cadres of high-level officials, politicians, and elite leaders. The chairperson, executive committee, managing directors and CEOs are changed with the change of government (Koirala & Gautam, 1998). Effective governance and capable bureaucracies are the key factors of development (Chakravarti, 2005). In contrast, the rulers have not given priority to strengthening the capacity of employees and appointing capable people for an effective administrative system.

The concept of bureaucracy is meritocracy. However, one of the common characteristics of bureaucracy from Shah Regime until the republican regime is giving less importance to merit system while providing the responsibility. There was dominance of families or relatives in bureaucracy during the Shah and Rana regimes. During the Panchayat system, there was dominance of the royal palace and Panchayat rulers. After this, the dominance of political leaders' families and relatives and the party's cadres are seen. This exercise of promoting the closed ones rather than giving priority to the merit system has become a hindrance to bringing professionalism in bureaucracy and public administration. As a result, the governance system became very weak. The ultimate effect is seen in the economic growth and development of the country.

### **Nepotism, Favoritism, and *Chakari* in Public Administration**

Nepotism, favoritism and *Chakari* are the main characteristics of Nepali public administration (Bista, 1991). During Rana regime, only those who were familiar to *Bhardars* and Ranas were provided with jobs (IIDS, 2061). The military and civil employees had to do *chakari* to get a job (Pande, B.S. 2076). They had to be present at the palace in the morning and evening. The *chakari* was a main means to administrative control (Thapa & Bhandari, 2065). The Ranas had institutionalized the *chakari* system to control political dissatisfaction in people. To sustain the good relationship with the Ranas, the elites had to be present formally for a few hours every day in the palace (Bista, 1991).

The favoritism, nepotism and *chakari* system continued after the Rana regime in different forms. The mainstay of rule of law could not be established in the country. For instance, the government was formed under the leadership of Matrika Prasad Koirala on November 16, 1951. After that, Koirala nominated 80 of his relatives and party cadres in civil service (Dhakal, B.S. 2060). Similarly, the first elected government started reorganizing public administration on July 25, 1959. In the name

of reorganization of the administration, the nepotism and favoritism flourished (Thapa & Bhandari, 2065).

Likewise, after the establishment of democracy in 1990, the trade union was established. Such unions, which are affiliated to political parties, have had a negative impact on the professionalism of the bureaucracy. There is a wrong practice of giving responsibilities and roles on the basis of affiliation with political parties rather than on the basis of ability or merit (Thapa & Bhandari, B.S. 2065).

Many people got good posts during the Panchayat regime through *chakari*. The *chakari* tradition passed to the Kings from Rana Prime Minister after the establishment of democracy in 1950. During the tenure of King Mahendra, people had to go to *Paschim Dhoka* (West Gate) for *chakari*. Through *Hukum Pramangi*, those who went to *chakari* could get job as well as promotions directly (Thapa & Bhandari, B.S. 2065). It was impossible during Panchayat system to carry out business without *chakari* of royal palace and to be appointed in the high-level posts (Manandhar & Sharma, B.S. 2053). It was not possible to get a job and contract without any connection with the people in power (Shakya, 2018). The nepotism got increased in the latest republican regime too. The former secretary who spent years in Nepalese administration says:

The nepotism and favoritism that started during the Rana regime exists today in different forms. Today also, the leaders in power and ministers appoint people in important posts. The employees who can carry out *chakari* are provided with the responsibility they wish and not in terms of capability. As a result, the public administration is not able to provide service delivery in accordance with the changing time. The incompetence, favoritism and anarchy has been flourishing in Nepal (Based on interview on November 10, 2021).

Political nominees-relatives, friends, clients are regularly appointed to the positions in the administration especially the more attractive ones, i.e., those with the greatest opportunities for graft which has direct effect on the overall development of a country (Theobald, 1990). Holmes (2015, p.26) argues, “Nepotism and favoritism always discourage honest, well-qualified people, who become frustrated at not securing good positions or being promoted”.

The nepotism, favoritism, *chakari* and *chaplusi* that flourished in the Rana regime continued until the republican regime. This trend got more institutionalized in the republican regime. Appointing the cadres and relatives in the important administrative posts and giving political appointments has been continuing. The trend has not only proven to be a hindrance to the capable person but also the public resources have been exploited.

### **Continuation of *Pajani* Tradition**

*Pajani* was a tool for the employees in administration to make them sincere. *Pajani* is a traditional system of annual screening of the administrative personnel. During the Shah and Rana regime, *Pajani* was implemented strictly in which the relatives and others the rulers favored were continued with their job. The rest of the employees were discontinued. In fear of *Pajani*, employees obeyed the rulers rather than the law.

Before Rana regime, King performed *Pajani* of all the employees including the Prime Minister (Thapa & Bhandari, B.S. 2065). As the continuation of this practice, there used to be *Pajani* annually after Dashain festival during Rana regime. The reporting of all the employees was done before *Pajani*. The evaluation was, however, based not on their performance but *chakari* and loyalty towards *hakim* (senior). The right to financial security was at the center and thus those employees who were not favored by the rulers had to lose their job (Regmi, B.S. 2074). The personnel were appointed for one year to be reappointed or dismissed after each *pajani*, a system which, far from improving the administration, bedeviled it by accentuating insecurity among civil servants about their incumbency (Amatya, 2004).

*Pajani* tradition ended formally with the abolition of the Rana regime. After this, various laws and acts were formed for managing the bureaucracy. However, the *pajani* continued in different forms. The government formed on June 15, 1953, did *pajani* of high-level officials. The officials who were not favored by the rulers were transferred to appoint new officials in their place. Similarly, King Mahendra had done *pajani* of secretaries on October 14, 1955. At that time, some employees were kept as *fajil* (additional seat where employees are kept without giving any responsibility) and

new intake were taken. The new form of *pajani* continued in Nepal with the establishment of autocratic Panchayat system by dissolving the democratic government in 1960 (Devkota, B.S. 2058). The public administration which was just being nurtured was dispersed during Panchayat system and the highly trained and capable employees were rejected (Mihaly, 2002).

Within 13 days of establishment of Panchayat system in Nepal, many *Badahakim (District Head Officials)* were discontinued with their job. On February 8, 1961, there had been extensive *pajani*. 13 secretaries were transferred, and 28 new appointments were made. Similarly, a new post, *anchaladish (Chief of Zone)* was formed for political control in district and village levels and vigilance over the employees. Panchayat regime which claimed of forming modern state with rule of law, appointed incapable persons as *anchaladhish* and discontinued them if rulers did not like (Dixit, B.S. 2052). During the Panchayat regime, there was a provision for the employees who completed 20 years of their job to discontinue them if not needed. This provision made the public administration unstable and weak. The employees were compelled for adulation (Thapa & Bhandari, B.S. 2065).

Girija Prasad Koirala became first elected Prime Minister after restoration of democracy in Nepal on May 26, 1991. The government had made a policy level decision on November 6, 1992, for employees' cutback, which was a modern form of *pajani*. Continuing the 20 years provision of Panchayat regime act, the government had discontinued 2 hundred and 94 employees and 3 thousand employees using 30 years job tenure provision. Later, the Prime Minister accepted that it was a *pajani* blunder. He said, "I transferred 7 secretaries to show myself powerful. Due to this, some loyal and high-level administrators also had to face it. It was my fault" (Nepal, B.S. 2067).

Prime Minister Koirala dissolved the parliament due to the internal conflict within the NC. After this, the CPN (UML) formed a minority government on November 30, 1994, as the biggest party. This government also continued the *pajani* tradition. A number of secretaries were transferred to the *Atirikta Samuha* (additional group) and joint secretaries were appointed as acting secretaries on March 2, 1995 (Thapa & Bhandari, B.S. 2065). After the contemporary King Gyanendra dissolved the parliament and coup occurred, eight secretaries were put on additional group on March 2, 2005. The secretaries continued their job in this way for 14 months (Bhatta, B.S.2071).

During the republican regime, *pajani* flourished more in a new form. The Shah and Rana rulers did *pajani* once a year. However, in the republican regime, *pajani* occurs more frequently. After the people's movement of 2006 when Pushpakamal Dahal became Prime Minister of Nepal on August 15, 2008, the employees transfer occurred for 13 times until the first week of November (Thapa & Bhandari, B.S. 2065). This trend has been continuing until today. For instance, status of road management is poor in Nepal. Each year more than 25 hundred people lose their lives in road accidents. It is the responsibility of the Department of Transportation Management to minimize road accidents. In this department, the director general changed 5 times from November 2018 to November 2019. A former secretary whose job was terminated in 2021 was transferred 10 times during his 5-year tenure. Once, he was transferred after working for only 4 months in one office. He takes this act as a form of *Pajani* tradition. He says:

According to the civil service act, an employee should be transferred every two years. However, during my tenure as the secretary, I was transferred 10 times and I could not spend a full year in any office. Once I was transferred even after 4 months in an office. It seemed that we could spend more time in a ministry only if we work as per the desire of the ministers. I take this kind of practice as a modern form of *pajani* (Based on the interview on November 10, 2021).

The *Pajani* system was developed during the Shah and Rana regimes for keeping control over the employees. After the establishment of democracy in the country, the modern administrative mechanism was developed. However, the regimes changed but the *pajani* tradition continued in the public administration of Nepal. The *Pajani* system was not eradicated, rather, continued in different forms. Earlier, the employees who were not liked by the rulers were sacked off the job through *Pajani*. This system has two major consequences. First, the employees who do not do *chaplusi* and *chakari* are either shifted shortly or kept in additional places. They are not able to work according to their skill, knowledge, and experience. Second, the employees are compelled to work according to the will of rulers to save their positions. As a result, the bureaucracy is not enthusiastic to contribute to the development process of the country.

### **Centralized Mode of Governance**

Since the start of unification of Nepal, the public administration of Nepal did not run with policy, rules, or system. Rather, the rulers always mobilized the public administration in accordance with their desires. Order was above the law during Shah and Rana regimes. This kind of order system persists in the public administration even today. The civil servants also seem to obey the order of the rulers rather than policies, rules, and laws. The *hucum* (order) of the Rana Prime Minister was more than a law (Pande, B.S. 2076). The Rana politics had controlled the lives of general people. The Shah and Rana ruler were against sharing even the minimum administrative power (Mahat, 2006).

There was a centralized administrative system during the Shah and Rana regime. The Rana administration was the hierarchical of a political organization in which authority passed on from the top to the successive lower levels. The administration was totalitarian in its sweep, which dominated the people. They also controlled judicial, legislative, and executive functions of government. There was no rule of law (Amatya, 2004).

The order system persisted in the other regimes as well. During the Panchayat and democratic regimes, the trend of appointment of the civil servants continued with the order of the King (Nepal, B.S.2075). This trend has been continuing even during the republican regime. Centralized governance is a major hindrance to sustainable development in the third world countries (Hagen, 2017). The centralized government prevents people from participating and bearing the responsibilities.

Through the centralized governance system, rulers mobilized the public administration according to their desire and wish. The bureaucracy could not make plans and strategy to address the development expectations of the people. The budget allocation could not synchronize with the expectations of people. This created hindrance to development in Nepal.

### **g) Characteristics of Governance in Democratic and Republican Regimes**

The characteristics of governance democratic and republican regimes are stated below:

## **Political Culture, Political Instability, and Maoist Insurgency**

No government formed after the political transformation of 1990 could rule for the full tenure (Annex IV). According to Dhungel (2007) after 1990s, the political parties acted as the highly centralized institutions in Nepal. The leaders of political parties had greed for power and wealth. Similarly, state power was centered to the limited leaders. Porter and Schwab (2008) found that political instability is the main constraint for economic growth and investment in a country.

High level of politicization in society is an important factor to reducing productivity in Nepal. The labor industry of civil servants, university students, contractors, businessperson, schoolteachers, farmers, and general people are highly politicized. The majority of the leaders are involved in politics to fulfill their own interest which increases the political instability on one hand and activities such as strikes take place by the various interest groups (Shrestha & Chaudhary, 2013). According to a study, there had been 4451 general strikes from 2008 to 2013. The political parties, their sister organizations and other interest groups called the strikes. The Nepalese economy had to bear a loss of 117 billion rupees from 2008/09 to 2013/14 (Shrestha & Chaudhary, 2013).

Similarly, the Maoist insurgency from 1996 had a negative impact on the economic growth and development of the country. The Maoist insurgency diverted the focus of government as security expenses were increased and capital expenditure was reduced. It also had negative affect on economic growth and development pace of Nepal (Khanal & Kanel, 2005). For example, 800 km of road was constructed annually from 1994 to 2000 but this decreased to 231 km road construction on average from 2001. Drinking water supply was extended to 689 thousand people annually in 2000/01, which decreased to 308 thousand people annually on average. In the same way, the physical infrastructure costing about 18 billion rupees has been destroyed (Mahat, 2006). Not only the physical infrastructures but also social development sectors such as health and education were affected. Many teachers were killed by both the Maoists and government side. Maoists used many students as cadres (Shrestha, 2004).

Bajracharya (2013) argues that the Maoist movement promoted politicization of the economic development and weakened the administrative and institutional capacity of the state and created the different problems in the governance mechanism, which directly affected the development process of Nepal. The insurgency also damaged the investment environment in Nepal. The number of people going abroad for employment also increased (Shrestha, 2004). There was no presence of government in all the sectors. The development works were centered on the city areas. The Maoist insurgency contributed to stagnation of Nepal's economy and development. It not only affected investment environment but also brought electricity crisis. The energy imports from India increased and trade relation became more imbalanced (ADB, DFID & ILO, 2009).

The political instability continued. Due to the political interest, the movements and strikes got to the peak leading to greater economic loss. The Maoist insurgency during that time had put negative effect on economic growth and development in many ways. First, the investment friendly environment was totally ruined. Second, numerous physical infrastructures were destroyed. Third, the governance mechanism got paralyzed due to the Maoist insurgency. This led to further underdevelopment in the country.

### **Instable Periodic Plans**

The periodic plans in Nepal constantly shift the priorities without any serious study. The priority shifts in this way create confusion in development plans and activities. The history of planned development in Nepal is always underachieved (Sharma, 2013). The eighth periodic plan (1992-97) after 1990 completely focused on economic liberalization and privatization. It focused on the privatization and restructuring of financial institutions and the market (NPC, 1992).

Similarly, the ninth periodic plan (1997-2002) and tenth plan (2002-2007) shifted their priority to poverty alleviation (NPC, 1997 and NPC, 2002). The eleventh plan included the inclusion perspective for the first time in the planning process in Nepal. Similarly, the tenth plan (NPC, 2002) which focused on poverty alleviation remained the cornerstones of the eleventh to fourteenth plan. The fifteenth plan,



which is currently being implemented, has made poverty alleviation a core focus and it emphasizes prosperity (NPC, 2019). GoN has given priority to poverty alleviation in all plans after the ninth periodic plan. However, the government is not clear on how poverty can be eradicated.

The trend of shifting the priority of national projects without sufficient study and research leads to fragile development process of a country. For instance, the eleventh periodic plan focused on state reconstruction and rehabilitation. In the aftermath of the Maoist insurgency, the twelfth plan made a target of graduating from least developed country status by 2030.

The priority shift trend, on one hand, leads to the wastage of money, time, and resources and on the other hand makes the development costly. The country, which exported the surplus food until 1980, imports a huge quantity today. This trend has led to underachievement of development projects and activities. Similarly, the planning and budgeting policies, strategies, and priorities have not changed based on the ground reality since the 1950s. The problem of centralization that flourished during the Panchayat system persisted forever after 1990. The plans after the establishment of democracy followed the planning and budgeting process of the Panchayat regime causing difficulty in the development process.

The malpractice of prioritizing the projects without serious study continued from the Panchayat regime until the republican regime. As a result, most development projects remained underachieved. The problems in implementation have led to misuse of resources on the one hand and quality less works on the other.

### **Lack of Investment Friendly Environment**

No regime after 1990 could develop an investment friendly environment in the country. The cost of doing business in Nepal published by the World Bank (2021) shows that there is no investment friendly environment in Nepal (Table 5.5).

**Table 5.5***Cost of Doing Business in Nepal*

<b>Details</b>	<b>2020 Rank</b>	<b>2020 score</b>	<b>2019 score</b>
Overall	94	63.2	59.7
Starting business	135	81.7	82.1
Dealing with Construction permit	107	67.3	57.9
Getting Electricity	135	60.9	58.3
Registering Property	97	63.6	64.7
Getting Credit	37	75.0	50.0
Protecting Investors	Minority 79	58.0	58.0
Paying Taxes	175	47.1	52.7
Trading across Border	60	85.1	80.4
Enforcing Contract	151	46.0	45.3
Resolving Insolvency	87	47.2	47.2

Source: *World Bank (2020)*

The above table has been reflected on a scale from 0 to 100, where 0 means the lowest and 100 means the best. In the rank from 1 to 190 where 1 is the best and 190 is the worst. The table does not show good status of Nepal in terms of business and investment environment. The bodies formed for industrialization process are inefficient in the country. The private sectors are being discouraged due to the lack of transparency, accountability, and responsibility.

The economic growth and development of a country relies on the investment friendly environment. China attracting an average of \$12 billion Foreign Direct Investment (FDI) annually until 2006 was rising to \$ 135 billion in 2018 (Mahat, 2020). This aided for rapid economic growth of China. Bajracharya, et al. (2019) argues that without strong institutions, smooth functioning system, corruption reduction, and good governance the industrial sector cannot be transformed as expected. Only the government rhetoric cannot create investment friendly environment.

The continued administrative hurdles and corruption discouraged the private investment in Nepal. According to a study carried out by the World Bank (2019), on an average, it takes 16.5 days for a company to be registered in Nepal. According to the study, Nepal stands at 107<sup>th</sup> place in the world at the ease of starting business. It affects all aspects of business in Nepal.

The lack of transparency and accountability has been damaging the investment friendly environment in Nepal. Administrative hurdles, lack of good governance and high level of corruption are hurdles to domestic and international private sector investment. The development projects remain incomplete and quality less. As a result, there is development of underdevelopment in the country.

### **Continuation of Weak Budget Expenditure Capacity of Government**

The weak capacity for public expenditure persisted until the democratic regime as well. The institutional capacity for expenditure in development projects is weak even during the republican regime today (Table 5.6).

**Table 5.6**

*The Status of Capital Expenditure in Nepal*

<b>Fiscal Year</b>	<b>Expenditure (in %)</b>
2011/12	70.8
2012/13	82.6
2013/14	78.1
2014/15	76.1
2015/16	59.0
2016/17	66.9
2017/18	76.9
2018/19	46.3
2019/20	64.7

*Source: (MoF, B.S. 2078)*

According to MoF (B.S.2078), a major part of the budget is spent only at the end of fiscal year. Looking at the data from 2011/12 to 2016/17, there was only 72.3 percent of capital expenditure. More than 50 percent of capital expenditure was done

in the last two months of the fiscal year. While the contract process is started towards the end of the fiscal year, GoN fails to follow the procurement process thoroughly on time. This has a direct effect on the quality of development works.

There are various laws governing public expenditure. There exists the Financial Regulation Act 2055. There is provision in the Constitution of Nepal 2015 for announcing annual budget on *Jestha 15* each year. There have been various attempts to regulate the expenditure in budget allocation, implementation, monitoring, and evaluation. However, no notable change has been seen in public expenditure system in Nepal. There is no expenditure in the month of *Shrawan* while the expenditure is 40 to 50 percent in *Ashar* (Table 5.7).

**Table 5.7**

*Payment Trend of Capital Expenditure (in %)*

Month	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Shrawan	0	0	0	0	0	0
Bhadra	1	1	1	1	1	1
Aswin	2	5	5	3	5	4
Kartik	2	4	3	3	2	2
Manshir	4	1	4	5	2	4
Poush	6	4	6	6	3	6
Magh	6	5	5	5	3	8
Fagun	8	7	8	7	6	8
Chaitra	11	9	11	9	8	7
Baishakh	7	9	8	7	9	8
Jestha	12	12	11	12	11	10
Asadh	41	43	38	41	49	41

*Source: MoF (2018)*

The contracting and dues recovery in budget implementation process of development process in Nepal is challenging from time being. Referring to the Panchayat regime, Sedden (1987) strongly argued that the larger infrastructure

development contracts were contracted out at end of the fiscal year leading to freezing of a big part of the budget. The situation has not reformed much in the democratic regime as well.

Similarly, procurement process, public expenditure and financial accountability is weak in Nepal. According to a study carried out by MoF (2015), most of the government organizations do not prepare their procurement plan on time leading to delays in development works. The delay decreases development and capital expenditure leading to a weak internal auditing system.

The problems faced by the development activities in Nepal from Panchayat regime has been persisting until the democratic republican regime as well. With no systemic structural reform, the budgeting and planning process just follows the ritual like panchayat regime. The objectives are ambitious, but the implementation part is weak. For example, according to the annual budget of 2019/20, there was a plan to create 50 percent employment in the country which could not be implemented (MoF, 2019).

The public expenditure process has become more indistinct after Nepal entered to the federal system in 2015. The federal government has handed over numerous infrastructure and other projects to the provincial and local government. Mahat (2020) strongly argues that provincial governments do not have capacity to spend the budget in a proper way. They are suffering from various other capacity constraints in themselves (Mahat, 2020).

There are two major problems in public expenditure in Nepal. First, the capital expenditure size has not increased. Most of the capital expenditure is done towards the end of the fiscal year. Second, the capital expenditure is done haphazardly. Medium-term expenditure framework is not synchronized to annual budget. Lack of scientific prioritization has led to weakness in ministerial budget distribution (PERC, B.S.2075).

### **Unequal and Unbalanced Development**

The distribution of development of physical infrastructures like electricity, road, irrigation and social infrastructures like health and education is unbalanced in

Nepal. Thus, there is an unequal distribution of development. The development is mostly city centered. During the Panchayat regime, physical infrastructure development was focused mostly on the eastern and central region of the country. Other regions remained excluded from the light of development, which persisted after 1991 as well.

The provincial distribution of industries, which have received foreign investment approval, is unbalanced as well. Until Mid-March 2021, there were 81.8 percent of industries receiving foreign investment approval in Bagmati province, 1.4 percent in Lumbini province and 0.9 percent in Sudurpaschim province (Table 5.8).

**Table 5.8**

*The Provincial Detail of Industries Receiving Foreign Investment Approval*

<b>Province</b>	<b>Small</b>	<b>Medium</b>	<b>Large</b>	<b>Total</b>
1	61	43	25	129
Madhesh	85	36	41	162
Bagmati	3675	388	175	4238
Gandaki	369	29	45	443
Lumbini	37	18	19	74
Karnali	73	11	4	88
Sudur Pachim	41	1	5	47
Total	4341	526	314	5181

*Source: MoF (2021)*

The access of people to electricity is unbalanced as well. With the increase in electricity production, until mid-March 2021, 93 percent of total population has access to electricity. However, if we look province-wise, there is only 27 percent access to electricity in Karnali province while it is more than 90 percent in Bagmati province (Table 5.9).

**Table 5.9***The status of provincial access to electricity (in percentage)*

Province	2018/19	2019/20
1	75.9	86.3
Madhesh	79.77	87.25
Bagmati	90.3	95.83
Gandaki	87.39	87.48
Lumbini	81.03	89.07
Karnali	27.03	27.74
Sudurpachim	58.9	67.33

*Source: MoF, (2021)*

Likewise, there is unequal access to physical infrastructures including access to road (Table 5.10).

**Table 5.10***Status of Road Expansion of Local Road (In km)*

Province	Earthen	Graveled	Black Topped	Total Roads	Province-wise Share (in %)
1	9492	2522	768	12782	20.11
Madhesh	2733	2854	378	5965	9.38
Bagmati	11734	2690	1268	15692	24.68
Gandaki	9596	1252	646	11494	18.08
Lumbini	5428	2712	911	9051	14.24
Karnali	2969	209	89	3266	5.14
Sudurpashchim	3954	1158	214	5326	8.38
Total	45,906	13,397	4,274	63,577	100

*Source: MoF (2021)*

Table 5.10 shows that until mid-March 2021, there has been extension of 63,577 km road. The maximum length of road lies in Bagmati province, which is 24.7 percent of the total while the least is in Karnali province with only 5.1 percent. This figure makes clear the unequal distribution of road facilities in the country.

The status of social development is also similar. Until 2020, there were 35 thousand 6 hundred and 74 schools, which is a good number. However, if we look at it province-wise, 19.8 percent of schools are in Bagmati province and Karnali province has the least number of schools, which is 8.9 percent (Table 5.11).

**Table 5.11***Province wise Details of Different Levels of Schools*

<b>Province</b>	<b>Total School (Unit)</b>	<b>Percent</b>	<b>Population in Percent</b>
1	6958	19.5	17.03
Madhesh	4164	11.7	20.98
Bagmati	7054	19.8	20.84
Gandaki	4349	12.2	8.49
Lumbini	5728	16.1	17.55
Karnali	3191	8.9	5.80
Sudurpashchim	4230	11.9	9.28
Total	35674	100	100

*Source: MoF (2021)*

If we analyze the status of development of Nepal in a micro level, we find that the development is unequal and unbalanced. While most of the investments are centered in Bagmati, Lumbini, Province 1 and Gandaki province. Karnali, Sudurpaschim and Province 2 are lagging in every aspect of development (Table 5.12).

**Table 5.12***Province-wise Social and Economic Indicators*

<b>Indicators</b>	<b>Nepal</b>	<b>P1</b>	<b>P2</b>	<b>P3</b>	<b>P4</b>	<b>P5</b>	<b>P6</b>	<b>P7</b>
<b>Economic and Social Sector</b>								
Economic Growth Rate (Basic Price) in Percent	3.98	3.54	3.52	4.65	3.56	3.81	3.77	3.56
Province-wise contribution to GVA	100	15.6	13.2	37.7	8.7	14.0	4.0	6.9
Registration of Industry (in Number)	8384	791	564	5450	773	612	78	116



Small and Cottage Industries (in Numbers)	47567	63290	66654	15956	49189	81164	23254	3255
Investment in Industry (Rs. In Billion)	7			8				8
Hydroelectricity Generation (in MW)	2245	517	119	822	474	142	131	39
Local Road Network (in KM)	1386	280	13	472	527	31	11	52
Number of School	63577	12782	5965	15692	11494	9051	3266	5326
Financial Sector	35674	6958	4164	7054	4349	5728	3191	4230
Number of Banks and Financial Institutions	10430	1652	1574	2677	1340	2026	406	755
Population Per Branch	2913	3018	4035	2443	1887	2549	4522	3938

*Source: MoF (2021), Note: P1=Province one, P2= Madhesh Province, P3= Bagmati Province, P4= Gandaki Province, P5=Lumbini Province, P6=Karnali Province, P7=Sudurpaschim Province.*

During the democratic regime, the physical and social development infrastructures were extended. However, the extension is unbalanced. While development activities are being extensively carried out in one part of the country, the other part or geography is lagging. This kind of unbalanced development does not give a positive effect on the overall development of a country.

The unequal and unbalanced development started in the Rana regime flourished until the republican regime. The physical and social development activities are centered more in the city areas. The infrastructures like road, electricity, industry, factories, school, and hospitals are focused more at Bagmati province while the development status of these infrastructure of Karnali and Madhesh province is weak. This has resulted in unbalanced and unequal social, economic, and physical development status, affecting the development process of the country as a whole.

### **Quality less Infrastructural Development**

The major obstacles for development of Nepal from time being are lack of affordable and reliable electricity supply and insufficient road network. According to a survey carried out by ILO, ADB and FNCCI in 2008, 82 percent participants identified that lack of access to electricity and transportation are the most serious constraints to development. The Global Competitiveness Report 2008/09 ranked Nepal among the lowest South Asian Countries in overall infrastructure quality (Porter & Schwab, 2008). Nepal ranked 130<sup>th</sup> in 134 countries covered in the study. In the infrastructure categories, Nepal ranked lowest in electricity and road transportation (ADB, ILO & DFID, 2009). The trends of breakage of many bridges under construction, damaging of blacktopped roads within weeks of construction, leakage and seepage in the public buildings is normal in Nepal. The weak infrastructures have had a negative effect on the overall development of the country.

### **Weak Monitoring and Evaluation Mechanism**

There are several government bodies such as Office of the Ministers and Council of Ministers, National Planning Commission, National Vigilance Center, Public Procurement Monitoring Office, Ministry of Finance, Office of the Auditor's General and so on for monitoring the development projects in the country. These government bodies conduct continuous monitoring and inspection works. There are constitutional bodies such as CIAA and OAG and parliamentary bodies like Public Accounts Committee as well. There are numerous monitoring units; however, the monitoring work is not effective. There are no concrete regulations for monitoring entities to keep record and publish about the monitoring activities (PERC, B.S. 2075). The financial control and discipline mechanism and monitoring and evaluation system is weak (Baskota, 1989). According to the Report of The Public Investment Review

Commission 2075, the system of internalizing the suggestions from monitoring and evaluation of the development projects has not been developed in Nepal yet (PERC, B.S. 2075). Thus, due to the lack of effective monitoring and evaluation system, the irregularities and malpractices have been increasing creating obstacles in economic growth and development in the country.

The human and economic poverty of a country and its underdevelopment is a consequence of weak governance (UNDP, 2001). Calderisi (2006) had carried out a study in Uganda, Ghana, Mozambique, Tanzania, and Mali and found that underdevelopment is a result of their governments' inability towards good governance and fighting endemic corruption. He further found out that corruption, weak governance, and wrong activities of leaders are the key reasons for the underdevelopment of the country.

Huntington (2010) argues that public policy and governance performance is shaped more by a country's level of economic growth and development than by the nature of its regime. As said by Huntington, seven regimes were changed in Nepal. The trend of exploitation over the national treasury in the interest of a ruling class or a group continued from time being. The constitutional commissions, parliamentary committees, judiciary, and other watch dog institutions have been established to make state mechanisms accountable. However, there is no environment for these mechanisms to work effectively. The governance system has thus been ruined (Acharya, B.S. 2076a).

According to Uddin and Joya (2007), good governance is closely associated with economic growth and development and without good governance underdeveloped countries cannot overcome the situation of underdevelopment. Similarly, Kaufmann (2003) analyzed the data of 166 countries and found out that good governance has strong positive correlation with better development.

Weak governance is a great hindrance to development, and it is the main cause behind underdevelopment of third world (Uddin & Joya, 2007). Various movements initiated by the people were able to change the regimes, but the governance system and process did not change accordingly. The modern theories of governance have been accepted but the implementation is weak. According to a study carried out by the World Bank (2002), the account keeping, and publishing system is strong in Nepal

legally, but the expenditure could not align with the result leading to the inability to establish good governance.

### **5.2.2 Corruption**

Scheifer and Vishny (1993) empathized that corruption hinders development because it makes resources ineffective and alter economic growth. Mauro (1995) identified the impact of corruption on economic growth and development. He used the statistics from 67 countries all around the world and found that corruption always decreases private investment, and it affects economic growth and development negatively. In a different research, Mauro (1997) also identified that corruption badly affects economic growth and development in a society. He found that corruption decreases private investment, misuses public resources, and alters the structure of government expenditure as well. Gupta et al. (2002) examined that corruption increases income inequality, decreases the financial allocations to education and health sectors in the developing countries. Bamidele (2013) argues that corruption is the main cause of underdevelopment.

If the history of modern Nepal is analyzed carefully, it seems that there is a high level of corruption in all regimes. Corruption in different regimes of Nepal is explained in this sub-chapter.

#### **a) Corruption in Shah Regime**

The economic and governance policy of Prithvi Narayan Shah was to retain the national capital inside the state making the state developed and prosperous by optimum production. Shah had given importance to financial discipline. He had also tried a lot to discourage corruption and irregularities and to promote good governance in the country (Bajracharya & Shrestha, B.S. 2031). The message of Prithvi Narayan Shah, “Bribe giver and receiver are enemies of the nation state” is compiled as Divyopadesh (Acharya & Nath, B.S. 2069). Right after the death of Prithvi Narayan Shah on January 11, 1775, the financial distortion and taint were seen in Nepal’s governance system. Prithvi Narayan Shah’s successors did not continue his economic and governance policy. There are great scandals of financial irregularities seen one after another (Regmi, B.S. 2074). After Prithvi Narayan Shah, Pratap Shah ruled as the King of Nepal from January 11, 1775, to November 17, 1777. Right with his tenure financial irregularities got flourished in Nepal (Nepali, B.S. 2060).

During the regime of King Rana Bahadur Shah after Pratap Shah, on one hand unification of Nepal was continuing and on the other hand financial irregularities was found to amplify greatly (Acharya, B.S. 2068, Dhakal, B.S. 2060). Rana Bahadur Shah had handed over the rule to his son temporarily and left for Kashi. During this, his brother Sher Bahadur Shah and Kaji Tribhuvan Khawas looted the national treasury (Subedi, B.S. 2061). Rana Bahadur Shah returned to Nepal in 1802 (Gautam, B.S. 2063). When he returned from Kashi the national treasury was totally empty. After this, he discussed with his *bhardars* and (estates) of Brahmins and *Guthi* (trusts) of holy place like temple were nationalized and misused (Subedi, B.S. 2061, Dhakal, B.S. 2060).

Rana Bahadur Shah was killed on April 2, 1806. After this, Bhimsen Thapa came into power who heavily misused national treasury through illegal contract agreements (Acharya, B.S. 2068). Thapa gave full attention towards gaining power and accumulating wealth for himself and his family. Money from the national treasury was spent for himself and his family (Acharya, B.S. 2069). Bhimsen Thapa ruled over Nepal for 31 years remaining in various posts. He later became the victim of various conspiracies and died on August 5, 1839. After this, from 1839 to 1846, there was rapid change in the government. With this, various financial irregularities cases were seen during this period. The *bhardars* also involved in embezzlement of national treasures and irregularities (Acharya, B.S. 2068).

### **Revenue Leakage and Tax Burden over the People in the Shah Regime**

During the Shah regime, internal conflict and continuation of state extension led to the reduction in income resources after the death of Prithvi Narayan Shah. Due to the luxurious lifestyle of the King and family, the expenses of the palace were increasing. The military management had been a burden to the state and the state had been sinking into crisis (Whelpton, 2005). To manage the crisis, the contemporary government had increased the taxation rate to entrepreneurs and businesspersons due to which many cottage industries and business got closed (Aryal, B.S. 2061). At that time, the big landlords did not bear any responsibility to the state while poor people were the victim of expensive taxation (Regmi, B.S. 1999).

During the Shah Regime, tax was collected from the three levels, palace, state, and local administration. The Kings used to collect tax casually in the name of sacred

programs. One of the taxations on public level was *darshanbhet*, which was collected while giving appointment and promotion to the public service employees and military personnel. Similarly, various traders such as oil and curd traders also had to pay tax. The hunters had to offer skin to the government. Later, this tax was collected as cash (Regmi, 1999). There was not a well-managed and scientific system to keep record of the tax collected at that time. Thus, there had been excessive misuse of the tax (Regmi, B.S. 2074).

#### **b) Corruption in Rana Regime**

Admits the political pull, the *Kot* massacre took place on 14 September 1846 in Nepal. Jang Bahadur Kunwar and his brothers killed more than 30 civil, military officers including the Prime Minister of Nepal, Chautariya Fateh Jung Shah. The *Kot* massacre led to the establishment of the Rana autocracy in Nepal. During the Rana regime, the rulers' families collected indefinite personal wealth and properties. According to the Rana rule, the power was passed to the brothers rather than the first son. The property collected in a generation would not be fruitful to the next generation. Therefore, the Rana rulers were focused on increasing taxes and decreasing the public expenditure to collect more and more property for themselves. In 1837, total revenue of Nepal was 4 to 5 million Rupees. Of this, a meager amount was spent, and the remaining amount was taken by the Prime Minister himself (Mahat, 2006).

During Rana Regime, without the permission of the Prime Minister, no penny could be used out of the national treasury. There was no practice of making a budget to spend. One Rana Prime Minister took about 20 to 30 percent of national revenue while salary of a military was about 22 rupees per month. Jung Bahadur Rana took more than one hundred thousand Indian Rupees per month (Whelpton, 2005 Mishra, 1987). Jung Bahadur Rana squandered a lot of money for his family with no restriction (Acharya, B.S. 2068). He accumulated private property by destroying the Jungle of Terai region of Nepal. Upadhyay (B.S. 2030) found that Janga Bahadur was engaged in deforestation activities, and he filled up his personal treasury by destroying jungles of Terai area of Nepal. JBR (B.S. 2059) examined that Jung Bahadur collected a huge amount of property by converting the sources of the state into his private property for 30 years. He collected a huge amount of money gold, silver, and diamond too.

Jung Bahadur died on 26 January 1877, and Ranoddip Singh became the Prime Minister of Nepal until 1885 (Acharya, B.S. 2068). Ranoddip also exploited the national treasury considering it his private property. During his tenure, the dispute between Nepal and Tibet came to a climax and preparations for war started in 1882. The King ordered the Prime Minister to release 4 million Rupees from the national treasury in preparation for war with Tibet. However, at the same time the negotiations between Nepal and Tibet were done. The money released for war was not returned to the national treasury and it was squandered off by the Prime Minister (Subedi, B.S. 2061).

After the death of Ranoddip Shingh on November 22, 1885, Bir Shamsher came to power. The misuse of the national treasury aggravated more in Bir Shamsher's tenure. There was no restriction to capture the national treasury by Bir Shamsher and his family and expand their own property (Acharya, B.S. 2068). Bir Shamsher died on March 5, 1901, and Dev Shamsher became the Prime Minister of Nepal. He was liberal due to which he was sacked off from power by his brothers within three months of his tenure. Baskota and Sharma (2005) examined that there were no such significant financial activities when he was in power.

After this, Chandra Shamsher became the Prime Minister of Nepal on 27 June 1901. The misuse of the national treasury escalated during the tenure of Chandra Shamsher. During this time, various contracts, customs, market bases were established, export was multiplied, and Nepal received 2.1 million Rupees grant as well as an annual grant of 1 million Rupees from British-India Government. The revenue got its summit during Chandra Shamsher's tenure (1901-1929) by increasing fines, punishment, and taxation. Chandra Shamsher took the amount left after administrative expenditure of the state for himself and his family (JBR, B.S. 2059). While dividing the property to his 8 sons, each son got 8 million in cash, a palace each, and many shares in India (Pande, B.S. 2076). However, Nepal (B.S.2055) had different fact. According to him, Chandra Shamsher's sons, and queens had a share of worth of 90 million Rupees each including movable and immovable property.

After the death of Chandra Shamsher, Bhim Shamsher became the Prime Minister of Nepal on November 26, 1929. According to the treaty of 1828, Tibet had to pay 1 million rupees to Nepal annually. When Tibet did not pay the amount, the

relation between Nepal and Tibet got troubled. Chandra Shamsher decided to go to war with Tibet in 1926. At that time, Chandra Shamsher took out 25 million Rupees from Kaushi Tosha Khana (National Treasury) for buying weapons and gave it to the Commander-in-chief, Bhim Shamsher. Later, the war was averted, and no weapons were bought. However, Bhim Shamsher did not return that money to the national treasury. He used this money for personal benefits (Pande, B.S. 2076). During Bhim Shamsher's tenure, he had built various palaces for his wife and sons by capturing a huge amount of money from the national treasury (JBR, B.S. 2059).

Bim Shamsher died on September 1, 1932, and Juddha Shamsher became the Prime Minister of Nepal. He also spent huge amounts of money from the national treasury for himself and his family. He bought lavish furniture costing a great amount from Germany with the money from the national treasury (Dhakal, B.S. 2060). He treated the state's property as his private one and collected a huge amount of money and property for his family (Sharma & Devi, B.S. 2033). Juddha Shamsher was also involved in financial irregularities and exploited state property to manage family affairs. He left the throne and left the country for India on November 29, 1945. The Indian government announced the 1000 Indian Currency (IC) note as illegal in 1947. At that time, Juddha Shamsher had sent 1000 notes equal to 25 million IC with Subedaar Haribhakta Rajbhandari from Dehradun. During his stay in India, he also donated gold and silver equal to his own weight, house, land, elephant and 1000 cows in India (Pande, B.S. 2076).

After Juddha Shamsher left for India, Padma Shamsher became the Prime Minister of Nepal on November 29, 1945. Padma Shamsher was comparatively a good ruler. Mohan Shamsher threatened him that if he wants the political reform, he should be satisfied with an annual salary of 3 hundred thousand rupees. Padma Shamsher also got inclined towards collection of property. However, he could not rule it over for a long time. He left for India on April 30, 1948, with a huge amount of money from the national treasury with him (Pande, B.S. 2076b).

After this, Mohan Shamsher became the Prime Minister. He did not show any distinct behavior during his tenure. He also treated the state property as his personal property. Pandey (B.S. 2076b) writes:



Before many years of his tenure as the Prime Minister of Nepal, Mohan Shamsher had written for Babar Shamsher in a piece of paper that Mohan Shamsher would give 1.1 million Rupees as gift after he would become Prime Minister. He must have been 11 years of age at that time. Babar Shamsher had saved that piece of paper and right after a day Mohan Shamsher became the Prime Minister, he showed that paper and received 1.1 million Rupees from the state treasury (p.104).

The political parties were also annoyed with the behavior of Rana rulers. The handbill distributed by the Nepal Praja Parishad on June 22, 1940, included the issue of financial irregularities and exploitation of national treasury (Pande, B.S. 2076a). The Rana Prime Ministers misused the national treasury largely for themselves and their family. JBR (B.S.2059) argued that every Rana prime Minister was engaged in financial irregularities (Annex V explains the state of income and expenditure during the Rana regime). During that regime, the income of the state was not invested in the economic, social, and infrastructural development of the country. Rather, it shows that the Rana rulers and their families used them as their private property.

During the unification of Nepal, Prithvi Narayan Shah had tried to promote good governance by controlling financial irregularities that could occur in the national treasury. However, his initiation was not continued by his successors. The rulers exploited the national treasury in their personal favor. This trend of exploitation that started in the Shah Regime increased in the Rana Regime. While the national treasury was used for the benefit of rulers, activities like developing physical infrastructures, establishing industries and factories could not commence. While analyzing the balance sheet of the Rana Regime it was found that a major part of the national treasury was used as the personal property of the Rana Prime Ministers and his family. While the Rana rulers and their relatives were prospering, the country went on drowning in the vicious circle of underdevelopment.

The Rana rulers had exploited the national treasury for luxury of their own. Chandra Shamsher spent about 70 million rupees on building palaces for his sons. He also spent a huge amount of money from the national treasury only for enjoyment and for his family during his regime (Sharma & Devi, B.S. 2033). Bhim Shamsher also built various palaces for his wife and sons by capturing a huge amount of money from the national treasury JBR (B.S. 2059). Juddha Shamsher also spent money from the national treasury for himself and his family interest. According to Dhakal (B.S. 2060)

Juddha Shamsheer bought lavish furniture costing a great amount from Germany with money from the national treasury. About the lifestyle of Rana rulers, Amatya (2004) writes:

The Rana lived in grand palaces, most of them costing one million rupees or above. Each Rana palace was like a small colony where almost everything was available. It had its own library, club, football ground, tennis court, cinema hall, well planned garden, small zoo, swimming pool, museum, fleet of cars and all the best amusements and amenities of the modern world...they got all their necessities from Europe. Clothes, cars, cine-projectors, films, and many items of household furniture, were all imported, which reached Kathmandu at an enormous cost. Without exception, each Rana Prime Minister built huge palaces for each of his numerous sons and wives and concubines from national treasury (pp.329-330).

The Rana rulers imported the horses they rode from Europe and the Middle East and drank the wine from England and France. They brought photographers from Kolkata to take their photos at occasions and parties. They used golden utensils (Mahat, 2006). They called musicians from Lukhnaw, India for entertainment. They also bought foreign musical instruments and had musicians and bandmasters at their palace. The dinner plate of Bir Shamsheer weighed 3.5 kgs of gold (JBR, B.S. 2059).

In this way, the national treasury seems to have been exploited during the Rana regime in two ways. First, the rulers used the public resources and the national treasury as their personal property. Second, the national treasury and resources were used to construct buildings, purchase jewelries, luxurious vehicles and other amenities for them and their families. This kind of misuse of national treasury during the Rana regime has left negative impacts on the development of the country.

### **Revenue Leakage and Tax Burden over the People in Rana Regime**

With the intension of increasing income, Rana rulers offered the contract of custom to the bidders who gave the most auction amount. The tax collected after the auction amount would be the income of the contractor. The contractor started importing more and more goods to increase tax. The general people were affected by this (Pande, B.S. 2076). During this time, many custom offices were established

towards the south border of the country. Not only the customs, but the Rana rulers also collected money from different checkpoints within the country as *Jagaat* (a kind of tax). *Jagaat* was also collected through contractors. The people paid *jagaat* in seven places while transporting goods from Bhairahawa to Pokhara (Pande, B.S. 2076).

Similarly, there had been impropriety in exchange rate of Indian coins in Nepal in 1945. In addition, the cost of silver was much higher in India than Nepal. At that time, *Mahendramalli* coins made from silver were smuggled to India. There was black market of Nepali coins in India. The smuggling between Nepal and India started from that time (Pande, B.S. 2076a). The smuggling continued until 1950. To stop the smuggling, the coins were made by mixing silver, copper, and nickel from 1948. However, the smuggling did not stop. There had been a huge revenue evasion in Nepal due to that smuggling (Pande, B.S. 2076b).

During this time, a heavy tax was levied on the general people to manage the resources for luxurious lifestyle of the rulers. Many small and cottage industries were closed because of inability to pay heavy tax. Similarly, a big burden was added to the national treasury when the rulers smuggled many silver coins for their own benefit. While the rulers gave emphasis to their own benefit rather than giving priority to the country's development, development could come in priority. This kind of trend affected the development of the country in three ways. First, the small cottage industries got closed due to inability to pay heavy tax. It destroyed entrepreneurship and decreased employment opportunities in the country. Second, the heavy tax collected from the people was used for lavish lifestyle of the rulers rather than investing in the economic growth and development related activities in the country. Third, the means and resources of the country were out flown to India through smuggling.

### **Misuse of Foreign Assistance in Rana Regime**

There was no foreign aid in Nepal during the Shah Regime. It was negligible during the Rana regime too. Nepal was closed to foreigners before 1951. The extent of foreign aid and loans, however, increased tremendously after the establishment of

democracy in 1951. Foreign aid and loans, when not utilized in productive sectors, could not lift the status of the country, however.

Nepal helped United Kingdom (UK) during the First World War and in return the British Government provided a grant of 2.1 million IC to Nepal. Similarly, an annual grant of 1 million IC was also provided. Chandra Shamsher had taken this aid provided by the British Government personally (Pande, B.S. 2076). Similarly, Nepal had provided military support to British India during the Second World War. In return, British India Government had granted 330 million Rupees to Nepal in 1945 which was received by Juddha Shamsher. It was the first time when Nepal got the greatest amount as a foreign assistance. This assistance received from the British India was used by Judhha Shamsher for his personal use (Pande, B.S. 2076b).

The extent of grant increased after the Second World War in Nepal. The contemporary President of United States of America (USA) Harry Truman had announced Point Four Program with the aim of providing financial support to the underdeveloped country on January 20, 1949 (Brautigam & Knack, 2004). The USA had decided to provide 3 hundred thousand USD to Nepal through Point Four Program. An agreement was made between Nepal and USA on January 23, 1951, in Delhi (Pande, B.S. 2076). The amount was deposited in the national treasury in Nepal. It was a big amount at that time. The amount was supposed to be used for proposed five-year periodic plan in Nepal. Meanwhile the Rana system got abolished from Nepal (Pande, B.S. 2076b).

### **c) Corruption in Monarchical Regime**

The democracy was established in Nepal with the abolishment of Rana regime in 1951. The government of Rana-Congress after the Delhi agreement was dissolved on June 10, 1951. After this, the government was formed under the leadership of Matrika Prasad Koirala on November 16, 1951. Ganeshman Singh, Surya Prashad Upadhyaya and Subarna Shamsher gave collective resignation stating that the Koirala led government was corrupt (Dhakal, B.S. 2060). After this, the Prime Minister also resigned on August 14, 1952. From August 14, 1952, to June 15, 1953, King Tribhuvan directly ruled the country. Again, from June 15, 1953, to April 11, 1955, Matrika Prashad Koirala became the Prime Minister of Nepal. Meanwhile the corruption control act was promulgated for the first time in Nepal in 1953. The difference between public role and private interest was defined in this act (Subedi & Karki, B.S. 2065).

Nevertheless, the extent of corrupt activities did not decrease. There was a great scarcity of food during the tenure of Prime Minister Tanka Prashad Acharya. A heavy rain had destroyed many food crops in 1954. A contract was called for importing the food crops from India and other countries. The fact that there had been extensive corruption in that contract came into publicity (Mathema, B.S. 2073). In the year 1955, two ministers Balchandra Sharma and Pashupati Ghosh resigned from their posts alleging that the government of Tanka Prasad Acharya could not control corruption. Due to this, King Mahendra dissolved the cabinet of Tanka Prashad Acharya on January 27, 1953 (Dhakal, B.S. 2060).

After this, Dr. K I Singh was appointed as the Prime Minister of Nepal. He had been in power for only 120 days. He resigned shortly after his appointment due to uncontrolled corruption in the country. For investigating corruption activities, he had formed Hisab Jaanch Aayog (Account Check Commission) on September 2, 1957, primarily for punishing the rulers who governed the country after the end of Rana regime. He had said that 120 to 150 million Rupees had been misused from the national treasury and he would return this to the national treasury even if he had to sacrifice his life (Pangeni, B.S. 2065). However, he did not get success in his motive. He resigned from his post on May 15, 1958, and after resigning, he said: "I followed the root of corruption during my governance for uprooting it and I reached the main gate of the royal palace. The same day, my cabinet got dismissed" (Singh, B.S. 2051).

The General election was held in 1958. Nepali congress got two third majorities and formed the government with B.P. Koirala being the Prime Minister on May 27, 1959. The vegetable oil scandal came into publicity within the 100 days of formation of this government (Regmi, B.S. 2074). On August 14, 1959, the government decided to lift prohibition for the import of vegetable oil from India, which persisted from the Rana regime. It was accused that the decision was made under the financial influence from businesspersons (Devkota, B.S. 2058). In the name of controlling corruption, King Mahendra dissolved the Koirala government on December 26, 1960, and Panchayat system was established.

The policy level corruption and irregularities have left negative impacts on the development of Nepal. During the Panchayat regime, members of the palace used to

demand free share in every big company. Omega Watch from Switzerland wanted to establish a factory in Nepal, and it was in the final stage of its deal in the year 1981. Prince Gyanendra asked for 50 percent share in that factory (Subedi, B.S. 2069). Similarly, during the panchayat regime, only three duty free shops were established in Nepal: two by the chief secretary of the palace Hansman Singh and one by Sher Bahadur Malla, the ADC General of the King. Subedi (B.S.2069) argued that the nation was in the state of loss of around 80 million rupees because of such arrangements in favor of the high-level officials of Royal Palace. These cases of corruption occurred with the support of the King's power.

During the panchayat system in 1979, the peoples' referendum was announced. The panchayat supporters had spent a huge amount in that referendum. The ones in power misused the national treasury for the victory of the panchayat regime. They are involved in deforestation and export of wood. Similarly, the rulers and businesspersons made alliance to distribute license for importing the goods from abroad, which led to a huge loss to the state (ReMAC, B.S. 2063).

After the announcement of the people's referendum, activities like corruption, financial irregularities, revenue embezzlement and smuggling got to their summit. The palace as well had spent a huge amount for the victory of panchayat (Dhakal, B.S. 2060). Similarly, contemporary Prime Minister Surya Bahadur Thapa had taken 35 million Rupees from a smuggler Chothmal Jatia. According to Dhakal (B.S. 2060), Jatia had put forward three conditions for providing the amount and the Prime Minister Thapa who helped panchayat to win had fulfilled all three demands.

#### **Contribution from smugglers for victory of Panchayat System**

One day, Prime Minister Surya Bahadur Thapa asked me what amount would be needed until the people's referendum. In my opinion, 35 million Rupees would be adequate for panchayat system to win. I answered the same to the Prime Minister. We were agreed to ask for contribution from the businesspersons...I went to Prem Chandra Agrawal ... at 10 am the next day, I went to Agrawal's house. He was talking to a person who was introduced to me by Punam. He came to be a renowned businessperson Chothmal Jatia. He had a big business. He was named as illegal

businessman. I did not have any concern about legal or illegal. We only needed money to win the election. He said, it is a shame that you need only 35 million Rupees, I can give you it now, but I have some conditions. The three conditions are: i) I need to get citizenship soon, ii) I need to get to establish a big cotton mill in Kathmandu, iii) I have snakeskin, I need help to smuggle to abroad. When I heard of the demands of Chothmal Jatia, I told him that he would get an answer within the evening that day. I asked him to come to Baluwatar gate at 8 pm. He told me that he would provide as much amount as and when needed to us for the victory of Panchayat. I was happy to hear him and left for Singhadurbar. The Prime Minister was waiting for me to be there. He was happy to hear everything. “Mr. Nawaraj, you did a great job today, thank you.” In the evening, we met Jatiya to talk. He told us not to hurry but fulfill his demand after the people’s referendum. We were happy to hear that and agreed to his demand. I used to go to Jatiya time and again to bring money. We had already taken 35 million Rupees from Jatiya. Cadres were prepared to be sent to the district. Surya Bahadur told me to go immediately to Jatiya’s house and ask for 10 million or at least 5 million Rupees so that we could give money to cadres who were prepared to be sent to the districts. I went to Jatiya’s house with a military officer from the Prime Minister’s residence in Baluwatar. Jatiya was still sleeping. I woke him up and told him everything. After hearing me, he did not speak a word and gave me 6 million Rupees, all he had with him. He placed the amount on my hands and said, ‘Please take the amount and may panchayat wins’ (Based on Subedi, B.S. 2069: pp 42-44).

While a huge amount of money was spent for victory of Panchayat, it got majority. With the panchayat getting the majority, the level of corruption level and limitation increased. The corruption got institutionalized with the support of the royal palace. Nawaraj Subedi (B.S. 2069) a supporter of panchayat system writes:

After the people’s referendum, the king’s relatives and officials of the palace were involved in earning money by any means. They had given pressure for appointment of their relatives to those posts comfortable for corruption. The ministers appointed after that started earning huge property illegally. The members of parliament were allowed to import gold from Bangkok. When

there was opposition from the government in the parliament, the members needed to be in favor and started to encourage the members of parliament to smuggle gold (pp.55-56).

Nawaraj Subedi (B.S. 2069), who was the chairperson of National Panchayat says that when the Constitution was amended to allow direct election to the Panchayat system, corruption got increased. He Writes.

Before the people's referendum, an indirect election process existed. After the amendment of the Constitution, the provisions for direct voting were made. Collecting money for cadres and for publicity became difficult ... those who lost election were bankrupted, while who won went on involving in the corrupt activities to reimburse the expenditure. The Ministers went towards earning money. The members went towards importing gold. The politicians drowned in the smear of corruption (pp. 50-56).

There had been other corruption scandals during the panchayat system. Honorable members were to bring gold from Bangkok. While there was disagreement from the house, members of parliament were to support. The members also wanted wealth and property. So, ministers encouraged the members to be porters to bring gold (Subedi, B.S. 2069). The corruption scandal of Forest Minister Hem Bahadur Malla came into publicity in 1987. He had ordered that as much wood as wished could be sold followed by thousands of cubic feet of wood being sold. Later, he was investigated by the CIAA. CIAA determined corruption of 32 million 300 thousand 6 hundred and twenty-three rupees (ReMAC Nepal, B.S.2063).

### **Nepal Airlines Corporation Scandals**

Nepal Airlines Corporation (NAC) is a corporation with full ownership of the Nepal government. It is one of the institutions with many corruption scandals. NAC was founded in 1958. The airline operates domestic services within Nepal and international services in Asia. Right after the establishment, there were various scandals of corruption and financial irregularities. The corruption during the purchase of Boeing during panchayat regime in 1973 came into publicity in 1979. It was the first Boeing purchased by Nepal. The members of the executive committee and advisors had taken a commission of 120 thousand USD in total, a part of which was also shared to the palace. The second Boeing 757-200 was



purchased in 1988. In this purchase, there had been corruption of 61.4 million Rupees (Koirala, B.S. 2056).

After the establishment of democracy in 1990 also, the corruption and irregularities did not get reduced. During a decade from 1992 to 2001, there have been scandals like Dhamija, Lauda, China Southwest, and Chase Air. The first scandal of the corporation after the establishment of democracy was the Dhamija scandal. The direction of the contemporary Prime Minister Girija Prasad Koirala to appoint an agent for selling tickets in the Europe region became a scandal. When Dinesh Dhamija was appointed as the agent without analyzing capacity and professional trust, this turned into a scandal. The Public Accounts Committee (PAC) of the parliament and CIAA had conducted the investigation against Dhamija scandal (ReMAC Nepal, B.S. 2063).

In 1998, although the amount was paid to rent an airplane which never came to Nepal. This event is known as the Chase Air scandal. The corporation lost 53 million and 490 thousand rupees in this scandal. The policy level decision of taking the plane in rent through tender was violated and the amount was sent. There had not been any talk but mere fax exchange (ReMAC Nepal, B.S. 2063). Later in 2000, the Lauda scandal took place due to which the contemporary Prime Minister Girija Prasad Koirala resigned from his post. After this, this scandal also remained secret. The opponents stood against him claiming that the Prime Minister had committed the corruption by making a decision from the cabinet (Parajuli, B.S. 2077). The CIAA had accused contemporary Minister of Tourism, Taruni Dutta Chataut and other officials of the corporation for committing corruption of 389 million and 700 thousand rupees. Koirala was just warned for this, and no further action was taken against him. The year when the Lauda scandal occurred, the corporation had borne a loss of 18 billion Rupees to the country (Thapa, 2002).

During the Lauda scandal another scandal of China Southwest Plane came in light. The PAC mentioned that there had been irregularities in renting the plane during the tenure of the contemporary Minister for Tourism Bhim Rawal. The decision to rent was made in 1998 and later in 2001 it came into publicity as a scandal. The PAC had concluded that there had been irregularities and KP Sharma Oli, contemporary member of the committee had approved it (Thapa, B.S. 2069).

CIAA had concluded that there had been irregularities in renting the plane. However, due to political pressure, this case was dismissed and has never been investigated further (Thapa, 2002). The corporation had bought planes at rent for 18 times from 1993 to 2001. The corporation spent 86 million US\$ for renting the planes. The corporation was in loss of 1 billion 638 million 700 thousand rupees in 2006 (RNAC, B.S. 2063). The NAC had a debt of 219 million rupees in 1992. After a decade, the corporation had a debt of 1090 million rupees in 2001 (Thapa, 2002). The situation was not improved even during the republic system. The study of Parliamentary committee showed that there had been corruption of 5.95 million US\$ in purchase of narrow body on February 10, 2013. CIAA had given direction for investigating all those involved in purchase of narrow body (PAC, B.S. 2076a). Similarly, the facts on corruption in the purchase of wide body by the NAC from 2017 to 2019 came into publicity. There is a provision in the regulations of the corporation that there should be competition among the new companies only. However, according to a report of the office of the Auditor general, the purchasing process was against the rule (OAG, B.S. 2074).

An investigation sub-committee was formed by the PAC for investigation about the scandal. According to the report of that sub-committee, the contemporary ministers Jivan Bahadur Shahi, Jitendra Dev and Rabindra Adhikari were involved in corruption. According to the report, the total corruption amount was 38.8 million US dollars. The committee had recommended to the CIAA for carrying out further investigation and punishing the culprit on this purchase (PAC, B.S. 2076b). However, the CIAA did not carry out any further investigation (Parajuli, B.S. 2077).

The façade of political regime changed from autocratic to democratic in 1951. The clear demarcation was drawn between the private and public property after the establishment of democracy. Few policies and legal provisions were made for utilizing public property and resources for nation's development. The Corruption Control Act was promulgated. However, it did not show any differences. The political regime changed; however, no change was noticed in the corruption control mechanism. The trend of exploiting the national treasury as in the Rana regime did not change. The exploitation over the national treasury was continued by the royal palace, political leadership, and bureaucrats. This trend aggravated during the

Panchayat regime as well. The agents were changed but the agenda of exploitation could not change. The activities like exploitation of public enterprises, keeping illegal relation with the businessmen continued during the Panchayat regime to retain the state power. The political regime changed but the financial irregularities and exploitation over the national treasury continued. As a result, public assets could not be invested in the development of the country. Due to financial irregularities, there was a lack of investment in the social and physical development and construction sector which led to the development of underdevelopment in the country.

During the people's referendum in 1979, there had been extensive loot over the national treasury. Until after a year of announcement of people's referendum, the rulers misused the national property for publicity, mobilizing cadres and organizing parties (ReMAC Nepal, B.S. 2063).

For the five years of their tenure, the ones who won the election after spending a huge amount were always trying to earn money for reimbursing their election expenses. To avoid impeachment, the ministers and prime ministers after 1980 exploited the national treasury. They allowed smuggling, offered contracts of public enterprises illegally, and provided the opportunity for abroad visit. In 1987, the cabinet of Marich Man Singh had allowed the members of National Panchayat to import cars with custom duty exempt. The cars imported in this way were sold by the panchayat members (Acharya, B.S. 2044).

The exploitation of the national treasury had reached its peak during the Panchayat regime. Due to the pressure from the contemporary Prime Minister Surya Bahadur Thapa for exploiting the state property, secretary of the Ministry of Finance, Dr, Devendraraj Pandey had resigned from his post (Parajuli, B.S. 2077).

The exploitation of national treasury during the Rana regime was excessive. This trend continued during the Monarchical regime. The actors were changed but the tendency to exploit state property remained the same. The Panchayat rulers and the royal palace were involved in exploitation of national treasury during that time. The ruler was involved in the misuse of national treasury for holding the state political power. Due to the lack of leadership with desire of developing the country by utilizing the national treasury, the development process was always disturbed.

### **Revenue Leakage and Tax Evasion in Monarchical Regime**

During the Panchayat regime as well, there had been excessive revenue leakage and tax evasion. The carpet scandal of 1974 was one of the examples. During the import of carpet, the contemporary government had provided huge custom-free to the businesspersons (ReMAC Nepal, B.S. 2063). A total of 91 people including the contemporary Prime Minister Tulsi Giri, four ministers and other officials along with the businesspersons were accused in that scandal. The CIAA had investigated them and convicted them of corruption in 1976 (Subedi, B.S. 2069). Some businesspersons were freed taking some penalties from them while the politicians along with Dr. Giri were given clean chit in 1980 (ReMAC Nepal, B.S. 2063). Similarly, the contemporary director general of the Department of Commerce, Raman Upadhyaya writes; “there have been numerous cases of revenue leakage and carpet scandal is representative of all those scandals” (Upadhyaya, B.S. 2062). The contemporary Minister for the Ministry of Commerce Subedi (B.S. 2069) writes.

One day, the contemporary Finance Secretary Dr. Bhesh Bahadur Thapa told me that there had been revenue leakage, we could not stop, please help. Three people were given the right to sell duty-free goods at that time. Two of them were relatives of Chief Secretary of the King, Kaji Hansa Man Singh and another was relatives of ADC of King, General Sher Bahadur Malla. Nobody could raise voice against them. There had been revenue leakage of about 80 million rupees annually (pp.27-28).

### **Misuse of Foreign Assistance and Loan in Monarchical Regime**

After the political transformation of 1951, assistance from the USA was used to establish village development training centers. Similarly, other sectors of investment included agriculture, health, mining, education, and malaria eradication (Mahat, 2006). The Indian aid started in Nepal from 1953 when Nepal received grant from India for the construction of Kathmandu to Raxaul Highway and Gauchar Airport. In 1954, Indian Grant Office was established for accommodating the Indian support to Nepal. Indian Government had announced to provide a grant of 1.2 million USD to Nepal for investing in irrigation and water supply sector on September 8, 1954 (Mihaly, 2002).

Nepal was receiving grant from foreign organizations during 1950s including UN, Ford Foundation, China, Russia, Switzerland and other countries and donor organizations. Switzerland had provided support for dairy development among others in 1955. China had provided 12.6 million Rupees for the first time. India had provided 21 million Rupees to implement the first project. Similarly, Russia had provided Nepal with technical help and equipment to establish a 50-bed hospital along with one hundred thousand USD (Mihaly, 2002). Meanwhile the grants from abroad went on increasing. Along with this, the misuse of foreign aid also increased in Nepal (Thapa, B.S. 2061, Subedi, B.S. 2064). Cow scandal in 1979 can be taken as an example of misuse of foreign assistance in Nepal. The contemporary Minister for Agriculture distributed cows provided from Switzerland to the officials of palace and kept by himself as well. The aid from Swiss Government was distributed unethically; the Swiss Government had expressed disappointment towards Nepal Government (Subedi, B.S. 2069).

Due to the lack of institution, which updates the information on foreign aid and coordinating among the various institutions, there is opportunity for misuse of the foreign aid in Nepal. In addition, when there is lack of transparency, the aid is mobilized on the will of politicians and there is more chance of corruption (The New ERA, 1997). OAG has been providing suggestion to the Government of Nepal for right management of foreign aid in its annual reports. According to Thapa (B.S.2061), the GoN has shown lack of accountability and transparency in an extreme extent in keeping records of foreign assistance.

The USA had provided \$100 million from 1952 to 1967 which included only 5 million in loans and the rest of the amount was assistance. The trend of receiving foreign aid started in the Panchayat regime in the name of bringing upsurge of development in the country. Right within the 4 months of start of the Panchayat System in 1960, Nepal had made a loan agreement of \$1.4 million (Devkota, B.S. 2040). Nepal had received loan from the ADB in 1968 and the World Bank in 1969. After this, countries which were providing grants to Nepal started investing loan. This led to the increasing two parties and multiparty loan graph (Thapa, B.S. 2061).

The foreign loan and grant were used for poverty alleviation during the 15 years' time in Panchayat regime from 1970 to 1985. During this, \$552.8 million was received as loan in Nepal. However, because the foreign aid could not be utilized properly, poverty got aggravated rather than decreasing. There were 33 percent of people under the poverty line in 1976/77. The number increased to 42 percent in 1995/96 (UNDP, 2001). A big share of the foreign aid at that time was used by the Panchayat rulers for their personal benefits (Bhattarai, B.S. 2048). One of the slogans during the people's movement in 1990 was to free the Nepalese people from foreign loans (Thapa, B.S. 2061). The system which had increased loan liability to Nepalese people got changed but the debt could not decrease (Table 5.13).

**Table 5.13**

*Increasing Foreign Loan*

<b>S.N.</b>	<b>Fiscal year</b>	<b>Loan amount (in million)</b>
1	2029/30	92*
2	2044/45	20826*
3	2047/48	59503*
4	2050/51	101966*
5	2057/58	290691*
6	2060/61	245211*
7	2073/74	697000**
8	2074/75	917000**
9	2075/76	1019000**
10	2076/77	1419000**
11	2077/78	1729000**

*\*International loan only \*\*International and internal both*

*Source: PDMO (B.S. 2078)*

The Public Debt Management Office has accepted that the foreign loan has not been utilized properly in Nepal. The reasons include the lack of objective goals, the trend of doing majority of expenditure during the last trimester of the fiscal year, laxity and weak loan utilization mechanism, weak coordination among the executing levels of the government (Public Debt Management Office, B.S. 2078). If there is a management gap, the foreign loan could bring failure state (Sharma, 1998).

The trend for taking foreign loans has increased in the latest time. However, the loan has not been utilized properly (Thapa, B.S. 2061). So that, the loan has not been able to bring positive change in the country. While loan is taken in the name of development project, but the loan cannot be utilized, the country has been drowning into loan trap (Panday, 1999).

### **Irregularities in integrated rural development project**

During the Panchayat Regime from 1975, altogether integrated rural development projects were conducted in 11 places around the country. The investment in all these projects proved to be in vain (Table 5.14).

**Table 5.14**

*Expenditure in Integrated Rural Development Project and Result*

<b>S.N</b>	<b>Name of the Project</b>	<b>Districts</b>	<b>Project commencement date</b>	<b>Donor</b>	<b>Total Budget</b>	<b>Result</b>
1	Sagarmatha integrated Development Project	Siraha, Saptari and Udayapur	1979/80	ADB, IMF	500 million	Land Cruiser was purchased in place of ambulance. The water supply tank was not constructed until 6 years.
2	Rapti Integrated Project	Dang, Pyuthan, Rukum, Rolpa and Salyan	1980	USA and GoN	458.161 million	Few buildings were constructed in Dang, some equipment and vehicles were purchased.
3	Mahakali Integrated Development Project	Darchula, Baitadi, Dadeldhura	1979	WB-loan, UND P-Grant	160 million	Some buildings were constructed, vehicles were purchased
4	Seti Zone Rural Integrated Project	Doti, Bajhang, Bajura, Achham and Kailali	1985	ADB And GoN	19.683 million SDR and 80 million from Government of	Few seeds were purchased, and some buildings were constructed.

				Nepal			
5	Karnali Bheri Integrated Rural Development Project	Jajarkot, Kalikot, Surkhet, Jumla	1984	Canada	245.8 million	Some centers constructed, seeds were distributed.	service centers were distributed.
6	Mechi Hill Irrigation and Development Program	Panchthar, Taplejung, Illam	1986	The Netherlands	37.4 million	Few small irrigation systems were constructed.	

Source: Thapa (B.S.2060, pp.113-118)

In this way, almost 5 billion rupees was spent in the name of integrated project using the foreign loan and internal budget (Subedi, B.S. 2064). At that time, several modern vehicles were imported in Nepal. Service centers and employee quarters were built in the districts. However, the buildings were of low quality. No goals were met according to the goals set (Thapa, B.S. 2061).

#### **Foreign Debt: Fatuous Attempt**

After the political transformation of 1990, the Upper Sagarmatha Agricultural Development Project was started in the eastern hilly region including Okhaldhunga, Khotang and Solukhumbu Districts. The project started in 1991 with a \$13.26 million loan from ADB and \$ 1.1 million from GoN. The completion goal was set for the fiscal year 1998/99. However, the mid-term extension was done in 2002 when the project could not be completed. The project had the goal of eradicating poverty for 10 thousand households, agricultural production growth of \$4.2 million among others. Similarly, the goal included the construction of 2 hundred and 5 km of trail track. But there was pressure from the farmers to construct metal roads for the transport of the agricultural productions. However, until the 5 years of the start of the project, no work commenced (OAG, B.S. 2056). After this, only the alignment for the road was set in coordination with the farmers. In contrast to the agreement, a consultant was hired for survey, design, and construction with an agreement of 24.174 million rupees. The chief was changed 4 times after commencement of the project.

The project chief stayed in the project office for only 55 days in a year and the



rest of the time was spent in Kathmandu. This was one of the reasons why the project could not take a good pace (OAG, B.S. 2054). In 2000, 12 service centers, 3 office buildings, 14 employee quarters and 3 warehouses were constructed. Similarly, 55 suspension bridges were constructed. No service was delivered to the farmers from the project according to the goal set. The loan was spent for mere construction of buildings (OAG, B.S. 2057). More than a billion rupees loan was spent with the investment of 100 million rupees in 55 bridges.

The increasing misuse of foreign aid and assistance that is obtained for development of the country has hindered the creation of the environment of investment for foreign agencies. Also benefit from the existing foreign investments cannot be obtained. As the large amount of money that was brought into Nepal through foreign aid and loans for development was misused, it did not have a positive impact on development.

#### **Corruption in Project Variation**

There is an extensive variation in the projects with big budgets conducted with the foreign loan. The estimated amount is increased largely with variation in various big budget projects (Table 5.15).

**Table 5.15**

*Contract Amount and Variation Rates (in thousand)*

S.N.	Name of the Project	Contract Amount	Amount after variation	Percentage
1	Illam-Phidim section	110007	138335	25.75
2	Illam Fidim section	90685	131436	44.93
3	Chauharwa Siraha section	52606	70683	34.36
4	Gokarna Sankhu section	34190	51872	51.72
5	Bakraha Bridge	48759	85458	59.69

*Source: OAG (B.S.2058, p.385)*

There has been extensive corruption in the variation carried out in this way. The CIAA had investigated and concluded the corruption in the variation order of

*Bakraha* river training works. The contemporary Water Resources Minister Khum Bahadur Khadka was accused of corruption of 45.96 million rupees in the variation order of *Bakraha* River by the CIAA (Thapa, B.S. 2061).

Foreign aid has been proved as the medium of laxity and burden to the coming generation. The situation has aggravated in the democratic and republican regimes. The performance of 60 percent of the projects conducted with foreign aid is not satisfactory. Similarly, about 50 percent of the projects are found to have been unsuccessful (CIAA, B.S.2060).

Hagen (B.S.2048) had studied 2 hundred 30 development projects conducted with foreign aid. According to his report, 84 cents out of a dollar is wasted in the projects conducted with the foreign aid. If the history of development through foreign aid of Nepal is analyzed in a micro level, the situation is similar. A big amount supported by British India during the First and the Second World War was misused heavily by the Rana rulers. The situation has not improved in the democratic era as well. The trend of taking foreign aid for general expenditure is increasing rather than for capital investment. The implementation status of the projects conducted with foreign aid as well as loan support is weak in Nepal. Governance, policy environment, rates of corruption, and conflicts are the few conditions which directly affect foreign aid (Collier & Dollar, 2001).

There is lack of well managed and effective mechanism for completing the development projects on time in Nepal. The exploitation of resources in the name of project variation by the alliance among the government officials, oversight agencies, or contractors has been increasing. This trend has on one side, misused the public resources and on the other side, the malpractice of lingering the project unnecessarily in the name of variation has been increasing. This has directly affected the development process.

#### **d) Corruption in Democratic Regime**

A number of corruption scandals increased after the restoration of democracy in 1990. The contemporary Prime Minister Sher Bahadur Deuba started buying and selling of members of parliament in 1996. The ministers were bought while receiving the vote of confidence in the parliament on December 24, 1996. The CPN (UML) had lodged no-confidence motion against the Deuba government. The contemporary

members of parliament had given vote by receiving 2.5 million rupees each. Along with receiving money, some of them had even bargained for minister post. There had been open sale inside the parliament (Sharma, B.S. 2056). Thapa (B.S. 2069) writes about the situation of 1996 as:

The code word 17 kilo (17 kg) used to be popular around the parliament after registry of vote of confidence. During that time, the cost of 17 kg gold was 10 million rupees. The cost of the members of parliament reached up to 10 million rupees. There used to be bargaining among them. They would want more money showing a larger group. Not only the members of parliament provided with money but also, they must be kept in a hotel with security and were to be provided with all basic needs (p.287).

The political corruption had reached its summit during that time. The contemporary Prime Minister Sher Bahadur Deuba fulfilled all illegal demands of the members of parliament. According to the then Deuba's advisor Shambhu Prasad Dhamala, around 5 billion rupees was spent during that time (Dhakal, B.S. 2060).

A general assembly was organized by the then CPN (UML) in Kathmandu on April 8, 2000. The general assembly had announced the then general secretary of CPN (ML) party, Bam Dev Gautama as corrupt. According to a leader of the then CPN (UML) party Pradeep Nepal, Bam Dev Gautam had imported 1 thousand 6 hundred 38 KGs of gold costing 1.16 billion rupees from airport illegally when he was Deputy Prime Minister and Home Minister of Nepal (Thapa, B.S. 2069). However, the CIAA did not do any investigation against Gautam, and no case was filed. One of the key players of politics, former Prime Minister Girija Prasad Koirala had accepted that there had been excessive corruption during that time (Koirala, B.S. 2067).

People raised their voice to investigate the property of those who were in power and had earned immeasurable property through corruption from 1997. Meanwhile on March 4, 2002, the contemporary government of Sher Bahadur Deuba decided to investigate the property of those who were in public authorities from 1990. This decision escaped those who earned immeasurable property through corruption during the panchayat and other regimes before the panchayat regime (Thapa, 2002). The Property Investigation Commission was established in chairmanship of the judge of the Supreme Court Bhairav Lamsal. The commission had submitted a report to

King on March 18, 2003. At that time, the commission investigated the property of 41,941 people. Based on this report, the CIAA started a further investigation on May 16, 2003. On the first phase, 23 former ministers from NC, 4 from the CPN (UML), 3 from Rastriya Prajatantra Party (RPP) were investigated for their property (Thapa, B.S. 2069).

Former Minister Chiranjabi Wagle is the first example of a leader carrying a case of earning disproportionate property to be heard in court. The CIAA arrested him and started investigation on November 20, 2002. The Special Court convicted him of earning disproportionate property equal to an amount of 27.258 million rupees through corruption. Wagle repealed the case in the Supreme Court later. The Supreme Court decided in favor of the Special Court and Wagle was convicted as corrupt (Thapa, B.S. 2074). Similarly, former minister Rabindranath Sharma was accused of two cases: earning a property of 49.554 million rupees without source and corruption of 10.9 million rupees while he was the Minister of Finance. CIAA had asked for 18 years of jail and 60 million rupees claimed amount (ReMAC Nepal, B.S. 2063). Sharma died on November 22, 2008, while his case was sub judice in the Special Court. The Special Court convicted him as corrupt on October 3, 2012 (Thapa, B.S. 2074).

Similarly, on April 28, 2003, CIAA had filed a case against the former minister Khum Bahadur Khadka accusing him of having 23.7 million rupees of passive income. Likewise, he was also accused of providing a contract of river training works equal to 45 million rupees without bidding (Thapa, B.S. 2074). In the same way, the CIAA had filed a case on January 12, 2004, in the Special Court against former minister Govinda Raj Joshi accusing him of earning unconvincing amount of 39.4 million rupees. The Special Court convicted him of corruption of the amount on July 25, 2012. According to the decision of the court, the source could not be traced for 21.6 million rupees (Thapa, B.S. 2074).

The CIAA filed a case against former minister JP Gupta accusing him of having immovable property equal to 20.8 million rupees with no source. On February 21, 2012, the Supreme Court convicted him of earning 8.5 million rupees illegally (Thapa, B.S. 2074). From 1990 to May 22, 2002, when the parliament was dissolved, various scandals of corruption came into publicity one after the other. Assuming this as a reason, coup occurred in Nepal on October 4, 2002, when King Gyanendra took

the state power in his hands. However, the King took no considerable steps towards controlling corruption. Even under the direct rule of the king, various scandals of corruption came into publicity.

The events of financial irregularities, corruption and political instability increased during the democratic regime. To make the most out of the political transition, the political leaders and bureaucrats were involved in corrupt activities. Few political leaders and bureaucrats were also taken action against these activities. However, the activities of corruption did not get decreased. While the political leadership got involved in corruption and financial irregularities the activities for economic growth and development remained in shadow. As a result, the country could not develop. With the downfall of the autocratic Panchayat regime, democracy was established in Nepal but democratization in governance system could not be seen. While only the political regimes got changed and the governance system remained the same, the expectations of people for the development of the country could not be fulfilled.

The time from 1996 to 1999 in the history of Nepali parliamentary system is taken to be the most impaired one. As done during the panchayat regime, the contemporary government of Sher Bahadur Deuba exempted the custom duty for the members of parliament in purchasing cars in 1996. Rather than practicing the parliamentary jobs, the members were involved the activities like purchasing cars for profit. 236 members of parliament from a poor country were using the custom free lavish cars. The majority of the members of parliament purchasing the cars sold them to the businesspersons and earned 500 thousand to 1 million rupees each. With excessive backlash, the facility was terminated in May 1998 (Thapa, 2002).

At the same time, a dozen of the members of parliament were involved in smuggling the diplomatic passports and selling them. At that time, two leaders from the third power RPP became the Prime Minister of Nepal, and all 19 members of parliament became ministers from RPP. During the tenure of this government, five leaders became Prime Minister, and 130 members of parliament became ministers. For durability of the government, cabinet with up to 48 ministers was formed and up to 4 departmental ministers were made. The leaders took benefit of the transient political situation and looted the national treasury (ReMAC Nepal, B.S. 2063).

In 1997, before the day of the election on motion of no confidence against the contemporary Prime Minister Sher Bahadur Deuba, five ministers took out money from the national treasury to go to Bangkok. The government suspected the ministers to vote for motion of no confidence and sent them to Bangkok providing 2 thousand US\$ each as the treatment expense. There had been a complaint to the CIAA against Bangkok expenses. The commission convicted the ministers as being involved in corruption but never filed a case against them (Parajuli, B.S. 2077).

During the democratic regime, both the rate and periphery of exploitation over the national treasury increased. The activities such as tax exemption, purchase of luxury items like car with custom exemption, foreign visits with public resources got continued with the desire of the rulers. This has had a negative impact on the development of the country.

### **Revenue Leakage and Tax Evasion in Democratic Regime**

The revenue leakage and tax evasion that flourished during the Panchayat regime increased more during democratic and republican regimes. Sher Bahadur Deuba had provided duty free in purchasing cars and foreign currency exchange facility to the members of the parliament for sustaining his government. With that decision, the members of parliament got cars at half price. They misused the facility received and traded those cars to get profit. Total 479 individuals-236 MPs from the 265 member lower and upper houses of parliament, 54 special class officials, and 101 officials from the judicial services, 14 officers of the Royal Nepalese Army (RNA) and 74 from the other service categories imported duty-free vehicles during that time. The State Affairs Committee of Parliament investigated the government decision and concluded that it had caused the nation a loss of Rs. 500 million in revenue and that those that had imported the vehicles for personal use were still using official vehicles for personal conveyance. This provision got dismissed on April 20, 1998 (Parajuli, B.S.2077, p. 195). The King continued this after he took over state power on February 1, 2005. After this, the King imported two luxurious cars costing 140 million rupees each for the palace without paying custom duty (ReMAC Nepal, B.S. 2063).

#### **e) Corruption in Royal Regime**

King Gyanendra pointed out corruption and misuse of the national treasury by the political leaders as his major pretext for the 'coup' in 2005. The next day of the

coup, the meeting of Gyanendra-led new cabinet made a 21-point decision. The first point said that within 15 days, a royal commission would be formed for investigation of the cases of corruption and misuse of national treasury (Ghimire, 2015). However, King Gyanendra himself exploited the national treasury to its extreme.

During the direct rule of the King Gyanendra, a financial support of more than 1 million rupees was provided to the contemporary vice-chairman of the cabinet, Dr. Tulsi Giri and Kirtinidhi Bist, the contemporary Minister for Finance Madhukar Shamsher JBR and other various officials (MoF, B.S. 2063). Mahat (2006) writes:

The political behavior did not change even after the Shah initiative. Most of the rewarded persons during the new regime were those who were involved in corruption, irregularities, and criminal activities. There had been crimes such as increasing the financial facility and increasing budget of the palace, unjustifiable distribution of monetary support for private and party benefits and looting the national treasury collected out of tax paid (p.368).

In the fiscal year 2002/03, there had been an increase in the budget of palace up to three times (Table 5.16). The cabinet approved a 4.2 million rupees budget to distribute to the party cadres in 2004 (Mahat, 2006).

**Table 5.16**

*Detail of the Amount Allocated in the Palace*

<b>S.N.</b>	<b>Fiscal Year</b>	<b>Amount (million rupees)</b>
1	1990/91	42.3
2	1991/92	48.6
3	1992/93	53.9
4	1993/94	58.2
5	1994/95	60.5
6	1995/96	64.2
7	1996/97	69.6
8	1997/98	73.4
9	1998/99	83.4

10	1999/00	87.8
11	2000/01	92.9
12	2001/02	116.2
13	2002/03	619
14	2003/04	570.5
15	2004/05	384.4
16	2005/06 (9 months)	751.1

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*Source: MoF (B.S. 2063)*

#### **f) Corruption in Republican Regime**

The then CPN (Maoists) who had involved in armed movement from February 13, 1996, entered the mainstream politics after people's movement in 2006. But within the very short time after entering mainstream politics, various scandals of corruption from the party came into publicity. The Comprehensive Peace Agreement (CPA) was signed between the Government of Nepal (GoN) and the CPN (Maoist) on November 21, 2006. On the same day GoN gave 70 million rupees to the CPN (Maoist) for their cantonment management. Similarly, the government provided 100 million rupees on 27 November 2006. A total of 491 million 67 thousand rupees have been handed over to the party till March 23, 2007. According to the financial rules, without the clearance of the earlier advance, another advance cannot be given. However, the CPN (Maoist) party never cleared the advance amount provided (Subedi, B.S. 2070).

The United Nations Mission in Nepal (UNMIN) approved a total number of 19,602 Maoist cadres. The GoN decided to provide each of them an amount of three thousand rupees monthly to each cadre from November 2006, and the amount was increased to five thousand rupees from October 2008 (Ghimire, 2015). On the return of UNMIN, the political parties gave pressure for re-approval and among the 19,602 approved cadres 2,432 were not found in the cantonment. The CPN (Maoists) leaders had received the monthly allowances until then on the name of the undeclared cadres. During this time, a complaint was made in the CIAA accusing the CPN (Maoist) party



of committing corruption of 4 billion rupees. However, the CIAA has not yet started any action against this complaint (Ghimire, 2015). Mohan Baidya group in CPN (Maoist) accused the chairman of the party, Pushpa Kamal Dahal for earning immeasurable money through signature forgery (Subedi, B.S. 2070). The leaders of CPN (Maoist) in the party accused him of earning a lot of money through proxy businessmen and investing (Thapa, B.S. 2069).

The scandals of bringing money from abroad for sell and purchase of the members of parliament continued until the republican regime as well. As an example, the election of the Prime Minister on Parliament was going on in August 2010. The Chairman of UCPN (Maoist) Puspa Kamal Dahal and NC leader Ram Chandra Paudel were the competitor. A telephone talk audio between the Maoist leader Krishna Bahadur Mahara and a Chinese businessman came into publicity on September 3, 2010. According to the audio Maoist leader Mahara asked for 500 million rupees for purchasing the members of parliament. Though Mahara and Maoists party could not deny having asked the amount (Phuyal, B.S. 2070). The member of parliament asked for an investigation on this case, but Maoist leader Dahal withdrew his candidacy and this case got dismissed itself (Parajuli, B.S. 2077).

During the procurement of military hardware for the country's UN peacekeepers stationed in Sudan, many senior police officials were accused of embezzling millions of dollars. Immediately after the publicity of this case, the State Affairs Committee of the parliament formed an investigating sub-committee on September 2, 2009. The committee member went to Sudan for investigation and submitted a report on April 23, 2010. According to the report there had been embezzlement of 3 billion rupees (Ghimire, 2015). The parliament submitted the report to CIAA for legal action. After that CIAA filed a case against 37 police officers at the special court on June 7, 2011. The Special Court made decision on February 13, 2012, that 1.14 billion rupees should be retrieved from 5 officers and contractors involved. The convicted appealed to the Supreme Courte but the Supreme Court gave its decision in favor of the Special Court on April 30, 2017 (Parajuli, B.S. 2077).

The report of the Transparency International (2021) showed that the corruption increased during the republican regime. According to the corruption barometer published by the Transparency International on November 24, 2020, Nepal

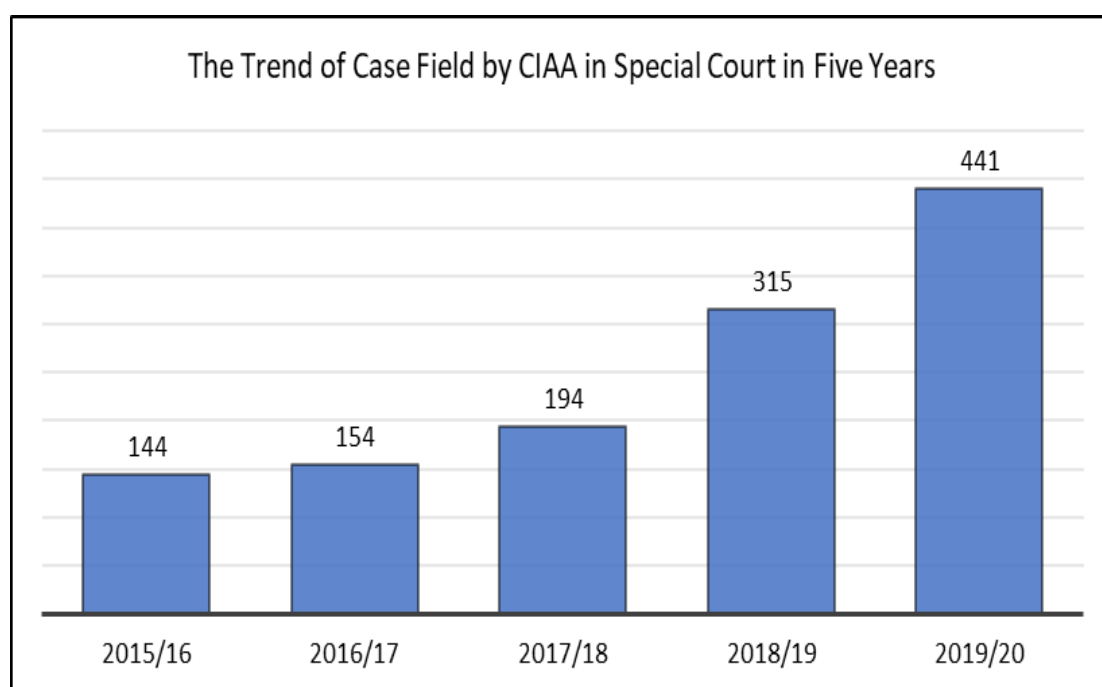
is the most corrupt country in Asia. The contemporary Prime Minister K P Sharma Oli has been accused of saving the corrupt persons (Parajuli, 2077).

The Nepali bureaucracy, politics, and the business sector are most seriously affected by, and inextricably involved in corruption. It is really a great challenge to development of modern Nepal (Upadhyaya, 2003). There is excessive corruption in the public service delivery and development works. Corrupt activities have adverse impacts on the development activities as well as economic growth of the country (Subedi, 2005).

Data shows that the number of cases on corruption filed in the court by CIAA by investigating the complaints have been increasing. CIAA had filed 144 cases of corruption in the Special Court in the fiscal year 2015/16 which increased to 441 in the fiscal year 2019/20 (Figure 5.2).

**Figure 5.2**

*The Trend of Case Filed by CIAA in Special Court in Last Five Years*



*Source: CIAA (B.S. 2077)*

The Special Court made decisions partially or fully in accordance with the demands of CIAA. According to the decisions, conviction rate has increased by more than 60 percent each year (**Table 5.17**).

**Table 5.17***Conviction Rate in Accordance with the Decision of the Special Court*

S.N.	Fiscal Year	Decision number	Conviction Rate	Percent
1	2011/12	59	52	88.14
2	2013/14	98	74	80
3	2015/16	279	167	60
4	2017/18	174	118	67.82
5	2019/20	197	167	84.8

*Source: CIAA (B.S. 2077)*

**Corruption of 70 million rupees by a third-class officer in 2.5 years period**

CIAA had filed a case against a third-class officer Rabin Chandra Dhakal convicting him to have embezzled 70 million rupees within a 2.5-year period after starting his job. The case was filed on August 6, 2018, in the Special Court when the account officer Dhakal was working in Katari Municipality, Udayapur district. With the investigation of CIAA, Dhakal was found to have transferred a huge amount of office budget to his wife's and mother in-laws' bank account. Dhakal was found to have transferred 40 million rupees to his private account within 1.5 months of his transfer from Mai Municipality in Illam to Katari Municipality. Dhakal was posted for the first time in Solukhumbu District Health Office who was transferred to Illam after working 11 months in the District Public Health Office. Within 14 months of his tenure, he had transferred almost 40 million rupees to his personal accounts. Dhakal was found to have transferred a total budget of 19 million 875 thousand rupees allocated to the Katari Municipality to his personal account on March 6, 2018. After that on April 9, 2018, Dhakal was found to have transferred the same amount to his personal bank. From the investigation of CIAA Dhakal was found to have done a signature forgery relating to an administrative officer to transfer the amount. The CIAA had suspended the bank account and land purchased and registered in his relatives' names. CIAA demanded with the Special Court for seizure of bank balances and lands registered in his and his relatives' names. (Based on Annual Report of CIAA, fiscal year 2018/19).

There are a huge number of complaints of other forms of corruption to CIAA. While looking at the data of complaints during a five-year period from the fiscal year 2015/16 to 2019/20, the complaints have been increasing from the fiscal year 2016/2017 (Table 5.18).

**Table 5.18**

*Complaints on Corruption in CIAA in the Last Five Years*

SS.N.	Fiscal Year	Number of Complain
1	2019/20	16594
2	2018/19	16997
3	2017/18	11769
4	2016/17	11407
5	2015/16	15136

*Source: CIAA (B.S.2077)*

In the last decade, 31 scandals of corruption involving more than a billion rupees each came into publicity. However, no investigation has been carried out in most of these cases (Table 5.19).

**Table 5.19**

*Corruption Scandals in the Last One Decade Involving more than a Billion Rupees Each*

S.N.	Case	Tentative Amount
1	NCell scandal	37 billion
2	Swiss Bank scandal	52 billion
3	Tax settlement commission scandal	21 billion
4	Nepal Telecom 4G procurement scandal	11 billion
5	Chaudhary Group getting tax exempt scandal	7 billion
6	Widebody plane procurement scandal	4.35 billion
7	Budhigandaki hydro project scandal	9 billion
8	Illegitimate property of Lokman Singh Karki scandal	5 billion
9	Bhrikutimandap land lease scandal	5 billion
10	Money distributed to the party cadres	5 billion
11	Corruption in Maoist cantonment scandal	4 billion

12	loot in manpower companies	4 billion
13	Madhya Pahadi Lokmarga scandal	3.2 billion
14	Land purchasing case in Nepal Oil Corporation	3 billion
15	Upper Tamakoshi illegal verification scandal	3 billion
17	Irregularities in land purchase and building construction in Nepal Red Cross Society	3 billion
18	Corruption in Chandragiri Cable Car agreement	2.8 billion
19	Corruption in Hulaki Highway	2.5 billion
20	Pappu Construction scandal	2.5 billion
21	Corruption and irregularities in Melamchi Drinking Water Project	3 billion
22	Corruption during Sugaratna Kansakar's tenure in NAC	1.8 billion
23	Illegitimate property of former Chief of Nepal Army Rajendra Chhetri	1.5 billion
24	Corruption in driving license printing press	1.5 billion
25	38 quintal gold smuggling	1.5 billion
26	Himalayan Airlines approval and tax-exempt scandal	1.4 billion
27	False VAT bill scandal	10 billion
28	Illegal fees in medical college	3 billion
29	Corruption in import of low-quality chemical fertilizers	1.53 billion
30	Lalita Niwas scandal	13 billion
31	Loss of Revenue in Department of Mines and Geology	1.24 billion
	Total	223.82 billion

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*Source: Content Analysis, (2021)*

The information provided in table 5.19 is based on the news published in the national dailies. The events of corruption that have been published by the mass media

but not been investigated and proceeded for action by the responsible government bodies in the last decade are covered in the table which add up to more than 223.82 billion rupees. Questions have been raised on whether there is involvement and/or direct participation of political party leaders in those scandals. A former commissioner of CIAA, says:

If we analyze the events of corruption in the last decade which came into publicity but were not taken any action upon, by the CIAA, we can say there is direct involvement of high administrative officials and political leaders in those events. CIAA, which has got constitutional responsibility on investigating such events of corruption is showing apathy towards any action to be taken to investigate and bring the culprits within the legal framework of punishment. Many a time, the CIAA lacks officials, or the officials appointed have connections with the political parties (Based on interview on August 8, 2021).

The people's movement in 2006 transformed the democratic regime into the republican. After this, the corruption and exploitation over the national treasury reached its peak. Every aspect of the nation such as the political leaders, bureaucrats, police, judiciary, legislative parliament are all involved in the corrupt activities. The number of complaints in the CIAA increased. However, no serious investigations were carried out into the big corruption cases. During that time, the high-level political leaders and government officials were out of the premises of investigation. The state has been captured as said by Kaufman (2001). Every aspect of state mechanism is involved in corruption in a systematical manner. They are involved in protecting the culprits as well. The trend of capturing all the bodies of government and controlling them has been increasing in Nepal. This begins with the appointment of officials in the state institutions such as the CIAA. Thus, there is no investigation against the political leaders and high-level officials. Only the low-level government employees are investigated for some corruption events. These kinds of financial irregularities and corrupt activities have been drowning the country into a vicious circle of corruption.

## Corruption Perception Index (CPI) and Nepal

Generally, the CPI is used for analyzing the state and physiognomies of corruption around the globe. Transparency International has been publishing the CPI since early 1990s but it started publishing the data related to Nepal only since 2004. Table 5.20 shows that the Nepal had scored very weak. It was measured on a scale of 10 from 2004 to 2011 and at 100 from 2012 to 2020. Transparency International denotes the country scoring less than 3 as the most corrupt state.

**Table 5.20**

*Corruption Perception Index Rank of Nepal*

<b>Year</b>	<b>Rank</b>	<b>Score</b>
2004	90	2.8
2005	117	2.5
2006	121	2.5
2007	131	2.5
2008	121	2.7
2009	143	2.3
2010	146	2.2
2011	154	2.2
2012	139	2.7
2013	116	3.1
2014	126	2.9
2015	130	2.7
2016	131	2.9
2017	122	3.1
2018	124	3.1
2019	113	3.4
2020	117	3.3

*Source: Transparency International (2021)*

According to the Transparency International's CPI from 2004 to 2020, Nepal is always at the bottom of the rank which indicated that the increased high-level of corruption in Nepal leads to lower investment drive and slippery economic growth. Corruption has greatly contributed to the underdevelopment. It has failed to facilitate

the development and success of democratic process due to the prevalent existence of high level's political corruption and grassroots levels bureaucratic corruption. Accountability is generally very weak, and corruption seems as one of the obstacles to good governance in Nepal.

The global corruption barometer of Transparency International is another global report that tries to shed light on magnitude of corruption in Nepal. Till the date, Nepal has been included in the global corruption barometer two times, in 2011 and 2013. According to the global corruption barometer, the politicians of Nepal are the most corrupt around the world. In this, more than 90 percent of people alleged that politicians of Nepal are most corrupt. After this, 85 percent was for public entities and officials, 80 percent for police and 79 percent for parliament. The other entities where people experience the events of corruption are revenue office, land revenue office, courts, and tax administration regulation offices (TI, 2013).

#### **Misuse the National Treasury in the Name of Suraki (Intelligence)**

The rulers have spent a huge amount of money in the name of *Suraki* (intelligence) in the history of Nepal (Table 5.21). Around 1949 when Nepali Congress's movement against the Rana regime was aggravating, the exploitation of the national treasury had also been increasing. The informers had taken various facilities such as quota, jungle license, job, and cash through inducement of arresting the congress men. Many *badahakims* (office heads) in the districts secretly imprinted the leaflets against the government and collected money from the King in the name of arresting the ones imprinting and distributing the leaflets (Pande, B.S. 2076b).

**Table 5.21**

*Suraki (Intelligence) Expenses (in million)*

<b>Official</b>	<b>FY 2001-02</b>	<b>FY 2002-03</b>	<b>2003-04</b>
Prime Minister	33.117	4.05	2.553
Home Minister	6.443	2.441	6.056
Home Secretary	3.445	2.441	4.243
Inspector General	2.081	1.897	2.675
Armed Police Inspector	2.62	2.5	2.43



General			
Chair of National Investigation Department.	2.592	8.348	6.038
Regional Administrators	0.828	1.412	0.744
Chief District Officers	2.491	0.45	0.582
Other Polices	0.466	0.33	0.18

*Source: OAG (B.S.2075), OAG (B.S.2076), OAG (B.S.2078)*

The expenses by the Home Minister and Home Secretary without any bill during the 15-month long Royal regime reached about 10 million rupees. During the direct rule of the King, the contemporary Home Minister Kamal Thapa spent about 0.5 million rupees per day. Similarly, he had spent 15 million rupees in the name of an informer during the so-called municipality election (MoF, B.S. 2063).

In the name of intelligence, the rulers exploited the national treasury excessively for the benefit of their supporters and cadres. They offered various quota, license and cash to their relatives, supporters, and cadres. During the direct rule of the King, there had been loot over the national treasury in the name of intelligence. This kind of misuse and exploitation of the national treasury has always led to a lack of investment for the development of the country. Due to the lack of sufficient resources for investment in the development and construction sector, it was not possible to invest in the productive sector. As a result, the country could not maintain a positive momentum in the process of development.

### **Financial Assistance and Medical Treatment Expenses**

In the history of Nepal, the rulers have also exploited a huge amount from national treasury for financial assistance and treatment purposes. King Gyanendra during his tenure had provided financial assistance of 20 million rupees to his aunt Helen Shah (Lekhak, B.S. 2063). Not only Helen, but also many high-level political leaders had also taken huge amounts in the name of financial assistance and health treatment expenses. This trend peaked in the republican regime as well (Table 5.22). According to the public health service act 2075, nobody can spend money from the national treasury for treatment in the abroad (Nepal Law Commission, B.S. 2075). Disregarding the law, K P Oli led government made the decision that treatment expense of the former Prime Minister Jhalanath Khanal in the Apollo Hospital in India would be borne by the government (Mishra, B.S. 2078).

**Table 5.22***The Medical Treatment Expenses Taken by High Level Politicians*

<b>S.N.</b>	<b>Name</b>	<b>Amount (million)</b>
1	Sushil Koirala	18.717
2	KP Sharma Oli	12.835
3	Ram Baran Yadhav	14
4	Jhalanath Khanal	8.141
5	Sujata Koirala	0.5
6	Narayan Kaji Shrestha	0.38
7	Gobinda Raj Joshi	2.78
8	Khum Bahadur Khadka	2
9	Tulsi Giri	2
10	Debendra Raj Kandel	1.584
11	Mahendra Raya Yadhav	1.5
12	Paramananda Jha	0.93
13	Lokendra B. Chanda	0.5

*Source: Content Analysis, (2021)*

During the republican regime, an amount of 3.89 billion rupees was spent as financial assistance and treatment expense (Table 5.23).

**Table 5.23***The Financial Assistance and Health Treatment Expense Provided from 2006 to 2017*

<b>S.N.</b>	<b>Name of Prime Minister</b>	<b>Tenure date</b>	<b>Amount (million)</b>
1.	Girija Prasad Koirala	25 April 2006 to 18 August 2008	80
2	Puspa Kamal Dahal	18 August 2008 to 25 May 2009	60
3	Madhav Kumar Nepal	25 May 2009 to 6 February 2011	180
4	Jhalanath Khanal	6 February 2011 to 29 August 2011	150
5	Baburam Bhattarai	29 August 2011 to 11 March 2013	200
6	Khilaraj Regmi	11 March 2013 to 11 February 2014	160
7	Sushil Koirala	11 February 2014 to 12 October 2015	170
8	KP Sharma Oli	12 October 2015 to 4 August 2016	250

*Source: Content Analysis (2021)*

The treasury has been exploited in two ways. First, the political leaders are using huge amounts for treatment abroad for themselves. Second, they have been providing money to the party leaders and cadres for health treatment against law. In this way, they have been misused the national resources.

### **Revenue Leakage and Tax Evasion in Republican Regime**

The first meeting of the CA held on May 28, 2008, announced Nepal as a republican country. The events of revenue leakage and tax evasion continued in the republican regime as well. The CPN (Maoist) party turned 94 cars and jeeps brought from India custom free into the private ones. According to the agreement made between the contemporary Peace and Reconstruction minister Ram Chandra Poudel and CPN (Maoist) leader Ram Bahadur Thapa on June 2007, the duty-free vehicles the CPN (Maoist) party had were registered formally in the transportation office without paying tax. There is a provision of paying up to 170 percent of the price as custom duty for importing the cars including custom based on the capacity and price, excise, and VAT. While the CPN (Maoist) legalized the cars and jeeps they had, the government had a loss of at least 40 million rupees (Pro Public, B.S. 2065).

The businessmen who looted the state had domination over the government during the tenure of the contemporary Finance Minister Bharat Mohan Adhikari in 2011. Adhikari was very close to the businessmen and traders. The decisions of the Finance Ministry were done businessmen's houses and the tax rate and limit were changed based on the wish of the businessmen. Meanwhile, Finance Secretary Rameshwor Khanal resigned from his post in 2011 because of the activities of the minister (Thapa, B.S. 2069).

The Internal Revenue Department had formed an investigation committee on December 23, 2010, to investigate false VAT bill use. According to the committee, 3.25 billion rupees of tax invasion was done. During the investigation, 5 hundred and 18 business firms were found to have used a false VAT bill. 70 million VAT, 3.33 billion income tax and 205 million of excise had been misappropriated. The tax of 6.49 billion was fixed by the Revenue Tribunal. The businessmen had filed a case against this taxation in the Supreme Court. But the Court made the decision in favor of the Revenue Tribunal on January 13, 2020 (Gyawali, B.S. 2076). Nepal's Department of Revenue Investigation has filed lawsuits claiming a total 24.74 billion rupees in tax evasion in the fiscal year 2020/021 (DRI, B.S. 2078).

The revenue leakage and tax evasion activities flourished during the Shah and Rana regimes did not stop after the establishment of democracy as well. Rather, it flourished more. The national treasury was exploited by the royal palace, high level politicians and administrative leaders after establishing the democracy. This trend of exploitation continued during the panchayat, democratic, and republican regimes as well. The activities like importing luxury cars without paying custom, making false VAT bills in alliance with the businessmen, and various others leading to excessive financial embezzlement and corruption continued.

### **Loot in Tax Exemption**

In the name of tax exempt, the national treasury in Nepal has been emptied. The government of Nepal formed a three-member Tax Settlement Commission in 2014. The committee decided to collect 9 billion 546 million 115 thousand, 6 hundred and 40 rupees out of 30 billion 525 million 778 thousand 9 hundred 37 rupees remnant. According to the report submitted on December 8, 2015, the remaining 20 billion 979 million 663 thousand 2 hundred and 97 rupees was exempt. The tax was decided to be collected in the state treasury, but the majority was recovered by the corporations. A huge amount of tax to be paid from company were exempt (Acharya & Gyawali, B.S. 2074).

**Table 5.24**

*Detail of The Tax Exempt*

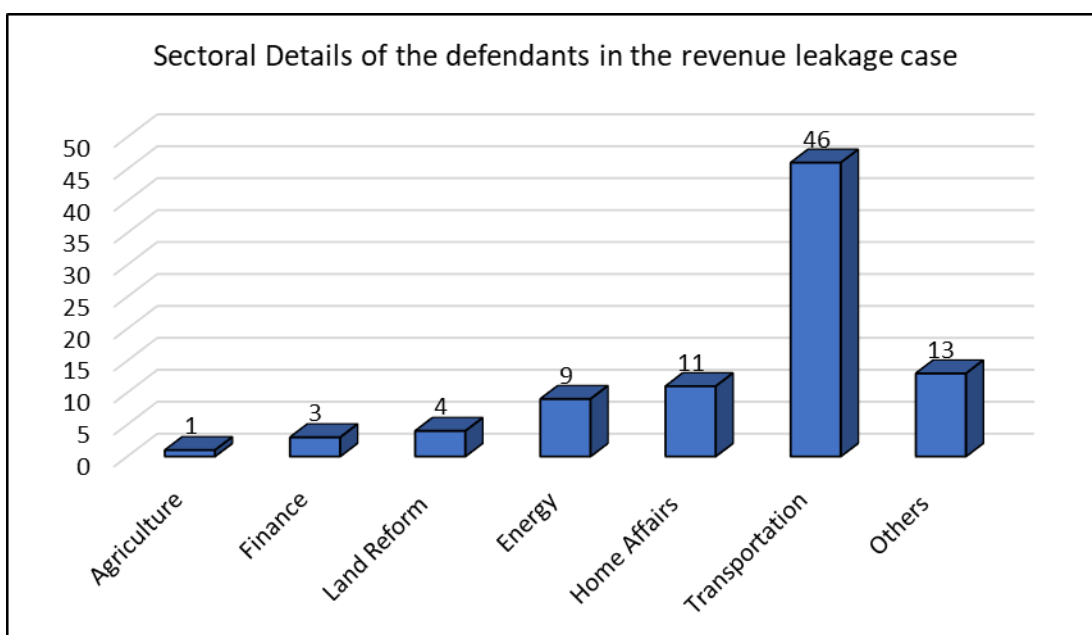
<b>Entity</b>	<b>Tax to be Paid</b>	<b>Tax paid</b>	<b>Percentage Paid</b>
Government corporation	11 billion 856 million 6 hundred thousand	5 billion 443 million 600 thousand	57
Private enterprises and company	18 billion 668 million	4 billion 102 million 422 thousand	22

*Source: Acharya and Gyawali (B.S. 2074)*

From the reference data, it is found that the events of revenue leakage have also been increasing. The officials responsible for revenue collection are found to have been involved in illegal tax exemption and irregularities in the revenue amount. With the investigation on the complaints made, CIAA had filed 12 cases related to revenue leakage against 87 people in the fiscal year 2019/20 (Figure 5.3).

**Figure 5.3**

*List of Officials Against who the Cases Related to Revenue Leakage were Filed.*



*Source: (CIAA, B.S. 2077)*

In a study carried out during the republican system, 50 percent of expected revenue could not be collected due to embezzlement. According to the report, the businessmen either do not want to pay the tax or they want to pay less (Pro Public, B.S.2065).

### **Increasing Impunity in Corruption Cases**

Various studies show that corruption and poor leadership to have impact on governance and development of the third world countries and hinder in its development process. The impunity has supported these. It is common in those countries that lack rule of law and suffer from corruption (Avakian, 2018). Lack of lawful acts in any state is impunity. Impunity causes corruption and financial irregularities, and it also increases monopoly, and it plays a negative role on economic growth and development (Tum, 2001).

While the high-level politicians, bureaucrats and other officials are not taken action for their corruption and financial crimes, it gives more inspiration for them to commit more crimes.

If we give a glance at the history of Nepal, the high-profile leaders and administrators have always been out of the premises of punishment. After the restoration of democracy in 1990, no serious investigation has been carried out against the high-level politicians who have been accused of involving in corruption scandals. Weak investigative and institutional mechanisms of the anti-corruption bodies and political protection helped the corrupt leaders to escape the investigation and punishment (Bhattarai et al., 2005). Khum Bahadur Khadka, Jaya Prakash Prashad Gupta and Chiranjibi Wagle are an exception.

The CIAA detained former minister Govinda Raj Joshi on 13 October 2003 and filed formal charges against him in the special court 3 months later. The CIAA charged Joshi of earning Rs. 39.3 million illegally during his tenure (Bhattarai et al., 2005). Joshi's case is still pending in the Supreme Court till 2021. Similarly, Parliament's PAC had confirmed that former minister Bim Bahadur Rawal of the CPN (UML) had engaged in malpractice while approving a deal to lease an aircraft from the China South-West Airlines for NAC in 2001 (PAC, 2001) after he took charge of the Tourism Ministry on 25 December 1998. However, no investigation was carried out into this, Girija Prasad Koirala had many accusations of corruption. The PAC investigated the allegations in 1993 and confirmed that Koirala had misused his authority.

The OAG determined that the Corporation had incurred losses of Rs. 395.5 million because of his decision (Thapa, B.S. 2074). No action was taken against this corruption. After 9 years of this incident, the same incident occurred. The Lauda scandal got published during the tenure of Girija Prashad Koirala being the Prime Minister again. In late 2000 a Boeing 767-300 from Lauda Air, an Austrian Company, was leased at the rate 3,350 USD per flight hour for 18 months. NAC was also required to pay an extra crew charge of 350 USD per flight hour until its own crew began flying the aircraft. The whole deal was finalized without formal bidding. The CIAA investigated the decision and found error with the cabinet decision approving the foreign currency and wrote to the prime minister on May 25, 2001, about this (Bhattarai, et al., 2005).

Similarly, PAC had also found the fault in the cabinet decision on the aircraft lease. According to the committee's report the government violated NAC's own policy that NAC could not lease aircrafts that were more than 10 years old (PAC, 2001). The CIAA filed formal charges against the tourism minister and nine NAC and government officials at the Appellate Court in Lalitpur. They were accused of embezzling 380 million rupees, a sum that included the losses incurred by NAC because of the decision. However, no action was taken against the Koirala. There has been political and administrative protection in the big suspicious cases related to money laundering (Acharya, B.S. 2076b).

Several corruption cases which came into publicity have been investigated by the parliamentarian and other special committees. They have confirmed corruption and have sent recommendations to the CIAA for further investigation. Similarly, some of the cases have been complained with proof. However, many of these scandals have not been investigated by the CIAA. There seems to be involvement of political leaders in the cases which have not been investigated (Table 5.25).

**Table 5.25**

*Some Complaints of Corruption in CIAA which have not been Investigated.*

<b>S. N</b>	<b>Case</b>	<b>Description</b>	<b>Misappropriated amount</b>	<b>Status</b>
1	Chamelia Irregularity	PAC had given directions to the CIAA for investigation of irregularities in Chamelia Hydropower Project on 3 December 2014. The cost for concrete work in the tunnel was 14,100 rupees per cubic meter while the bill was made of 41,500 rupees per cubic meter. The meeting of executive committee in chairmanship of the then Minister for Energy Radha Gyawali had approved a variation of 1.94 billion rupees.	550 million rupees	The investigation did not commence.
2	Taragaun Development Committee	The share executing committee decreased the 30 percent government share of Taragau Regency Hotels Limited to 9 percent. Similarly, 100 <i>ropani</i> of land of the hotel was sold	180 million rupees	No investigation was done.

		illegally. The parliament's international relation committee had investigated on this case in chairmanship of the then member of parliament Agni Sapkota. The committee had confirmed of irregularities in the case.		
3	Shivaraj Shrestha Scandal	A huge amount of money was illegally taken abroad due to a decision made by the Deputy Governor of Nepal Rastra Bank, Shivaraj Shrestha. A committee was formed by the Government to investigate this case. Shrestha was suspected of being involved in money laundering activity and the committee recommended the government in March 2021 to take an action on this case.	1.92 billion rupees	The cabinet decided that he did not need to be punished.
4	Land of Nepal Trust	The land in Durbarmarg under the ownership of Nepal Trust was given to Thamsherku Trekking for building construction and giving the building in rent. The agreement was made in lower amount than it was supposed to be made.	4.86 billion rupees	The CIAA did not take any action against this case.
5	Land purchasing scandal in Nepal Oil Corporation	The Auditor General, Public Procurement Monitoring Office, and 4 constitutional committees claimed on the irregularities in purchasing land by the Nepal Oil Corporation.	1.340 billion rupees	CIAA did not take any action against the complaint.
6	Gokul Baskota Scandal	The audio proof of Gokul Baskota asking commission on procurement of security printing press came into publicity.	700 million	Gokul Baskota resigned from minister post, but CIAA did not take any action against him.
7	Widebody purchase scandal	The PAC had investigated the procurement of wide body by the NAC, found irregularities and recommended for CIAA to take action against NAC. The news of	4.356 billion	CIAA neither investigated nor asked questions.



		Airbus Company in France offering 349 thousand Euros as commission to NAC came into publicity. The parliament's committee prepared a report and in January 2019, recommended CIAA for investigating and taking action against NAC.		
8	Ganesh Thapa Scandal	The then chairperson of ANFA, Ganesh Thapa was convicted of corruption and complaint was registered in 2014 to CIAA and PAC.	580 million	CIAA did not take any action. To save him from parliamentary investigation, his brother Kamal Thapa gave him a seat of proportional member of parliament.
9	Omni Scandal	The MoHP made an agreement with Omni Business Corporate International in April 2020 for purchasing health equipment focused to COVID 19. The PAC established that there had been irregularities in the purchase.	950 million rupees	Some people were questioned by the CIAA but did not investigate further.
10	The former Chief of Army Staff, Rajendra Khatri Scandal	A complaint was made to the CIAA regarding the investigation of property of a former Chief of Army Staff, Rajendra Khatri. Though CIAA do not have right to investigate against Nepal Army staffs, the law does not restrict CIAA to investigate on corruption case of retired staffs.	150 million rupees	The CIAA did not commence any investigation on this case.
11	Track Bed Tender Scandal of Train Department	The Train Department had given notice for tender for construction of track bed in Jhapa to Sunsari railway track section. According to the conditions specified, only limited contractors could participate in the bidding process. The contract amount was 34 billion rupees. The complaint was made that this led to a tremendous loss to the national treasury.	10 billion rupees	CIAA did not carry out any investigation on this complaint.

12	Chase Air Scandal	Hongkong Rana Magar was appointed as the chairman of NAC in 1998. He made an agreement with Chase Air to rent a Boeing 757. The Chase Air had neither an office nor a Boeing with it.	100 million rupees	CIAA did not carry out any investigation.
13	China Southwest Scandal	The joint government of NC and CPN (UML) had appointed B K Man Singh as an executive chairman of NAC in 1998. In his tenure NAC had made an agreement with Chinese Southwest Airlines without tendering.	Irregularities of 220 million rupees	CIAA did not do any investigating.
14	Ncell Scandal	Telia Company of Sweden sold its 80 percent share in Ncell to Axiata Company on 11 April 2016. Though the transaction was carried out by the international company, the company being in Nepal has to follow Nepal's taxation rule. But the company did not pay the tax.	32 billion	It was stated in the 54 <sup>th</sup> report of The Auditor General's Office. But no action was commenced based on the report.
15	Allowance of Maoist Cadres Scandal	The then CPN Maoist party had taken allowance for 19602 cadres staying in the camp after the party came into the peace process. Later, 2432 cadres were not found.	4 billion rupees	Not even a preliminary investigation was carried out in the complaint.

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*Source: Content Analysis (2021)*

The high-profile corruption cases involve huge sums of money. Most accused persons are high level politicians and bureaucrats of Nepal. If this massive amount of money would have been channeled for the provision of amenities in the country, Nepal would not have to face the problems of poor roads, poverty, poor/no drinking water supply, high level of unemployment. Huge amount of money that could be used to infrastructural development are stolen by the politicians and bureaucrats; businessmen who send this money to developed countries for safely keeping at the expense of country's development.

The scandals stated above show that the financial corruption and national development in Nepal are closely related. The fundamental form of financial corruption is bribery and illegal and greedy acquisition of public funds into private

pockets, which otherwise would have been invested in public goods and development. Financial corruption undermines democracy and the legitimacy of the state, reduces the potential for economic growth and threatens the freedom and security of citizens and altogether constitutes hindrances to national development in Nepal.

According to Kaufmann and Kraay (2002) corruption control is essential for uplifting the living standard of people and for development of a country. Every kind of corruption acts as a hindrance to the development process. The corruption control attempts in Nepal have not been proved effective and the impunity is extensive (Koirala et al., 2015). The corrupt political parties in Nepal are waiting for their chance to come into the supreme power, exploit the resources and then wait for the next chance to come (Shrestha & Dhakal, B.S. 2074). After the political transformation of 1990, the public and private sector corruption has aggravated, and corruption has upset trade and business too (Thapa, B.S. 2074). The public service delivery status is weak in Nepal. The lack of access to quality public service has created hindrances to development activities (Poudel, B.S.2077). Mahat (2020) argues that many government offices suffer from weak service delivery, widespread leakages of revenue and duplication of beneficiaries. Bhattarai (2003) has the similar notion. According to Bhattarai, unitary and centralized governance system, nepotism, favoritism, and corruption are some major issues for underdevelopment of the country. According to Karmacharya (2002) due to the increasing corruption, bribery and rent seeking in the state mechanism and administration, a substantial portion of trade took place through informal channels. In addition, the economic status and investment environment went on degrading. Porter and Schwab (2008) found that corruption is the major constraint for doing business in Nepal. ILO, ADB and FNCCI (2008) also considered that corruption is a very serious constraint of development and economic growth of Nepal.

The state mechanism and private sector conspire in corrupt schemes. Corruption has acted as an impediment to a free, competitive, and efficient market. Due to corruption, the private commercial sectors also remain low in quality (Bajracharya & Grace, 2014). The Weak governance and corruption have led to low quality goods, late service delivery, monopoly, and syndicate. The government mechanism, which is responsible for controlling contortion in the market, is indulged

in corruption. The private sectors are not able to ensure quality and function properly (Bajracharya et al., 2019). ADB, ILO and DFID (2009) identified the major constraints of Nepal's development as blocking the roads, delayed customs, and other administration due to limited capacity, rent seeking and high level of corruption.

The GoN has always remained a weak regulator of the markets. It also suffered from poor corporate governance and corruption. The donor agencies, civil society and other interest groups began to emphasize the importance of good governance, transparency, accountability after the 1990s. There is more than a dozen of institutions in Nepal such as CIAA, and NVC for controlling corruption. However, these institutions have not worked effectively (Ghimire, 2018). An annual report of OAG (B.S.2074) shows that most of the ministries have violated the provision of Financial Procedure Act 1999, and they are not following the internal control mechanism, its preparation and implementation procedure. The report shows that there is no effective internal auditing mechanism and procurement plan prepared and implemented.

People have been experiencing extensive corruption in democratic regime as well (Pokhrel, 2003). The profit-orientation and corruption has grown as big industry in Nepal. This led to flourishing corruption and became an obstacle of development (Shakya, 2018). Mallaby (2004) examined that corruption is the major impediment to the economic growth and development of poor countries. Weiner (1962) argued that corruption plays a vital role in paralyzing economic activities. Nagari et al. (2013) saw corruption as the cause of underdevelopment in the Third World. Corruption is an act of diverting the resources that should have been used for the developmental purposes of society to private or personal use. Fukuyama (2014) writes; there are many reasons why corruption impedes economic development. First, it distorts economic incentives by channeling resources not into their productive uses but rather into the pockets of officials with the political power to extract bribes. Second, corruption acts as a highly regressive tax: while petty corruption on the part of minor, poorly paid officials exist in many countries, the vast bulk of misappropriated funds go to elites who can use their positions of power to extract wealth from the population. Corruption can be very damaging to political order, and it undermines the sense of trust that is critical to the smooth operations of the state (pp.81-82).

The situation of Nepal is as stated by Fukuyama. Extreme corruption and financial embezzlement have become the main characteristic in the history of Nepal. While national resources and capital have been used for private uses by the rulers, the productive sectors remained unused. This badly affected the taxation system of the country on the one hand and on the other hand disintegrated the political order. The state mechanism could not run smoothly, affecting its development process.

Similarly, the reports published by the organizations such as Transparency International (2021) show that Nepal is among the most corrupt countries. The policy, laws, and anti-corruption watchdog institutions in Nepal are weak and ineffective. The high level of corruption in the country has negative impacts on its development and economic growth. First, the high level of corruption has discouraged FDI and private investments. Second, the investments for economic growth and development made by the state and other organizations have not been utilized. Rather, misappropriation has increased. Third, the public means and resources have been used for the personal benefit of limited people. High-level corruption not only negatively affected the investment-friendly environment in Nepal but also directly contributed to promoting underdevelopment.

### **5.2.3 Capital Outflow**

Illicit capital outflows are illegal movements of money or capital from one country to another (Dev & LeBlanc, 2013). Illicit financial outflows drain the capital out of the country and illegally enable tax evaders, corrupt officials, businesspersons, and others to protect the money from seizure. Illicit Financial Outflows have devastating consequences for underdeveloped and developing countries. Therefore, scholars (Massa, 2014, Does de Willebois, et al., 2011) argue that illicit capital outflow is a major obstacle to the development in the third world.

Does de Willebois, et al. (2011) finds out that a massive volume of capital is illegally outflowing from underdeveloped countries and into tax havens and the financial centers of the world. Illicit financial outflows exceed aid funds, and a great proportion of the flows are likely to steam from corruption (GFI, 2017). OECD (2018) estimates illicit outflows was 137.2 billion USD in 2014.

GFI (2017) also estimates that illicit capital outflows from developing countries ranged from 620 billion USD to 970 billion USD in the same year. The

export of capital illegally is a major problem for many developing and underdeveloped countries. Most of the underdeveloped countries are underdeveloped because of the flights of capital illegally (Erbe, 1985).

If we analyze the history of modern Nepal carefully, it seems that there is a high level of capital outflow from the Nepal in all regimes. The capital outflow in different regimes of Nepal is explained in this sub-chapter.

**a) Capital Outflow in Shah Regime.**

When Rana Bahadur Shah was proved weak in the internal power struggle, he went to Kashi on May 21, 1800, by handing over the crown to his 3-year-old son Girvan Yoddha Bikram Shah. He had taken huge property as gold and silver with him (Subedi, B.S. 2061). On the third day of his departure, Queen Rajrajeshwori also went to Kashi with jewelry and huge amount of money from the national treasury. When King Rana Bahadur ran out of money, Queen Subarnaprava had sent 82 thousand rupees for him from Nepal in October 1801. Again, Queen Subarnaprava sent 160 thousand rupees to him, which he used for entertainment purposes (Dhakal, B.S. 2060). He had spent too much money while he stayed in India that Nepal had to bear loan (Regmi, B.S. 2074). At that time, the advisor of the Queen Subarnaprava, Subuddhi Khadka as well had taken a huge amount to India from the national treasury (Dhakal, B.S. 2060).

A huge amount was taken to India during the tenure of Bhimsen Thapa as well. Mathawar Singh Thapa, a cousin of Bimsen Thapa took 150 thousand from the national treasury to India and spent the money in entertainment and party organizing in Kolkata (Acharya, B.S. 2068). During a short time between 1839 when Bhimsen Thapa died and 1846 when the Rana regime began, there had been exploitation of the national treasury extensively by *Bhardars* as well. *Chautariya* Guru prasad Shah can be taken as an example. He fled by capturing 1.2 million rupees from the national treasury and went to Gaya of India in December 1843 (Acharya, B.S. 2068).

**b) Capital Outflow in Rana Regime**

Queen Rajyalaxmi had helped Jung Bahadur Rana to come into power in 1846. *Kot parva* is the medium for Jung Bahadur to be the Prime Minister, which was initiated by the Queen. However, there was a clash between the Prime Minister Janga

Bahadur and Queen Rajyalaxmi. After this, the Queen was exiled to Banaras. She had taken 4.9 million rupees cash and jewelries that were worth more than 1.5 million rupees with her while going to India (Ghimire, 2015). According to Acharya (B.S. 2068) around 40 lakh rupees was siphoned abroad by Jung Bahadur. It was the greatest amount of money that was siphoned to foreign country in the history of Nepal. With this, the trend of syphoning money of the national treasury to abroad got started.

Ranoddip came to power after Jang Bahadur, was assassinated by his own brother. After this, 'Jung' and 'Narashinga' family made agreement with the Shamsher and were exiled to India with 2 million rupees and jewelries with them (Baskota & Sharma, B.S. 2055). During the latter half of the Rana regime, 'A' class Rana used to treat the 'C' class Ranas badly. In 1990, Juddha Shamsher had chased 'C' class Ranas from Nepal and excluded them from the roll. Those who were exiled had taken a lot of money with them from the national treasury (Mathema, B.S. 2073). According to Mathema (B.S. 2073), they had taken money with them because they did not think it was wise to keep property in Nepal at that time. They kept some immovable property in Kolkata and Mumbai and were established in India as well.

The Rana families who took money from Nepal to India deposited the money in the Indian Bank (Pande, B.S. 2076b). Bir Shamsher had deposited a huge amount of money in Indian Bank (Amatya, 2004). The way the national treasury had been drained and national treasury was vanished from Nepal during the Bir Shamsher's tenure has been stated by Nepal (B.S. 2055). The treasure that was collected from the national treasury were transported by the cart to Indian Bank. Chandra Shamsher had deposited about 400 million rupees to the foreign bank during his tenure (Nepal, B.S. 2055). While the transportation system and markets were extended up to the Nepal's border, Chandra Shamsher had smuggled a lot of wood from the jungle of Bardiya. Millions of rupees got this way was deposited in the Indian bank (Regmi, B.S. 2074). Padma Shamsher bought land and home for himself in India right after he went to India. When he was out of power and was sacked from the Prime Minister post by Mohan Shamsher, he went to India with a huge amount of money from the national treasury (Bhattarai, B.S. 2059). Padma Shamsher had taken 11.4 million rupees with him on March 1, 1948 (Pande, B.S. 2076b).

All the children including 2 sons and 6 daughters of Mohan Shamsheer got married in India. The majority of Mohan Shamsheer's property was spent giving dowry to his daughters. Through dowry, a huge property went to India from Nepal (Pande, B.S. 2076b). Babar Shamsheer was popular in the stock exchange of Mumbai during the Rana regime. Hundreds of thousands of shares were exchanged daily in his name. All the sons of Chandra Shamsheer had got 8 million rupees worth of money and share including Babar Shamsheer who had invested the money adding a lot to his family share to the share market in India (Pande, B.S. 2076b). Last Prime Minister of Rana Regime, Mohan Shamsheer had also taken a lot of money from the national treasury to India when he was sacked out of the power. High level officials and *Badhakims* who were not satisfied with the established the democracy in 1951 also took a lot of property with them to India (ReMAC Nepal, B.S. 2063).

British Government used to provide an annual royalty of 1 million rupees to the Ranas for the contribution of *Gorkhali* Military during the First and the Second World War. Later, the amount increased to 2 million annually. The Rana rulers deposited the amount in the banks in England (ReMAC Nepal, B.S. 2063). Similarly, when the road from Siliguri to Lhasa through Sikkim was opened in 1904, the trade route from India to Tibet via Kathmandu was closed. Many *Newar* families from Kathmandu took their property and went to Kalingpong (Shakya, 2018).

All the money collected as revenue was deposited to the Imperium Bank of Kolkata, Banaras Bank, and other banks in the border area. Coins, gold, and silver was transported to India through carts and then trains up to the banks. When their tenure was completed or were sacked out of the power, Rana rulers and their families fled to India with huge property with them. The Rana rulers worried about the safety of their property in Nepal for two reasons. First, they could be killed for their property by their own brothers at any time and second is that they had to flee from Nepal at any time once they were sacked out of the power. Therefore, Indian banks were an easy option for them. They purchased land and houses in India and passed a luxurious life there. Larrain (1989, p.115) argues that "luxury consumption by backward countries and local oligarchies is the main cause of underdevelopment in the third world. It is because of misuse of their economic surplus that Third World countries became underdeveloped."



The rulers directly took big amount of money, wealth, and assets outside the country during the Shah and Rana regimes. The trend of collecting heavy tax from people and depositing the amount in the Indian banks, purchasing properties in foreign countries, and spending in luxury was extensive at that time. There was a lack of resources for establishing industries and factories, and conducting the physical, social, and economic development in the country. Since that time, capital outflow was the major obstacle to the development of the country.

### **c) Capital Outflow in Monarchial, Democratic and Republican Regimes**

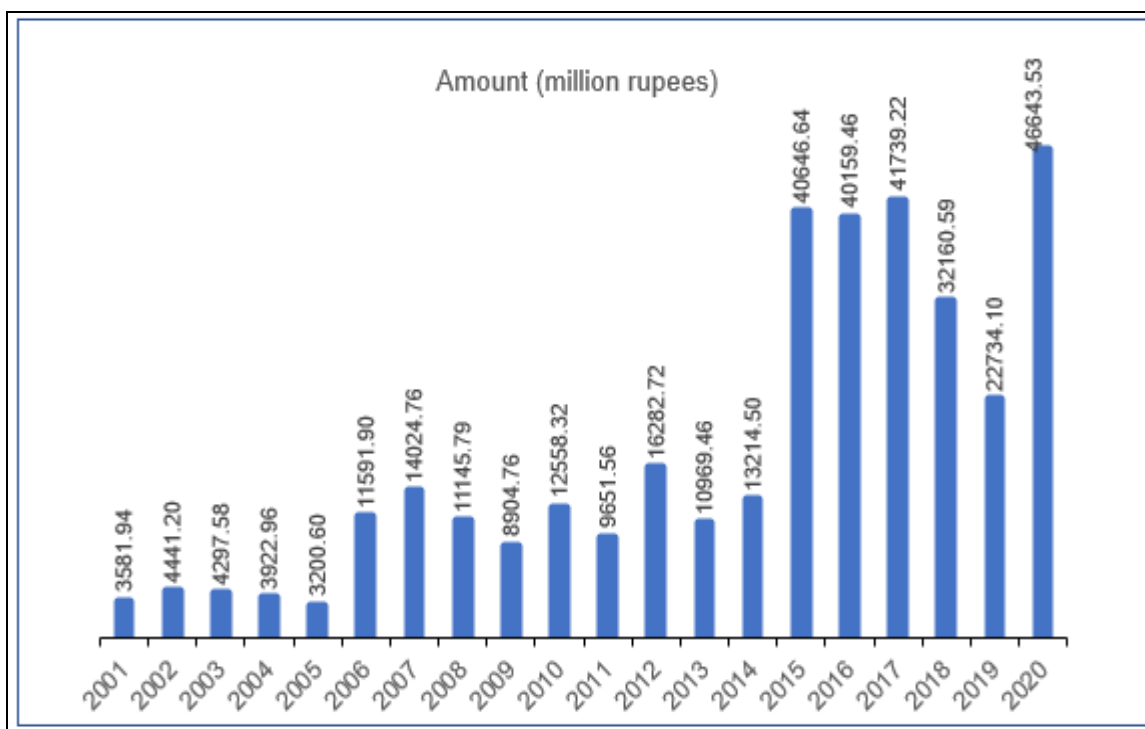
After the Rana regime, the trend of capital outflow legally or illegally did not stop. In coordination with the International Consortium of Investigative Journalist (ICIJ), the Centre for Investigative Journalism, Nepal (CIJ) had carried out research on the illegal capital outflow from Nepal and has published facts on this. Acharya, et al. (B.S. 2077) found out that there are 9 banks and 10 companies in Nepal that are involved in the illegal capital outflow from Nepal. According to the study, a total of 34.84 billion rupees had been outflowed from Nepal illegally in last 11 years. ICIJ and CIJ published that data according to the secret paper produced by Financial Crimes Enforcement Network (FinCEN).

The people, institutions, or organizations familiar with the virtual world are involved in illegal transactions by making dollar cards. According to a report of FinCEN, there had been transaction of 41 million 176 thousand USD from July 14, 2014, to January 19, 2016, in various countries including Nepal. Various facts have been published on virtual transactions (Acharya & Sapkota, B.S. 2077).

A huge amount of money has been deposited in Swiss bank illegally from Nepal. According to CIJ (2075), the trend of depositing money in the Swiss bank started when the Maoist insurgency started in Nepal. In 1996, 11 million 42 thousand Swiss Frank was deposited in the bank. This amount increased to 242 million 72 thousand Swiss Frank in June 2006 that has been deposited by Nepalese in Swiss Bank. In comparison to 2019, the deposition has been doubled in 2020 (Figure 5.4).

**Figure 5.4**

*Nepali Money in the Swiss Bank*



*Source: Swiss National Bank (2021)*

There is legal provision for prohibition to Nepalese for investment in the abroad. However, according to the data published by ICIJ and CIJ, at least 55 Nepalese have investment abroad (CIJ, B.S. 2075a). Business organizations such as Chaudhary Group and Golchha Organizations have made their investment in tax haven (in the countries where it is easy for tax evasion) (Acharya & Sapkota, B.S. 2078). CIJ (B.S. 2075b) has published a fact which states that Nepali businessman Ajay Sumargi among others have involved in money laundering by first taking the cash out of the country to abroad illegally, establishing companies and bringing back the money through companies. According to the published data, 48.372 million USD have been sent to Nepal through Jodhar Investment, which has been registered in the British Virgin. The company is registered in the name of Ajaya Sumargi.

Similarly, with a decision of Deputy Governor of the Nepal Rastra Bank, Shiva Raj Shrestha, 1.920 billion rupees have been outflow from the country illegally. He had been suspended on November 4, 2019, for this decision by the Bank Executive Committee. A separate committee was established for investigating this case of Shrestha. The committee had suspected him of being involved in money

laundering and had recommended the Government for taking action against him. However, the cabinet meeting on January 17, 2020, made the decision that no action was to be taken against Shrestha and was reinstated.

A study by Global Financial Integrity found that between 2002 and 2011, about 80.5 million USD a year was illicitly outflowed from Nepal. Out of the total 144 countries included in the study, Nepal ranks 66th among the countries with such illicit capital outflow. This indicates that a large amount of capital is fleeing from Nepal (CIAA, 2014).

In this way, the illicit capital outflow did not stop but increased in the modern democratic regimes. Until the republican regime, the number of Nepalese people depositing huge amounts in Swiss Bank has been increased tremendously. While capital outflow from Nepal has been increasing, there have been negative impacts on development process of Nepal.

### **Currency Smuggling**

Currency smuggling involves the transfer of large amounts of money. It is an illegal transfer of currency from one place to another. The smugglers involved in currency smuggling are motivated for various reasons like illegal trade, human trafficking, narcotics trafficking, corruption, or tax evasion (Reuter, 2013).

The smuggled currency is one of the serious threats to the national economy which promotes the illicit capital outflow from the country (Gilmore, 2004). Currency smuggling creates a big challenge of development in Nepal. The currency smuggling from Nepal has been increasing tremendously each year (Table 5.26).

**Table 5.26**

*Currency Smuggling*

<b>FY</b>	<b>2011/12</b>	<b>2012/13</b>	<b>2013/14</b>
Amount (Rs.)	25843478.13	73528766	140047926

*Source: Content Analysis (2021)*

The study shows that the volume of illicit flow of currency is increasing every year. According to the Revenue Investigation Department, the rate of smuggling has been increasing annually. The amount of invasion by the Tribhuvan International Airport (TIA), different borders and other places of Nepal seems to increase high every year.

Nepal Rastra Bank also seems to have been involving in illegal money smuggling. The Money Laundering Department has filed case against the employees of SBI Bank on April 14, 2020, in the Special Court accusing them to involve in smuggling 410 million rupees to India by making false LC. Similarly, a next data has been published indicating the Everest Bank and Nepal SBI Bank for smuggling 260 million rupees to India by establishing a fake company (Mainali, B.S. 2076).

Not only this, but the Tribhuvan International Airport has also been involved in smuggling a huge amount of money illegally. For an example, an Indian citizen, Bandana Soni was arrested on May 10, 2019, with illegal money of 100 thousand USD. Similarly, on April 8, 2019, Subash Shrestha, was arrested from departure of the Tribhuvan International Airport with illegal money. The Nepal Police had arrested him with 22 thousand 1 hundred 50 Thai Bhat, \$ 10 thousand, 1 thousand 3 hundred 80 Euro, and 80 thousand Chinese Yen. Similarly, senior captain of NAC Suvarna Awale was arrested just before flying to Dubai with 93,600 USD on 10 April 2017 (Bhattari, B.S. 2074). The illicit capital outflow from Nepal has been increasing through the currency smuggling as well.

### **Capital Outflow through Hundi**

Hundi is an informal, traditional, and illegal medium of money transfer. Hundi has established a strong nexus. The hundi has direct effects on the inflections, foreign exchange leakage, corruption, black market trade and capital outflow. The capital outflow from Nepal through Hundi has been increasing tremendously. For an example, an estimated data shows that the workers working in South Korea have been sending around 44 billion rupees through hundi annually. While comparing the total income of Nepalese workers in South Korea and remittance received in an informal way from Korea to Nepal, this data has been estimated. According to Nepal Rastra Bank, 18.3497 billion rupees was received from South Korea in the year 2017/18. This amount is about 44 billion less than the total income of the Nepalese workers working in South Korea. According to Employment Permit System (EPS), Nepali workers earn at least 63 billion rupees annually in South Korea. Only from 2008 Nepalese workers have been going to South Korea to work. Until 2018, there were 35 thousand workers in South Korea. The ones who worked in industries earned 200 thousand per month in average while those who worked in agriculture earned at least 150 thousand rupees. That money should have been received in Nepal, but the money

is sent through Hundi. Only 31 percent the total income done by Nepalese workers is received in Nepal through official medium.

Treasurer of Non-Residential Nepali Association South Korea, Alok Baniya was deported from South Korea on June 23, 2019, accusing him of doing transactions through hundi. Annually a lot of remittance is received to Nepal from South Korea (Table 5.27).

**Table 5.27**

*Remittance Received from South Korea to Nepal*

<b>Fiscal Year</b>	<b>Number of People Going for Employment</b>	<b>Remittance (in \$ million)</b>
2014/15	5288	187
2015/16	7423	274
2016/17	5804	504
2017/18	4832	1621

*Source: Content Analysis (2021)*

A big part of the amount collected in South Korea for hundi goes to China. The taxation to this amount is low which is spent to import goods in Nepal. The amount is used for illegal business. The hundi amount is also used for the Nepalese who have permanently migrated abroad. The businessmen who are in contact with hundi transactors open LC of fewer amounts and import more goods and pay less tax. Most of the amount remains outside of the tax limit. The illegal amounts are also used for criminal activities or for smuggling gold. Similarly, international real estate as well uses those amounts. The transactions done through hundi are not seen in the government transactions. This has led to increasing informal economy and blocking the dollars that would otherwise be received in Nepal. Acharya (B.S. 2076b) quotes an argument of former Secretary of Finance Rameshwor Khanal as follows.

According to a study report of UN, among the least development countries, a total of 550 billion rupees has gone out of Nepal informally through hundi. The taxation is low for this kind of money. For example, while importing goods worth 100 dollars only 20-dollar bill is shown and remaining 80 dollars is sent through hundi. In this way, 550 billion rupees is sent abroad through hundi (Acharya, B.S. 2076b).

The Department of Revenue Investigation in Nepal had filed 54 cases in 2020/21 against 114 people for abducting foreign exchange and doing transactions through hundi with a claim amount of 494 billion rupees. Similarly, there were 47 cases against 226 people filed in the District Court in the year 2019/20 with the claim amount of 122.97 billion rupees (DRI, B.S. 2078).

### **Nepali property fled out of the Country.**

If we look at the history of Nepal, Prithvi Narayan Shah had blocked all the possible ways of taking Nepali currency abroad. Jung Bahadur Rana has continued this trend and had prohibited to take Nepali money out of the country or deposit in foreign banks. He thought that for capital development of a country, it was necessary to stop the currency from fleeing out of the country. However, after his tenure, the situation changed. Bir Shamsheer started to take the money from the national treasury to the foreign banks. All the Rana rulers followed him after that. Money collected in the land revenue offices in Terai region was transported to the banks in Patna and Kolkata through carts and were deposited there. After this during the 30-years Panchayat System too, the trend of earning illegally and depositing the earned money in the foreign banks was densified. This did not change, rather was intensified more after the democratic transformation of 1990.

In 1996 when the armed movement of the Maoists commenced, this trend got aggravated. People started earning legally and illegally and depositing the earned money in the banks in Switzerland and other countries. Many people made investments in those countries. One example is of Ajay Sumargi who was accused of suspicious transaction of bringing back more than 11 billion rupees to Nepal which was earlier taken abroad through illegal process. The Supreme Court ordered the government of Nepal to prove legality of 7.5 million USD frozen in Sumargi's bank account for about 5 years. When the court ordered to freeze his account, he had already taken out the money from his account. According to the facts published by the journalists, there have been numerous such cases of illegal transactions.

*(Based on the interview with a historian on October 16, 2021).*

### **Critical analysis**

The transitional weak governance creates various obstacles for development and economic growth. According to Smilov (2007) underdevelopment is the inevitable

side effect of the transitional period. He further argued that during the transition period, law and order of the state mechanism do not work properly. Accountability, transparency, and responsiveness have shrunk. The rule of law cannot be enforced leading to nurturing of illegal activities, corruption, economic irregularities, capital outflow, and impunity, which ultimately traps the country in the vicious circle of underdevelopment. The inability of management of political transience promotes the development of underdevelopment in Nepal.

If we look at the history of Nepal, it seems that it has always gone through transition. There is a situation where there are frequent political changes, but the governance system has not changed or improved. There has been no change in the trend of high-level corruption and capital outflow in the long history of the state system (Table 5.28).

**Table 5.28**

*Governance, Corruption and Capital Outflow in Nepal*

<b>Regime</b>	<b>Governance</b>	<b>Corruption</b>	<b>Capital Outflow</b>
Shah and Rana Regime (Authoritarian regime)	<ul style="list-style-type: none"> <li>-Nontransparent public income and expenditure</li> <li>-Not accountable towards people</li> <li>-No separation of power</li> <li>-Amount of annual revenue collection was unknown</li> <li>-Lack of transparency</li> <li>-Violence</li> <li>-Public resources for private benefits</li> <li>-No professional and merit-based bureaucracy</li> <li>-Pajani in bureaucracy</li> <li>-Promote to family and relatives rather than merit</li> <li>-Nepotism, favoritism, Chakari and Chaplusi</li> <li>-Lack of rule of law</li> <li>-Government less effective</li> <li>-Highly centralized governance</li> </ul>	<ul style="list-style-type: none"> <li>-Financial distortion</li> <li>-looted in the national treasury</li> <li>-lotted in the public Guthi (trust) of holy places</li> <li>-Illegal contract agreement</li> <li>-Use of public property for private interest</li> <li>-Embezzlement of national treasures</li> <li>-Luxurious lifestyle of ruler.</li> <li>-Capture the national treasury by family and clique.</li> <li>-Exploitation of the national treasury</li> <li>-Misuse of foreign assistance</li> </ul>	<ul style="list-style-type: none"> <li>-Directly capital out flow to India</li> <li>-Outflown jewelry and money from the national treasury by Royal and Rana family.</li> <li>-Siphoned money to foreign country</li> <li>-Outflown to Indian stock markets and bank from Nepal.</li> <li>-Rana family purchased many luxurious buildings in India.</li> </ul>
Monarchical	<ul style="list-style-type: none"> <li>-Accepted the separation of power though not</li> </ul>	<ul style="list-style-type: none"> <li>-Corruption in export import</li> </ul>	<ul style="list-style-type: none"> <li>-Many high-level politicians,</li> </ul>

<p>regime (Party less autocrati c regime)</p>	<p>implemented properly. -Government was not people friendly -Highly centralized governance -lack of transparency and accountability -No people's participation in governance -No party system -misused of public administration. -Nepotism and favoritism -Continuation of the pajani tradition in bureaucracy. -Lack of rule of law</p>	<p>-Corruption in contract -Corruption in issuing license -Demand the golden share by royal palace -Gold smuggling -Illegal nexus between smuggler and leaders. -Corruption in public institutions -Exploitation of the national treasury -Revenue leakage -Tax evasion -Misuse of foreign assistance and loan -Corruption in development project.</p>	<p>members of royal place, and bureaucrats siphoned money to foreign countries. -Business persons siphoned money to India and other countries. -Capital outflow to Swiss Bank</p>
<p>Democr atic and Republi can (Multipa rty democra cy_</p>	<p>-Properly separation of power -Decentralization and federalization -Less transparency -Lack of accountability -Increasing the arrears -Budget deficit -Misused of public administration -promote relatives and party carder rather than merit -Nepotism and favoritism -New form of Pajani in bureaucracy (transfer additional group). -Not proper implementation of the rule of law.</p>	<p>-Corruption in customs -Corruption in development project and contract -Smuggling -parliamentarians on sale -Exploitation over the national treasury -Revenue leakage -Tax evasion -Corruption in project variation -Corruption in foreign assistance and loan -Spread-out the corruption in bureaucracy -Misuse of public resources in the name of intelligence and medical treatment -Corruption in quota, license -Revenue leakage -Tax evasion -Loot in tax exemption.</p>	<p>-Capital outflow to Swiss Bank -Siphoned money to foreign country. -Currency smuggling Capital outflow through Hundi.</p>

*Source: content analysis (2021)*

The above table explains the characteristic of the political regime in the history of Nepal and the governance system created by political regime. It also



explains how the regime promoted corruption and increased the capital outflow. Even though the political regime has changed in the history of Nepal, it clearly shows that there has been no change in the governance, corruption, and capital outflow.

It was a closed system in Nepal until 1950. The Shah and Rana rulers ruled the country as their personal property. After 1951, the state adopted an open society and democratic norms and values. However, people could not experience political stability, economic growth, development and any improvement or drastic change in the governance system as well. In 1959 when stability was being initiated, a coup occurred when King Mahendra took over the state power and implemented Panchayat system. During the autocratic monarchical panchayat regime from 1960 to 1990, the wrong maneuvers of the past including political transience, weak governance, high level of corruption, irregularities, and capital outflow continued and flourished from 1990 to 2005 in the democratic regime as well. The situation did not change in the royal regime and republican regime either.

The status of governance, corruption, and capital outflow directly affect the development of countries in various ways. Tanzi and Davoodi (1997) identified that corruption has negative impacts on public investment, reduces government revenue, decreases expenditure on operations and maintenance and reduces the quality of life. They further argued that corruption could affect at least four areas of economic growth and development. These are higher public investment, lower government revenues, lower expenditure on business operations and maintenance and lower quality of infrastructure. The corruption and irregularities have led to lower revenue and loss of capital affecting the quality of life of general people.

Uneke (2010, p.4) argued, “Corruption is damaging to social, physical, and economic development.” It seems that a weak governance system and high level of corruption tend to undermine all these conditions in corrupt regime. It is cynicism and loss of confidence of leadership, irrational, short sighted and ill-motivated decision, and squandering of resources on ill-advised or unsuitable projects. The consequences are underdevelopment, poverty, cynicism of leadership, and disillusionment and hopelessness on the part of masses and the deprived.

Similarly, the misuse of the national treasury is a cause of a serious development challenge. Misuse of national treasury always diverts scarce public

resources into private pockets and weakens good governance (Lawal and Tobi, 2006). Looking at the history of Nepal, the rulers have extensively misused the natural treasury. The predisposition flourished traditionally during the Shah and Rana regime continued and never changed.

It seems that politics in Nepal has become an easy way to collect money quickly. Which corresponds to the situation in the Philippines in the 1960s. Taylor (1964, p.157) has written “Politics is a major industry for the Philippines; it is a way of life. Politics is the main route to power, which is the main route to wealth...more money can be made in a shorter time with the aid of political influence than by any other means.”

Looking at the history of Nepal, there is not any different situation than Philippines. Accusing the political leaders who are engaging in the state governance system being involved in corruption, the then King Gyanendra captured the state power. However, the exploitation over the national treasury even increased during his rule. The supporters of the direct monarchy during this time were provided with financial support by exploiting the national treasury. The budget of the palace also increased.

It seems that the trend of tax evasion is also high in the history of Nepal. The state apparatus is also involved in this kind of tax evasion without paying due attention to it or in collusion with business groups. Yikona et al. (2011) finds out that tax evasion has a negative impact on economic growth and development. Tax evasion siphons away money, which could be invested in productive areas like diversifying the economy, infrastructure, and social problems. It also leads to the leakage of financial resources away from the national budget toward private spending. Their study concludes that revenue embezzlement leads to underdevelopment. There are various records of revenue embezzlement in the history of Nepal as well. In this way, the loot over the national treasury in the name of tax settlement continued during the republican regime. The events of tax evasion increased during that time.

Some examples of revenue embezzling events can be found during the Shah and Rana regime as well. The revenue leakage and tax evasion events seem to have increased tremendously in modern regimes. With the corrupt behavior of the officials

working in tax administration, tax evasion and unlawful waiving of tax becomes easy, and the state income gets decreased. The quality of investment from public and financial institutions becomes poor which leads to inflation. Holmes (2015, p.25) argues that “corruption always leads to decreased revenue to the state, as corrupt officials exempt citizens and firms from fines, taxes, etc. in return for bribes”.

Furthermore, one of the options for the economic growth and development of a country is foreign assistance and loans. Lack of capital inflow is one major reason for underdevelopment of a country (Andrews, 2009). According to Andrews, foreign aid and foreign loans increase the capital inflow leading to direct and positive effects on development. However, the important aspect is how the capital inflow has been utilized. Akonor (2008) argues that foreign aid is not a long-term solution of underdeveloped countries though, if the donors aim to make long-term big and sustainable project like trans-connectional project i.e., highways, railway, power plants always support to the economic growth and development. Christensen (1995) argues that international foreign aid can help underdeveloped countries build the capacity to take ownership of their development. According to Mihaly (2002) if foreign aid is utilized to fulfill the local needs with transparency, it shall have an important contribution in the development.

The 2005 Paris Declaration on Aid Effectiveness focuses that country ownership, donor harmonization, alignment to recipients’ national development strategies and plans, mutual accountability between donors and the recipients’ countries is the best way to increase the effectiveness of foreign aid (Wood, 2008). Rostow (1960) argues that foreign aid is the pre-condition for the take off into economic success of the underdeveloped countries. Holmes (2015, p.24) argues that “the foreign direct investment (FDI) is lower in countries with higher rates of corruption, as potential investors are deterred by it.” Corruption discourages investment, which in turn decreases growth rates.

While foreign aid is used in unproductive government expenditure, corruption and irregularities lead to ineffectiveness of the aid (Mauro, 1997). In the latest time, direct foreign investment is taken as a major base of economic growth. Foreign investment cannot be brought more into a corrupt country. According to research

carried out from Singapore to Mexico, when corruption level increases, there is negative effect on the foreign investment as that of the effect of increase in 50 percent tax (Wei, 2000). Corruption hinders the benefits of economic strengthening through increase in employment, tax, and technology transfer due to foreign aid.

Reuter (2017) argues that the global capital outflow came from corruption and commercial crime. According to Meyer Dove and Mullard (2019), combating capital outflows is an important aspect of tackling corruption that it always threatens economic growth and development. Analyzing the history of Nepal closely, it seems that the capital outflow is very high. However, the attempts to control capital outflow have been ineffective. The Department of Money Laundering Investigation in Nepal has not been able to stop capital outflow from Nepal.

Massa (2014) argues that capital outflows damage the economy of developing countries. These countries are losing huge amounts of money and wealth every year leading to the Third World countries drowning in the vicious circle of corruption. Similarly, capital outflows send wealth and money overseas, which will reduce the elites' support for the country's development because elites' wealth is less dependent upon the domestic economy (Lain et al., 2017). The present situation of Nepal is similar to this. The capital outflow has been proved a major obstacle of development in Nepal.

Basically, capital outflows through hundi effects the development process in four ways. First, the foreign currencies are not received in Nepal. Second, hundi decreases revenue at custom office that would be collected if money were received legally. Third, it has been increasing informal and black economy in the country. Fourth, it has increased the risk of money laundering. As a result, the development process has been impacted. The illicit capital outflows from Nepal through hundi has also put negative impacts on economic growth and development of the country.

### **5.3 Conclusion**

While many regimes were changed in Nepal, but the governance system could not change, it has negative impact on economic growth and development performance. The trend of tapping out the national treasury started from Shah and

Rana regimes has been flourishing until today. Earlier the national treasury was tapped only by the rulers and their families. The only change today is that the party cadres have been added to the list. Similarly, the budget allocation, policy and project planning, and implementation process has not changed with the change in regime. Like Padma Shamsher who was not satisfied with the limited salary during the Rana regime, the rulers today act the same way. The situation has not been transformed. The *Pajani* which was done annually during the Shah and Rana regimes are done every month in republican regime. The only difference is that at that time, job holders were sacked out of the job while today they are transformed or kept without responsibility in additional group. The trend of appointing the party cadres and relatives is the same today. The *chakari* system has not changed either. Rather, the party cadres and leaders from the same group have been added.

The situation of the utilization of remittance is similar. Today too the state is not able to prepare effective mechanisms for utilization of remittance in productive sectors. Similar to the Rana regime, the remittance received in Nepal returns back to abroad. The way the internal price increased that time, similar is the situation today. The customs-based economy has not changed even today. During the tenure of Chandra Shamsher, he arranged all the contracts to himself and the relatives and took commissions in return. The situation is similar today, the political leaders provide contracts to their kins, closed ones, or party cadres, and take commissions in a similar way.

The corruption has been increasing and likewise the arrears have been increasing scarily. There is political instability but stability of political leaders. The regimes have been changing rapidly but politics has been hovering around limited political leaders for three decades. State power is limited to the rulers and their families. Similar was the case in the Panchayat regime when the power was limited in the palace. During the republican regime, the state power is limited to the political leaders. The leaders have not shown any change in their behavior from 1990 to 2021 and that they have captured the state power and resources.

The state of non-transparency and unaccountability is similar today. Due to weak governance mechanisms, public institutions are not able to deliver effective public goods and services. The government is not able to make investments as in the early regimes. The trend of tapping foreign aid and irregularities have increased. The

state of impunity has been worsening. The powerful people are out of the premises of punishment. The centralized governance mentality has not been transformed. The political regimes have changed but the governance system has not changed. As a result, there is development of underdevelopment in the country.

After the Shah and Rana regimes, the capital outflow from the country increased. No government has worked to control the illegal outflow of capital and create an investment-friendly environment in the country. As a result, even in the republican regime, the capital outflow from the country is increasing day by day.

Weak governance, high level of corruption, and illicit capital outflow are seen primarily as challenges to the efficient delivery of outcomes such as health, income growth, education, infrastructure, and a thriving private sector. Failures of governance and increasing corruption do present such challenges. Such a country has slow-changing institutions which is a way of avoiding the moral responsibility to act. Poor, historically rooted institutions necessarily lead to poor development.

This kind of finding is also reported in many previous studies. The economic performance of a country determines the rate of its economic growth. The Weak governance, high level of corruption, and capital outflow hinders the effectiveness of economic activities (Mauro, 1997). Weak governance, corruption and financial irregularities affect the economic sector of a country in two ways. First, affecting the investment which is directed towards low return sectors and second by disturbing the market balance. Krueger (1993) argues that corrupt officials use public investments in favor of their own benefits rather than for public benefits. The entrepreneurs estimate that their investments are more at risk than return. The entrepreneurs are compelled to provide bribes right from the registration of their firms to receiving return. They are discouraged from investment and thus private investments decrease due to corruption (Mauro, 1997).

## CHAPTER VI

### FINDINGS, CONCLUSION AND THEORETICAL REFLECTION

Nepal has been conducting planned development from more than six decades. However, the status of social development such as health and education and physical development such as road, hydroelectricity, irrigation is discouraging. The poverty alleviation drive has not taken a good pace. A big amount has been spent by the state; however, there have not been impressive results in terms of both quality and quantity of the development activities. Many development projects have not been completed which started decades ago. The development process is of low quality with slow speed. Not only during the autocratic Rana Regime or during party less monarchical regime, but also the situation is similar during the democratic and republican regime. The expectation of people towards development has not been fulfilled yet. Chapters four and five presented data and described the historical evidence and arguments of the respondents. This chapter tries to explore the relationship between theories and empirical evidence. It aims at setting the relationship of data from theoretical perspectives used during the research. This chapter also includes summary, and conclusion of the study.

#### 6.1 Findings

Nepal's position is extremely vulnerable in terms of GDP per capita income, poverty status, human development, and commercial viability of available resources in the country. The economic growth and development are poor, leading to poorer physical development. The health and education status which are major indicators of social development seems to have progressed quantitatively only. The state and development partners spend a huge amount of money each year. However, the investment has not yielded substantial progress in terms of quality.

There are various theoretical approaches to define and understand underdevelopment. Modernization theory (Rostow, 1960) was the dominant perspective in the social sciences in the 1950s and 1960s. Similarly, colonialism (Stavenhagen, 1973), neo-colonialism (Nkrumah, 1965), imperialism (Lenin, 1966), dependency theory (Frank, 1967), world system theory (Wallerstein, 1976), the

development of underdevelopment (Frank, 1967) was very influential before the late 1970s. However, these theories have many weaknesses and criticism after the early 1980s. Modernization theory focuses on internal causes of underdevelopment and argues that traditional societies will develop if they adopt practices that are more modern. The neo-Marxist theories focus on unequal relations and exploitation of core countries over the periphery are the main causes of the underdevelopment of a country. However, this study criticizes both schools of thought. That is unequal relations, exploitation of core countries over the periphery, and dependency are not the sole causes of the country's underdevelopment as stated by such theoretical approaches. Rather, it shows that internal factors such as governance, corruption, capital outflow have important contributions to it.

This study has tried to identify the obstacles to development process in Nepal. Not only are the economic factors but there are also non-economic factors like weak governance and corruption, which act as hindrance to development (Fukuyama, 1995). This study has explored the role of weak governance, corruption, and capital outflows in underdevelopment of Nepal.

The study was derived through descriptive and explanatory way and qualitative data were used to describe it. It used the qualitative historical analysis methodology for data collection. Furthermore, data from both primary and secondary sources of materials were used. The researcher also took a few interviews from historians and experts to check and verify the validity of the available materials. The theoretical sampling and the concept of saturation were used to select the respondent for interview.

This study has identified some of the facts behind Nepal's derails of development. First is the weak governance system. Nepal's efforts toward economic growth and development have been directly affected by the weak governance system. Good governance requires transparent, accountable, legitimate, and responsible government. However, if we study the history of Nepal, every political regime in Nepal lacked these factors. Weak political development and instability also promote the weak governance in Nepal. Weak governance, lack of sound government policies, no visionary leadership, and high level of cronyism are some of the characteristics of Nepal's political and governance systems, which acted as obstacles to development.



It was a closed system in Nepal until 1950. The Shah and Rana rulers ruled the country as their personal property. After 1951, the state adopted an open society and democratic norms and values. However, people could not experience political stability, economic growth, development and any improvement or drastic change in the governance system as well. In 1959 when stability was being initiated, a coup occurred when King Mahendra took over the state power and implemented monarchical regime. During the autocratic monarchical regime from 1960 to 1990, the wrong maneuvers of the past including weak governance, high level of corruption, and capital outflow continued and flourished from 1990 to 2005 in the democratic regime as well. The situation did not change in the republican regime either.

The weak governance creates various obstacles for development and economic growth. According to Smilov (2007) underdevelopment is the inevitable side effects of the transitional period. He further argued that during the transition period law and order of the state mechanism do not work properly. Accountability, transparency, and responsiveness are shrunk. The rule of law cannot be enforced leading to nurturing of illegal activities, corruption, economic irregularities, and impunity, which ultimately traps the country in the vicious circle of corruption. The inability of management of political transience promotes the development of underdevelopment in Nepal.

The governance and status of corruption and capital outflow directly affect the development of countries in various ways. Mahat (2020) strongly argues that the quality of governance always plays a vital role in economic growth and development. According to him, quality of governance with efficient, strong, and well-functioning public institutions are the preconditions for rapid economic growth. However, the base for quality of governance could not form in any regime in Nepal. As a result, the country continuously drowned in the vicious circle of corruption. Good governance is not a luxury, but it is an inevitable factor for economic growth and development of a country. The weak governance practice has created serious problems and obstacles in development of Nepal.

Good governance begins with morality, accountability, and people's participation in the governance system. The transparency of information in public entities helps people select public goods and services as well as make them able to scrutinize on the important decisions made for people. Not only this, but the people shall also be able to ask about the investments in development activities, expediency

and effectiveness of the investments and act as watchdog. Transparency allows a higher level of citizen's access to government activities. Rothenbuhler (1998) suggested that development could be made more effective in Nepal by enhancing transparency in decision making, planning, budgeting process and taking part in decision making in responsible manner. However, the improvement in governance system has not been initiated yet. The lack of transparency, increasing corruption and cronyism flourishing in Nepal has created obstacle to the overall development of the country.

Strong institutions with good governance always strengthen the rule of law. The good economic institutions always motivate people to become productive and protect their private property rights, have predictable enforcement of their contracts, have opportunities to invest and retain control of their money, control of inflation, and open exchange of currency (Acemoglu & Robinson, 2013). No regime in the country has constructed a strong institution with equally strong governance, which has negative impact towards the development of the country. The state mechanism and administrative capacity is very weak in Nepal. Effective, professional, and specialized bureaucracy is a prerequisite for the development of a country. The restructuring of bureaucracy has not been done for fulfilling the development expectations of people. On one hand, the governance status has not been reformed and on the other hand, the implementation of development activities has not been effective.

The strong governance system strengthens the state. There is a positive correlation between the strong state and economic growth. With the development of governance system adopting rule of law, a strong basis for physical, economic, and social development can be built. No regime in Nepal gave attention towards strengthening the governance system, introducing professionalism in the bureaucracy, and promoting the good governance. Similarly, there is a lack of coordination between different government organizations and among the three layers federal, provincial and local governments leading to duplication of development activities, ineffective implementation, and other problems. Similarly, unequal access to land and inability to effectively utilize the remittance received in the country have aggravated the situation of the country.

The FDI, private investment, Public, Private Partnership (PPP) always depend on credibility, accountability, transparency, and predictability of state institutions.

Similarly, quality, and efficient bureaucracy, well-functioning and efficient public administration are the other important factors for economic growth and development of the nation state. However, the facts used during the historical analysis show that the bureaucracy of Nepal was captured by nepotism, favoritism, and cronyism since the Shah Regime. In the latest time, the bureaucracy is highly politicized. Various heads of the state-owned enterprises, ambassadors, constitutional bodies, judiciary have been proved as the recruitment center for the party cadres. While the appointments in CIAA are highly politicized, the big corruption scandals involving high level politicians and bureaucrats have remained uninvestigated. The impunity has been flourishing in the country.

Without ensuring the rule of law, efficient fiscal management, strong institutions with effective and merit-based bureaucracy, rational planning, budgeting, and monitoring and evaluation process, good governance cannot be established in a country. Likewise, without good governance, the basis of development of a country cannot be prepared. According to the reports published by ADB, ILO and DFID (2009) Weak governance are the main constraint of economic growth and development in Nepal. Clientelism and rent-seeking are key features in politics of the country. Similarly, revenue leakages, misuse of resources, lack of transparency, accountability are also playing an important role in underdevelopment of the country.

The change in political regimes could not bring change in budget allocation and project implementation process in Nepal. The periodic plan has been changed one after the other without proper study of objectives and strategies. The planning process remains inconsistent to the socio-economic status of the country and development need from the first five-year plan to the date. The development plans lack proper far-sightedness, vision, mission, goals, objectives, and strategies. These are continuously changing from one plan to the next. To make performance-based budgeting and planning process, result-based management should be adopted. However, this has not been adopted in Nepal. While the development activities cannot be conducted strategically, a huge capital investment is made towards the end of the fiscal year. This leads to misuse of the public budget and resources on the one hand and low-quality works on the other hand. The existing capital expenditure practices in Nepal have been unsuccessful which has direct impact on the development activities.

Similarly, various studies show that high levels of corruption create obstacles to development (Bongartz and Dahal, 1996, Fukuyama, 2014). Corruption always plays a negative role in economic growth and development. The corruption, irregularities and a rent-seeking behavior are deeply rooted in the Nepalese politics and public administration, and it has jeopardized the economic growth and development in Nepal (Dahal, 1998). Culture of rent-seeking, irregularities, and corruption cause inefficiency of the state institution in Nepal (Ligal, 1997). This has been creating obstacles to development. Corruption has excessively negative impact on development and economic growth of a country (Mahat, 2020). In Nepal too, corruption has always affected on the quality of public service delivery and development activities. It has led to weakening productivity, low economic growth, and poor development status.

There is weak policy and legal provision for controlling corruption in Nepal. Transparency International (2021) and Global Financial Integrity (2007) show the weak status of the country in terms of anti-corruption and rule of law. The studies have shown that weak anti-corruption law and implementation status are major challenges to development activities. Corruption control seems to be weak and is a constraint to investment and economic growth. The corruption in Nepal is prevalent and affects to the access to justice, public services, infrastructure, public finances, payment of taxes and duties etc. The corruption has also discouraged investment leading to the direct impact on the quality, cost, time of the infrastructure development in Nepal.

Tanzi and Davoodi (1997) identified that corruption has negative impacts on public investment, reduces government revenue, decreases expenditure on operations and maintenance and reduces the quality of life. They further argued that corruption could affect at least four areas of economic growth and development. These are higher public investment, lower government revenues, lower expenditure on business operations and maintenance and lower quality of infrastructure. The corruption and irregularities have led to lower revenue and loss of capital affecting the quality of life of general people.

Uneke (2010, p.4) argued, “Corruption is damaging to social, physical, and economic development. According to him, the economic growth and development status of a country is dependent on several conditions of the country like leadership,

pragmatic, rational and far-sighted decision making, and optimum use of available resources". It seems that weak governance and corruption tend to undermine all these conditions in corrupt regime. The consequences are underdevelopment, poverty, cynicism of leadership, and disillusionment and hopelessness on the part of masses and the deprived.

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It seems that politics in Nepal has become an easy way to collect money quickly, which corresponds to the situation in the Philippines in the 1960s (Taylor, 1964). Looking at the history of Nepal, there is not any different situation than that of Philippines. Accusing the political parties of being involved in corruption, the then King Gyanendra captured the state power. However, the exploitation over the national treasury even increased during his rule. The supporters of the direct monarchy during this time were provided with financial support by exploiting the national treasury. The budget of the palace also increased. The exploitation of the national treasury continued during his rule.

Yikona et al. (2011) finds out that tax evasion has a negative impact on economic growth and development. Tax evasion siphons away money which could be invested in productive areas like diversifying the economy, infrastructure, and social problem. It also leads to the leakage of financial resources away from the national budget toward private spending. Their study concludes that revenue embezzlement leads to underdevelopment. There are various records of revenue embezzlement in the history of Nepal as well. In this way, the loot over the national treasury in the name of tax settlement continued during the republican regime. The events of tax evasion increased during that time.

In Nepal, there has been continuation in events of revenue leakage and tax evasion. During the Shah and Rana regime, there was no difference between public and private property. However, some examples of revenue embezzling events can be

found during those times as well. The revenue leakage and tax evasion events seem to have increased tremendously in modern regimes. With the corrupt behavior of the officials working in tax administration, tax evasion and unlawful waiving of tax becomes easy, and the state income is decreased. The quality of investment from public and financial institutions becomes poor which leads to inflation. Holmes (2015, p.25) argues that “corruption always leads to decreased revenue to the state, as corrupt officials exempt citizens and firms from fines, taxes, etc. in return for bribes”.

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While foreign aid is used in unproductive government expenditure, corruption and irregularities lead to ineffectiveness of the aid (Mauro, 1997). In the latest time, direct foreign investment is taken as a major base of economic growth. Foreign investment cannot be summoned into a corrupt country. According to research carried

out from Singapore to Mexico, when corruption level increases, there is negative effect on the foreign investment as that of the effect of increase in 50 percent tax (Wei, 2000). Corruption hinders the benefits of economic strengthening through increase in employment, tax, and technology transfer due to foreign aid.

Analyzing the history of Nepal closely, it seems that the capital outflow is very high. Reuter (2017) argues that the global capital outflow came from corruption and commercial crime. According to Meyer Dove and Mullard (2019), combating capital outflows is an important aspect of tackling corruption that it always threatens economic growth and development. In Nepal, the attempts of controlling capital outflow have been ineffective. The Department of Money Laundering Investigation in Nepal has not been enough able to stop capital outflow from Nepal.

Massa (2014) argues that capital outflows damage the economy of developing countries. These countries are losing huge amounts of wealth every year leading to the Third World countries drowning in the vicious circle of corruption. Similarly, capital outflows send wealth overseas and it will reduce the elites' support for the country's development because less of the elites' wealth is dependent upon the domestic economy (Lain et al., 2017). The present situation of Nepal is similar to this. The capital outflow has been proved a major obstacle of development in Nepal.

Basically, capital outflows through hundi affect the development process in four ways. First, the foreign currencies are not received in Nepal. Second, hundi decreases revenue at custom office that would be collected if money were received legally. Third, it has been increasing informal and black economy in the country. Fourth, it has increased the risk of money laundering. As a result, the development process has been impacted. The illicit capital outflows from Nepal through hundi has also put negative impacts on economic growth and development of the country.

Similarly, the capital outflow has devastating consequences in underdeveloped and developing countries. Massa (2014) has taken capital outflow as the major obstacle to the development of a country. The illegal capital outflow increased rapidly from Nepal leading to lack of investment capital in the country. There are various ways of capital outflow from Nepal, a major part of which is transacted through hundi and currency smuggling.

During the Shah and Rana Regime, the capital outflow occurred directly. Especially the Nepali capital was absconded to India. After those Regimes, the capital outflow occurred to Swiss Bank and banks in the other developed countries. The Similarly, the capital of Nepal is being flown to abroad legally in the name of visit and higher education as well as illegally through hundi. A big group is active in Nepal which is involved in currency smuggling that is collected through corruption and economic crime. The state has made no initiation for controlling currency smuggling.

The economy of the country has been affected by the capital outflow. This has been increasing corruption, promoting black and informal economy, and creating scarcity of investment. The capital outflow also stops the inflow of foreign currencies. Similarly, with the illegal outflow of Nepalese capital and foreign currency, gold and other goods are imported illegally. The businesspersons send money through hundi for tax evasion. The illegal capital outflow has also affected the revenue collection. This has a direct impact on the country's development too.

A comprehensive study of all these things shows that the kleptocracy exists in Nepal. Similarly, almost all sectors of the state mechanism are involved in state capture and committing financial crime, irregularities, and corruption. Leaving some exceptions, the kleptocrats have been ruling the country from Rana Regime to the republican regime in Nepal. In kleptocracy, the rulers exploit the public property, power, foreign assistance, loan, and support for their personal benefit. The leaders extend their power and property based on the exploited national treasury and resources. The leaders in Nepal seem to have ruled through kleptocracy. They spent resources from the national treasury for the benefit of their relatives, supporters, and cadres. The kleptocrats centralized power by themselves. This trend was seen not only during the Rana Regime but also in the republican regime.

While studying the trend of governance system from Shah regime to republican regime, the political leaders have been accused of involving in big corruption scandals which have remained uninvestigated. In the scandals which were investigated, the leaders accused of corruption have not been punished. The political party leaders have been accused of being involved in corruption scandals like widebody airplane, Lalita Niwas, tax evasion scandals, Budhi Gandaki Hydroelectricity scandal and so on. The appointments for constitutional commissions



such as CIAA are done for the benefit of political leaders. Thus, the irregularities and corruption involving the political leaders remain uninvestigated.

In kleptocracy, there is shuffling of leaders and high-level officials and the bureaucrats are shifted from one office to the other rapidly. According to the civil service act, there is the provision of shifting of the bureaucratic officers once in two years. However, officials are shifted within 2 months also. The secretaries of various ministries are shifted likewise. This trend of shifting the officials rapidly hinders their performance on the one hand and on the other hand affects the overall development of the country.

In kleptocracy, the political leaders, their relatives and cadres collect a lot of personal property spoiling the national economy. In Nepal, there is practice of allocating budget in Member of Parliaments Development Fund, Prime Minister Employment Program, and taking a big amount from national treasury for leaders' health treatment from time being. Similarly, to remain in power, the leaders receive financial support from foreign agents and international mafias. An audio footage was published in which the contemporary leader of CPN (Maoist), Krishna Bahadur Mahara asked 500 million rupees with a Chinese agent for purchasing the Member of Parliaments. There is no evidence of any action taken against him. This is just an example of many such scandals. The agents and mafias are investing in political leaders and cadres in seen or unseen ways. Similarly, they are also helping in the name of social service and development. These kinds of investments are promoting corrupt people to get power and remain in power.

In kleptocracy, the rulers leverage people and various groups to have control over power. The rulers adopt the policy of divide and rule for bringing various groups in favor and have control over power (Acemoglu et al., 2004). For this, the rulers exploit national treasury and resources in their favor. They are ready to give the national resources for supporting their party. Nepal is rich in water resources. However, there is load shedding for up to 18 hours in this country. All the agreements made with the foreign countries from Gandak, Mahakali Treaties to the latest Budhi Gandaki agreement were for the benefit of the political leaders to remain in power.

Political leaders, some high-level government officials and few businessmen prosper while the general people remain poor in kleptocracy. Most of the people are

totally dependent on the rulers for their livelihood. General people, contractors, businessmen are depended on the political leaders. From being chairman of the users' committees to getting employment through Prime-minister Employment Program or receiving easy loans, people must be depended on political leadership. This trend has been supporting to kleptocracy in Nepal.

However, neo-kleptocracy has risen in Nepal in the latest time. Earlier, a person used to come in governance system with the help of military power but in the latest time they are elected by people. The neo-kleptocrats do not think of general people except the benefit of their family, relatives, and limited party cadres. One ruler ruled as kleptocracy for a long time in the African countries like Congo. But in Nepal the power changes time to time, however, the same people are repeated time and again in power in the name of party in power or the opposition party. In the big corruption scandals all parties seem to have aliened. Ncell tax scandal, Lalita Niwas land scandal, wide body scandal are few examples.

State capture is another important factor that affects the development of Nepal. The act of saving the corrupt persons in alliance of all bodies of government, legislative, executive and judiciary is known as state capture. In the state capture, all bodies of government remain in a system for corruption and save corrupt persons. They divide the gain from corruption among each other. All the state mechanisms are used in this kind of corruption. All the state bodies are captured and controlled for corruption. This system includes the appointments of officials in various state structures (Kaufman, 2001).

There is influence of limited persons in the appointment of officials in the government entities like CIAA, Chief Justice among others. These officials are exempt of any financial irregularities or corruption through those appointing the officials. The opposition party is also shared with the corrupted properties. While the benefit is shared, the opposition party remains silent (Lesch, 2002).

Scandals such as Budhi Gandaki hydro scandal, Ncell tax evasion scandal, irregularities in Tax Settlement Commissions, Lalita Niwas scandal among others can be taken as the examples to the state capture. There is a special network of corruption in the state capture. This network is mobilized all the time. Police, political leaders,

parliamentarians, government, journalists, judiciary all take part to save the culprit and accomplish the corruption. Thus, in most corruption scandals, nobody is investigated or punished.

Analyzing the history of Nepal carefully, unequal access and dependency is not only the cause of underdevelopment of Nepal as said by neo-Marxists scholars like Freak (1969). Neither the lack of modernization is the only reason as said by Rostow (1960). Rather, the outflow of capital as said by Massa (2014), weak governance as said by Fukuyama (2004) and high corruption as said by Rose-Ackerman (1997) are seen as major reasons of underdevelopment of Nepal.

## **6.2 Conclusions**

This study has stated that weak governance system, high level of corruption and illicit capital outflow are major reasons for underdevelopment of Nepal. The political regime changed for seven times in the modern Nepal. However, the governance system could not improve or change. Many weak governance practices that started during the Shah and Rana regime got continued until the republican regime. This trend has played an important role in the development of underdevelopment in the country.

There was no difference between private and public property during the Shah and the Rana regimes. The rulers were involved extensively in financial irregularities by the misuse of public property and resources as their own. This trend of misusing public resources continued after these regimes. With the downfall of the Rana regime, clear-cut laws and regulations were made against the use of public resources for private use. However, the rulers never followed the laws and regulations. The practice of looting the national treasury has become a part of governance system for the time being. There have been various events of tax evasion and revenue leakage in the name of tax settlement in the republican regime too. The governance system adopted by every regime in Nepal can be taken as kleptocracy as stated by Acemoglu & Robinson (2004). This kind of kleptocratic governance has played an important role in promoting underdevelopment process of Nepal.

The weak governance system that started during the Shah regime could not improve till the republican regime. With the change in regime, the status of the major elements of good governance such as transparency, accountability, peoples'

participation, and rule of law could not improve. The status of arrears has not improved. The tradition of nepotism, favoritism, *chakari* and *pajani* has been continuing since the Rana regime until the republican regime. The excessively centralized governance system has been persisting for the time being. The status of unequal access to land has not improved. Similarly, the remittance based on consumerism has not improved either. The government of Nepal could not prepare clear policy for using the remittance received in Nepal annually in any productive sector. No ruler gave priority to economic growth and development of the country. Rather, the politicizing of development projects got more institutionalized until the republican regime. Nepal got drowned into the vicious circle of underdevelopment due to this kind of weak governance system in Nepal as stated by Rotberg (2002).

The illicit capital outflows that was excessive during the Shah and Rana regimes has been increasing until the republican regime. During the Shah and Rana regime, capital from Nepal was out flown by the rulers, high officials, and their relatives, especially to India. In the latest time, the destination and process has been changed a little bit. During the Panchayat, democratic and republican regime, taking Nepali capital out of the country is regarded illegal. Thus, it is not possible for taking capital out of the country like that during the Shah and Rana regime. However, capital of Nepal goes to Swiss bank illegally in the indirect ways.

The Nepali capital is out flown to the foreign countries illegally with the involvement of high politicians, administrators, and businessmen. The illegal ways like foreign currency smuggling, cryptocurrency, hyper fund, and hundi are adopted for this. As shown by the study of Massa (2014), the illegal capital outflow from Nepal has played important role for underdevelopment of Nepal.

Nepali society seems to have been facing the unruly situation. Due to the weak governance system, every mechanism and institution of the state including executive, legislative, executive bodies, private sectors are not working effectively. This state has not changed since Shah and Rana regime until the republican regime. The improvement has not been seen in the governance system. The trend of exempting the culprits rather than punishing them has been increasing. Impunity has flourished. The high officials, politicians and businessmen are always exempt of punishment. Instead, the low-level government employees involved in corruption are only punished. This trend has been continued since the Rana regime until the republican regime. The

national treasury has been exploited in alliance of many sectors in the country. The state capture has been flourishing in Nepal as stated by Lesch (2002). These all-factors account for development of underdevelopment.

Similarly, this study has also tried to clarify some theoretical questions. Many neo-Marxist scholars give emphasis to unequal exchange and relationship with core or developed countries as an important factor for underdevelopment of a country. Daniel Offiong (1982) said that underdevelopment is a natural outcome of interplay of the international capitalist economic system that rests basically on the notion that the development of one country in a system of dependency means the underdevelopment of others. Sunkel (1973) also argued that the intercourse between the rich (center) and the poor (periphery) countries always results in the development of the center at the cost of underdevelopment of the periphery. Underdevelopment is a phenomenon integral to global capitalism resulting from the historical process of the capitalist mode of production (Franck, 1972). David (1980) strongly argued that the "third world economy is shaped, distorted, and deformed by global capitalist order. Underdevelopment is the outcome of unequal relationship between core and periphery (Amin, 1974). Similarly, other social scientists like Dos Santos (1970), Furtado (1964), Sunkel (1969) have also conceptualized development of underdevelopment as an integrative process of world capitalism. These intellectuals have given emphasis to unequal exchange and dependency for underdevelopment of a country.

However, Weber gave emphasis to the internal factors for lack of development of a country (Weber, 1968). This study also finds out that the internal reasons are responsible for underdevelopment of Nepal. Internal reasons include weak governance (Uddin & Joya, 2007), weak institutions (Acemoglu & Robinson, 2013) and corruption (Fukuyama, 2014) which are playing vital role for the underdevelopment in Nepal. Similarly, the capital outflow also acts as obstacle to development (Massa, 2014). As said by Massa, Nepal's underdevelopment is also attributed to capital outflow from the country. Likewise, the country has been looted through kleptocracy and state capture and property collected are sent abroad. While studying the history of Nepal, we find that a huge amount of property collected in every regime is sent abroad through various media.

The problems seen in political regime like weak governance process, increasing corruption, inability to create investment-friendly environment are the country's internal governance weaknesses. The countries giving emphasis to minimize this governance weakness and create investment-friendly environment have

progressed rapidly while those unable to do so have drowned in the vicious circle of underdevelopment. Singapore reformed the governance system, minimized corruption, and strengthened the public institution to reach to the height of development within a single generation. The reason behind the progress of the countries, Malaysia, South Korea, Singapore, and Taiwan which are also called four Asian Tigers, are promoting good governance, and minimizing corruption.

There is a positive relationship between good governance and development (Guru-Gharana, 1997). Governance, corruption, and capital outflow affect the development of countries in various ways. Transparency, accountability, and people's participation are not promoted in a weak governance system. Lack of these factors not only impacts the political sectors and bureaucracy but also the overall legislative, executive and judiciary bodies in the country. The excessive corruption in the country promotes to informal and black economy and spoils the environment of investment as well. The capital earned by the businessmen is out flown to abroad rather than reinvesting in the country. This leads to scarcity of capital and employment opportunities. The development activities cannot be conducted as desired. As a result, weak governance creates obstacles to the overall development process of the country. The exploitation of national treasury and resources existed in every regime which led to weak physical, economic, and social development in the country.

The weak governance shows a lack of accountability and transparency. Weak governance and corruption lead to economic mismanagement and ultimately negative impact on development. Weak governance system is taken as major challenge to health, education, economic growth, physical infrastructure development and reliable public service delivery. It created obstacles to public goods and service delivery as well as affecting the policy sector. It is a major problem of development. It promotes underdevelopment and weakens the investment friendly environment. As a result, the countries with weak governance systems remain underdeveloped. The weak public institutions cannot promote development. The countries cannot come out of the vicious circle of underdevelopment. Similar is the present situation of Nepal.

## ANNEXES

### Annex I: List of Historian and Experts Interviewed

S.N.	Name	Profession
1	Suryanath Upadhayaya	Former Chief Commissioner of CIAA
2	Sharada Pd. Trital	Former Secretary of GoN
3	Gyanmani Nepal	Historian
4	Prof. Dr. Bhabeshwor Pangi	Historian
5	Hari Bahadur Thapa	Journalist
6	TN Ghimire	Researcher
7	Nawaraj Subedi	Former Chairperson of National Panchayat
8	Rameshwor Khanal	Former Secretary of GoN
9	Bhanu Prasad Acharya	Former Chief of OAG
10	Kewal Prasad Bhandari	Secretary of National Planning Commission
11	Devendra Raj Panday	Former Minister of Finance and Development Experts
13	Damodar Gautam	Former Chief Secretary, GoN
14	Som Bahadur Thapa	Former Secretary of Legislative Parliament
15	LalShankar Ghimire	Former Secretary of GoN
16	Kulman Ghising	CEO, NEA
17	Prof. Dr. Rajaram Subedi	Historian

## Annex II: Budget and Major focus from First to the Fifteenth Plan

Plan	Total Budget	Focused Area
First Plan (1956-61)	330 million	Increase employment, develop the infrastructure, attain economic stability, promote industry, commerce, and international trade, Improving health and education and encouraging equitable income distribution.
Second Plan (1962-65)	Rs. 615 million	Transportation, road construction, telephone installation, irrigation and education were the main priority. Industry, tourism, and social services were second priority.
Third Plan (1965-70)	1,780 million	Increased the involvement of local Panchayat. Focused on transport, communication, foreign trade, and industrial and agricultural development.
Fourth Plan (1970-75)	Rs. 3.3 billion.	Give more priority on transportation, communications, and agriculture with allocating the budgets 41.2% and 26% budget allocated respectively. Increased the involvement of the panchayat in the development process. The central government plays a vital role and responsibilities.
Fifth Plan (1975-80)	Rs. 8.8 billion	Agricultural development is a top priority. The problem of poverty was addressed in the periodic plan, but no specific goals were mentioned. Emphasize increasing food production and cash crops. Focused on industrial production and social services. Controlling the population growth.
Sixth Plan (1980-85)	Rs. 22 billion	Agriculture was the top priority and increased social services were second. The budget share allocated to transportation and communication was less than that allocated in the previous plan.
Seventh Plan (1985-90)	Rs. 29 billion	Encouraged private sector participation in the economy. Increasing productivity and expanding opportunity for productive employment



		<p>Fulfilling the minimum basic needs of the people</p> <p>The plan focused on availability of food, clothing, drinking water, primary health care, sanitation, primary and skill-based education, and minimum rural transport facilities.</p>
Eighth Plan (1992-1997)	Rs. 113,479 million	<p>First periodic plan after democratic revolution of 1990.</p> <p>Agricultural intensification and diversification.</p> <p>Energy development.</p> <p>Rural infrastructure development</p> <p>Employment generation and human resource development</p> <p>Control in population growth</p> <p>Industrial development and tourism promotion</p> <p>Export promotion and diversification</p> <p>Macro-economic stabilization</p> <p>Reforms in development administration</p> <p>Monitoring and evaluation</p>
Ninth plan (1997-2002)	Rs. 189570 million	<p>The main objectives of this plan were poverty alleviation.</p> <p>Increase industrial production by 6 percent annually.</p> <p>Creation of additional 0.35 million jobs.</p> <p>Industrial contribution to the GDP was expected to reach 14 percent by 2002.</p> <p>Though, many of these targets were not achieved during the plan period.</p>
Tenth Plan (2002-2007)	Rs. 230,029 million	<p>It also gave priority and continuity to poverty alleviation in Nepal.</p> <p>It has a plan to improve the economic, social, and human development related indicators.</p> <p>It also gives more priority to the private sector.</p> <p>It has aims to strengthen the capability of the private sector and encourage it to participate in social development activities too.</p>
Eleventh Plan (2007-2010)	Rs. 280,282 million	<p>Focused on peace process and inclusive development.</p> <p>Giver priority on reconstruction, rehabilitation, and reintegration.</p> <p>Focused on physical infrastructure and social</p>

		<p>development too.</p> <p>Agriculture, industry, and trade, which are the backbone of Nepal's economy, did not make the expected progress.</p> <p>There has been no concrete progress in the areas of development infrastructure including irrigation, energy, and road network connectivity in remote areas.</p>
Twelfth Plan (2010-2013)	Rs. 565,140 million	<p>Focused on peace, reconstruction, and inclusive development.</p> <p>It also focused on infrastructure and social development</p> <p>Give priority to good governance and human rights.</p> <p>Most of the targets were not achieved.</p>
Thirteen Plan (2013-2016)	Rs. 464,011 million	<p>Hydropower and other energy development.</p> <p>Increase productivity, diversification, and commercialization of agricultural sector.</p> <p>Development of tourism, industry, and trade sector.</p> <p>Development of basic education and health, drinking water and sanitation sector.</p> <p>Promotion of good governance.</p> <p>Road and other physical infrastructure development.</p> <p>Natural resources and environmental protection.</p> <p>As the overall focus of the country was more on organizing and institutionalizing political change, the effective implementation of the plan could not get priority.</p> <p>The guarantee of good governance was laid in public, private and cooperative sectors.</p> <p>Even in regional progress, the problems of the past remained the same.</p> <p>Unexpected achievement could not be achieved in the agricultural sector due to unavailability of fertilizers and seeds in time and arable land remained barren due to lack of agricultural labor.</p> <p>The country could not get rid of the energy crisis as it could not utilize the abundant potential of water resources.</p> <p>Due to political instability, lack of positive and cordial labor relations, earthquakes, obstructions in the border areas, etc., the decline in industrial production has also affected the tourism sector. The trade deficit</p>

		widened sharply due to the decline in GDP and the failure to increase exports and import substitution as expected in the trade sector.
Fourteenth Plan (2016-2019)	Rs. 954,420 million	<p>Give priority on infrastructure development like hydropower, road, railways, irrigation etc.</p> <p>Focused on poverty alleviation and peace.</p> <p>Focused on social and industrial development.</p> <p>Give priority on governance reform, corruption control and good governance.</p> <p>Most of the goals set by the Fourteenth Plan have not been met. The state of good governance in the country remained extremely weak. Corruption has increased. During this period, the country had to face load shedding for 18 hours daily. No concrete work has been started for the construction of the railway.</p>
Fifteenth Plan (2019-2024)	Rs. 922,9290 million	<p>Promote Good Governance, Development, and Prosperity of the country.</p> <p>The main motto of the plan is “Prosperous Nepal, Happy Nepali”</p> <p>To transform Nepal as a nation of happy, healthy, educated, dignified, and high-quality living citizens with equal opportunity, including prosperous, independent, and socialist-oriented economies.</p> <p>Development of hydroelectricity and different energies.</p> <p>Increase the profitability, expansion, and commercialization of the farming segment.</p> <p>Development of the tourism, industry, and business segments.</p> <p>Development of fundamental instruction and wellbeing, drinking water and sanitation sectors.</p> <p>Promotion of good administration.</p> <p>Development of roadways and other physical foundations.</p> <p>Protection of natural resources and the environment.</p>

**Annex III: The Administration Improvement Commissions, their  
Recommendations, and Implementation Status**

<b>Year</b>	<b>Report</b>	<b>Major Recommendations</b>	<b>Implementation Status</b>
1952	Administrative Reform Committee (Report of Buch Commission)	<p>Limiting the number of ministries to 11.</p> <p>Appointing new employees only by consultation with the Public Service Commission.</p> <p>The facilities of the employees should be revisited by the Public Service Commission.</p> <p>The solution for investigation of corruption should be found</p> <p>The system of cabinet secretary should be removed, and arrangement of chief secretary should be made.</p> <p>Decentralization should be adopted.</p> <p>The law should be made for public administration and financial administration.</p>	<p>Among the recommendations of the commission, except chief secretary and few other recommendations, no others have been implemented.</p>
1956	Report of the District Administration Reorganization of Nepal.	<p>Developing necessary administrative laws.</p> <p>Establishment of Administrative Training Center.</p> <p>Establishment of Planning Development Ministry.</p> <p>Establishment of National Planning Commission.</p> <p>Starting the five-year periodic plan.</p> <p>Reforming the financial administration.</p> <p>Dividing development and general expenditure.</p> <p>Giving emphasis to the rural development.</p> <p>Reorganizing public employees and reducing number of employees.</p>	<p>Only a few recommendations in the report were implemented. However, recommendations such as reorganization of ministry and district administration were not implemented.</p>

		<p>Reorganizing the ministries.</p> <p>Reorganization of district administration.</p> <p>Establishment of district, village, and blocks for administrative decentralization.</p>	
1968	Report of administration reform commission.	<p>The number of ministries should be limited to 12 from 18.</p> <p>Separating the District Panchayat and District Administration.</p> <p>Chief District Officer should be freed from District Panchayat.</p> <p>There should be chance for the employees of hearing before giving departmental punishment.</p> <p>Performing audit by the Auditor General.</p>	The recommendations such as decreasing the number of ministries were not included.
1976	Report of administration reform commission	<p>Decentralization of decision-making process.</p> <p>Giving more priority to the local levels.</p> <p>Decreasing the number of ministries.</p> <p>Establishing a permanent administration reform committee.</p> <p>Unification of government corporations.</p> <p>No political appointments were made except for the post of <i>Anchaladhesh</i>.</p> <p>Increasing the salary of the government employees based on the increase in market prices.</p>	Most of the recommendations such as decreasing the number of ministries have not been implemented.
1992	The report of administration reform commission	<p>Limiting the number of ministries from 21 to 18.</p> <p>Enabling the non-government organizations in economic activities.</p> <p>Limiting the tenure of the gazette special class officers.</p> <p>Preparing job description for the employees and implementing.</p>	Most of the recommendations of this report were not implemented.

		<p>Making regular monitoring mechanism of administration reform.</p> <p>Cutting off 25 percent of government employees.</p> <p>Limiting the relationship between the ministers and bureaucrats.</p> <p>Reform in management of public corporations and limiting government interference.</p> <p>Making laws for making the corruption controlling institutions capable.</p>	
2009	Report of Administration Reorganization Commission	<p>Ending the impunity.</p> <p>Ending the political interference on bureaucracy.</p> <p>Ending the system of forming a lot of commissions.</p> <p>Promoting E-Governance.</p>	Many recommendations with long term importance were not implemented.
2014	The report of administration reform recommendation committee.	<p>Limiting the number of ministries to a maximum of 18 and to 12 when the federal system would be implemented.</p> <p>Not developing unnecessary structures without study and justification.</p> <p>Punishing the corrupt people and institutions to develop immaculate administration.</p> <p>Nepal Civil Service Employees Union formed with the political faith should be dissolved.</p> <p>Adopting the concept of E-Governance.</p> <p>Discouraging the trend of expenditure towards the end of fiscal year.</p> <p>Adopting a one-door public distribution mechanism.</p>	The major recommendations with long term importance have not been implemented.

Source: Content analysis, (2021)

**Annex IV: List of Government formed After 1806**

S.N.	Name	Took office	Left Office	Remarks
<b>Shah Regime</b>				
1	Bhimsen Thapa	1806	1837	
2	Rana Jang Pande	1837	1837	
3	Ranga Nath Poudel	1837	1838	
4	Chautariya Puskar Shah	1838	1839	
5	Rana Jang Pande	1839	1840	
6	Ranga Nath Poudel	1940	1840	
7	Fateh Jung Shah	1840	1843	
8	Mathabar Singh Thapa	1943	1945	
9	Fateh Jung Shah	1845	1846	
<b>Rana Regime</b>				
10	Jang Bahaur Rana	15 September 1846	1 August 1856	
11	Bam Bahadur Kunwar	1 August 1856	25 May 1857	
12	Krishna Bahadur Kunwar Rana	25 May 1857	28 June 1857	
13	Janga Badhur Rana	28 June 1857	25 February 1877	
14	Ranodip Singh Kunwar	27 February 1877	22 November 1885	
15	Bir Shamsher Jung Bahadur Rana	22 November 1885	5 March 1901	
16	Dev Shamsher Jang Bahadur Rana	5 March 1901	27 June 1901	
17	Chandra Shamsher Jang Bahadur Rana	27 June 1901	26 November 1929	
18	Bhim Shamsher Jang Bahadur Rana	26 November 1929	1 September 1932	
19	Juddha Shamsher Jang Bahadur Rana	1 September 1932	29 November 1945	
20	Padma Shamsher Jang Bahadur Rana	29 November 1945	30 April 1948	
21	Mohan Shamsher Jang Bahadur Rana	30 April 1948	12 November 1951	
<b>Democratic Transitional period</b>				
22	Matrika Prasad Koirala	16 November 1951	14 August 1952	
23	Kign Tribhuvan Shah	14 August 1952	15 June 1953	

24	Matrika Prasad Koirala	15 June 1953	11 April 1955	
25	Surya Bahadur Thapa (Acting)	11 April 1955	14 April 1955	
26	King Mahendra Shah	15 April 1955	27 January 1956	
27	Tanka Prasad Acharya	27 January 1956	26 July 1957	
28	Dr. K.I. Singh	26 July 1957	15 November 1957	
29	King Mahendra Shah	15 November 1957	15 May 1958	
30	Subarna Shamsheer Rana	15 May 1958	27 May 1959	
31	B.P. Koirala	27 May 1959	15 December 1960	
<b>Panchayat Regime</b>				
32	King Mahendra Shah	15 December 1960	2 April 1963	
33	Dr. Tulsi Giri	2 April 1963	23 December 1963	
34	Surya Bahadur Thapa	23 December 1963	26 February 1964	
35	Dr. Tulsi Giri	26 February 1964	26 January 1965	
36	Surya Bahadur Thapa	26 January 1965	7 April 1969	
37	Kirti Nidhi Bista	7 April 1969	13 April 1970	
38	Gehendra Bahadur Rajbhandari (Acting)	13 April 1970	14 April 1971	
39	Kirti Nidhi Bista	14 April 1971	16 July 1973	
40	Nagendra Prasad Rijal	16 July 1973	1 December 1975	
41	Dr. Tulsi Giri	1 December 1975	12 September 1977	
42	Kirti Nidhi Bista	12 September 1977	30 May 1979	
43	Surya Bahadur Thapa	30 May 1979	12 July 1983	



44	Lokendra Bahadur Chand	12 July 1983	21 March 1986	
45	Nagendra Prasad Rijal	21 March 1986	15 June 1986	
46	Marich Man Singh Shrestha	15 June 1986	6 April 1990	
47	Lokendra Bahadur Chand	6 April 1990	19 April 1990	
<b>Democratic Regime</b>				
48	Krishna Prasad Bhattarai	19 April 1990	26 May 1991	
49	Girija Prasad Koirala	26 May 1991	30 November 1994	
50	Man Mohan Adhikari	30 November 1994	12 September 1995	
51	Sher Bahadur Deuba	12 September 1995	12 March 1997	
52	Lokendra Bahadur Chand	12 March 1997	7 October 1997	
53	Surya Bahadur Thapa	7 October 1997	15 April 1998	
54	Girija Prasad Koirala	15 April 1998	31 May 1999	
55	Krishna Prasad Bhattarai	31 May 1999	22 March 2000	
56	Girija Prasad Koirala	22 March 2000	26 July 2001	
57	Sher Bahadur Deuba	26 July 2001	4 October 2002	
58	King Gyanendra Shah	4 October 2002	11 October 2002	
59	Lokendra Bahadur Chand	11 October 2002	5 June 2003	
60	Surya Bahadur Thapa	5 June 2003	3 June 2004	
61	Sher Bahadur Deuba	3 June 2004	1 February 2005	
<b>Royal Regime</b>				
62	King Gyanendra Shah	1 February 2005	25 April 2006	Dr. Tulsi Giri and Kirti Nidhi Bista was Vice Chairpersons of Cabinet
<b>Transitional and Republican Regime</b>				

63	Girija Prasad Koirala	25 April 2006	28 May 2008	
64	Girija Prasad Koirala	28 May 2008	18 August 2008	
65	Puspa Kamal Dahal 'Prachanda'	18 August 2008	25 May 2009	
66	Madhav Kumar Nepal	25 May 2009	6 February 2011	
67	Jhala Nath Khanal	6 February 2011	29 August 2011	
68	Baburam Bhattarai	29 August 2011	14 March 2013	
69	Khil Raj Regmi	11 March 2013	11 February 2014	
70	Sushil Koirala	11 February 2014	12 October 2015	
71	KP Sharma Oli	12 October 2015	4 August 2016	
72	Puspa Kamal Dahal 'Prachanda'	4 August 2016	7 June 2017	
73	Sher Bahadur Deuba	7 June 2017	15 February 2018	
74	KP Sharma Oli	15 February 2018	13 May 2021	
75	KP Sharma Oli	13 May 2021	13 July 2021	
76	Sher Bahadur Deuba	13 July 2021	To Date	

### Annex V: Balance Sheet of Rana Regime

Prime Minister	Cash	Kind	Total Earning	Expenditure on Public Welfare	Total Expenditure
Jang Bahadur 1846-1856 1857-1877 (31 years)	1,000,000,000	A vast treasury of jewelry, construction of palaces for himself and his sons	1,000,000,000	Minor activities	
Ranodhip Singh 1877-1885 (8 years)	-	Built a Palace	-	No	-
Bir Shamsher 1885-1901 (16 years)	800,000,000	Four palaces then valued rupees 20,000,000, an annual income from his private estate amounting to rupees 4,000,000 (approximately). Jewelry worth about rupees 300,000,000.	1,184,000,000	Constructed a school, a hospital, a library in Kathmandu and a few dispensaries in the Terai	-
Dev Shamsher 1901 (March-June) (4 Month)	-	Annual income from his private estate amounting to rupees 1,500,000 (approximately)	1,500,000	Some schools and installation of water taps at a few places.	
Chandra Shamsher 1901-1929 (29 years).	1,000,000,000	Nine palaces then valued rupees 70,000,000. A vast treasury of jewelry worth about rupees 500,000,000. Annual income from his estate rupees 12,500,000.	1,932,500,000	Opened a college. Constructed ropeway line up to Kathmandu from Amlekhganj, a metal road of 35 meters. A railway line of 25 meters, a 10 meters long	

				canal at Saptari. Electricity at Pharping Kathmandu.	
Bhim Shamsher 1929-1933 (4 Years)	150,000,000	Four palaces worth about rupees 2,800,000. Jewellery worth about rupees 60,000,000. Annual income from his estate rupees 2,000,000.	220,800,000	Established Tuberculosis sanatorium. Constructed water taps at some places in Kathmandu and Morang.	
Juddha Shamsher 1933-1945 (13 years)	400,000,000	Twenty-four places worth about rupees 60,000,000. A vast treasury of jewelry worth about rupees 250,000,000. Annual income from his private estate amounting to rupees 3,000,000 (approximately).	749,000,000	From the state treasury he spent rupees 3,000,000 for the rehabilitation of the earthquake victim. Sanctioned rupees 500,000 for a school per year. Constructed Jayanagar Janakpur railways at the cost of rupees 400,000 from the state treasury. Set up water taps at Biratnagar and Braganj	3,000,000 500,000 60,000 400,000
Grand Total	3,350,000,000	-	5,087,800,000		5,960,000

Source: Amatya, (2004, pp. 332-333).

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