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Role of Institutions in Transition Economy: Case of Nepal

Baikuntha Pandey (Ph.D. scholar)*

Abstract

The Paper highlights role of institutions in transition economy. Obviously, the author confirms that Nepal is still in the transition stage where institutional and ethical norms are yet to establish though many political changes occurred in a short span of time. Nepal adopted liberal market economy for speedy economic growth enticed with robust human development. The study attempts to take measure the outcome of new political-economic regime. The objectives of the study are-(i) to assess role of government institutions on economic growth and development in Nepal and (ii) to evaluate institutional performance of Nepal in comparison to other South Asian countries. The secondary data is used for the analysis which captured the period from 2014 to 2022. The data is analysed descriptively. The deductive method is used for the generalization. The study concludes that the average inflation GDP per capita, GDP growth, and doing business are 6.12 percent, 9968.22 USD, 3.36 percent, and 60.11 respectively. Control of corruption performance of Nepal is almost negative throughout the period. Transparency coefficient is medium i.e. 3 out of 6. In the same way, voice and accountability coefficient is also very poor throughout the time Relative analysis suggests that economic variables are sound in Maldives and Bhutan and development variables are sound in Bhutan. In aggregate, Bhutan has done marvellous performance. In both parameters, economic and development, Nepal's position is not encouraging. It is recommended to the government and political parties that they need to understand the urgency of matter and reform government as well as political institutions at the earliest.

Keywords: Transition economy, transparency, control of corruption, voice and accountability, GDP growth JEL code P170

Introduction

Transition economy refers to undergoing a significant shift from centrally planned or socialist economic systems to market-oriented systems. This transition involves a move away from state control over the means of production, distribution, and exchange toward greater reliance on market mechanisms. The transition process specifically involves economic, political, and institutional reforms aimed at fostering private enterprise, competition, and a more open and market-driven economy (Bromley, 1993). It involves privatization of state-owned enterprises as token of market economy where price is determined by the market forces. This is hoped that resources be optimally utilized through market driven decision-making. Economy is liberalized to attract foreign investment. Role

*Mr. Pandey is a Lecturer at the Department of Economics, Patan Multiple Campus, T. U., Lalitpur, Nepal.
Email: baikuntha2027@gmail.com

of government is to assure social safety nets and employment and manage physical as well as legal infrastructures. Movements toward democracy and greater political freedoms may accompany economic reforms in transition economies. In all, transition meant to integrate into the global economy by participating in international trade, attracting foreign direct investment, and adopting international best practices through the democratic political system. Institutions are the determining tools to lead a country towards prosperity through the transition (Khanal et al., 2005).

Nepal has experienced significant political transitions and changes in its governance structure since 1990. In 1990, Nepal displaced centrally planned system through a political change. Nepal adopted market economy after this change. Many legal reforms have been made to comply with the new politico-economic system (Khanal et al., 2005). Nepal became the member of WTO in 2004. Nepal's accession to the WTO marked a significant step in its integration into the global trading system. The WTO provides a framework for negotiating and formalizing trade agreements, settling disputes, and promoting fair and open international trade (Pant, 2003).

The critical examination of the political economy in economic development indicates that it grapples with dual challenges, namely market failure and government failure. Public choice theory identifies two contributors to government failure: the existence of distributional coalitions and the potential for predatory actions by bureaucrats and politicians. Another conceivable factor is the absence of well-trained and competent bureaucrats in pivotal policy-making agencies (Islam, 1992). Resolution of government failure requires that the state should operate within carefully circumscribed limits by developing efficient institutions. The issue would not be only to get the right institutions but also to make the right institutions work, to create coherent institutional framework (Tridico, 2011). Political economy arguments were sometimes misleadingly used in order to explain or justify many aspects of the transition process (Acemoglu & Robinson, 2010a).

The anticipated outcome of Nepal's transition was to address various microeconomic and macroeconomic factors. The primary objective of macroeconomic policy was to establish an environment where individuals would be preoccupied with macroeconomic concerns. Key macroeconomic variables that garnered public attention included controlling inflation, reducing budget deficits, stabilizing the currency's value, opening the economy to foreign trade, and attracting investments to stimulate economic growth (Tridico, 2011). Concurrently, the transition process encountered microeconomic challenges with the ultimate goal of replacing the planning system with a well-functioning, efficient market system supported by an institutional framework facilitating low-cost transactions. This involved initiatives such as price liberalization, privatization, the development of capital markets, and the establishment of a legal system defining and enforcing property rights, enacting contract laws, and fostering competition (Yeager, 1999).

The problem now is to evaluate the achievement of transition process of Nepal. After 25 years of journey of market economy, achievement scored during the period and failure to

accomplish targets is not made public. The specific objectives of the study are-to assess role of government institutions on economic growth and development in Nepal, to evaluate institutional performance of Nepal in comparison to other South Asian countries. The secondary data is used for the analysis which captured the period from 2014 to 2022. The study combines the results obtained from economic growth variables and human development variables. And to forward policy initiatives for better institutional performance. A study on outcome of the market economy backed by multiparty political system needs to be comprehensively made revalued. The present study attempts to mitigate this gap.

The study will prove to be a great departure for identifying the bottlenecks of compatibility of the government institutions and focus on deriving insights that could be actionable for policymakers in Nepal. This holistic approach recognizes the interconnectedness of political and economic factors tied with institutional provisions. The neoclassical tool (NIE) and descriptive statistics is used as an important asset for further studies in the area and recommendations may provide a succent idea for national policy makers.

Review of literature

Nadeem et al. (2020) have published an article entitled, 'Paths of economic development: A global evidence for the mediating role of institutions for participation in global value-chains'. The objective of the study was to explore the role of institutions on GDP per capita and GVC. This study conducts a thorough examination of the role of global value chains (GVCs) in economic development. The authors argue that the impact of a country's participation in GVCs on its economic growth can be influenced by domestic institutional arrangements, which varies depending on the type of GVCs. The authors use a large panel dataset of 60 countries from 2000 to 2016 and employ instrumental variable analysis as an empirical strategy. The results show that participation in GVCs has a positive effect on GDP per capita, and this effect is even greater when accompanied by institutional facilitation. This suggests that participation in GVCs can be highly effective in promoting economic growth if it is supported by well-functioning domestic institutions.

Arzeni (2016) has published a paper in which objective was to investigate the role of institutions for promoting economic development and job creation at the local level. To achieve this goal, governments need to implement both macroeconomic policies and structural reforms that encourage innovation, skills development, and business growth at the national level. The empirical data has gathered from OECD countries. The paper focuses on three key areas that are critical for supporting local economic development: a) promoting skills, b) unlocking the potential of small and medium-sized enterprises (SMEs), and c) fostering entrepreneurship. The study draws on a survey of unemployment levels, their impact on inequality, country-level economic performance, labour productivity, the importance of local economic development, and the role of SMEs. The study concluded that institutions are key to promote local level economic development by creating employment and reducing inequality. Ostrom (2014) carried out a study in which the purpose was to

examines the consequences of institutional changes in Brazil. The author conducts a comparative evaluation of Brazil's institutional development in relation to other Latin American nations like Chile and Argentina. The assessment focuses on indicators related to "conducting private business," encompassing aspects such as initial operational expenses, labour market inflexibility, expropriation risks for private investment, and bankruptcy regulations. The study concluded that Brazil presents a lower level of institutional development than Chile and Argentina.

Medeiros (2011) pursued study by setting objective to explore political nexus on institutional change and economic development. The author used neo-classical framework for the analysis. This investigation delves into the challenges confronting developmental states in Latin America, specifically concerning their domestic approaches to fostering economic growth. Some recurring patterns linked to an import substitution strategy are attributed to structural and institutional factors associated with abundant natural resources. The conclusion derived was (i) though it is difficult, the institutional changes respond to class and group pressure which are endogenous to the societies and the economy, ii) major growth spurts are preceded by major institutional changes. In the 1990s, countries across Latin and South America pursued analogous routes towards financial integration. Setbacks connected to this recent strategy created an opportunity for the emergence of a fresh development policy. Osman et al. (2011) have published a paper entitled, 'The role of institutions in economic development'. Objective of the study was to examine the factors determining economic performance. Panel data analysis was done in 27 underdeveloped countries in Sub-Saharan Africa (SSA) between 1984 and 2003. The authors take hypothesis that institutional quality has a consistent influence on the economic performance of the region and macroeconomic variables have less of an impact.

The study concluded that government stability and socioeconomic conditions are both found to be significant and positively associated with regional growth. And presence of institutional quality significantly affects the economic performance in Sub-Saharan African countries. Similarly Tamang & Malena (2011) have made a rigorous study on behalf of the World Bank entitled, '*The Political Economy of Social Accountability in Nepal*'. Objective of the report was to develop and examine tool for social accountability in Nepal. The report was prepared on the basis of 75 survey data. The authors note that civic engagement and social accountability in Nepal are shaped and impacted by several contextual factors, including the aftermath of recent conflicts, political transformations, governance issues, historical and current relationships between citizens and the state, as well as the specific characteristics of Nepali civil society and media. Based on their findings, the report concludes: i) Overall, Integrity indicator scored: 66 percent. And overall implementation gap was found to be 34 percent, ii) Civic engagement and social accountability are crucial for rich political economy. Acemoglu & Robinson (2010) have published a paper entitled, 'The Role of Institutions in Growth and Development'. Objective of the study was to explore the correlation between institutions and growth and development.

The paper poses an important question, aiming to uncover the main determinant of the differences in prosperity between countries, which the authors suggest may be due to disparities in economic institutions. Variables used are political institutions, political power, and economic institutions. Cross-country empirical analysis methodology is used for the analysis. They observed that a society's economic institutions are contingent upon the nature of its political institutions and the distribution of political power within that society. The authors concluded that better development policy can only come about by recognizing and comprehending these forces. Theesfeld et al. (2010) also have contributed in this theme with the purpose to examine the institutional compatibility for assessing policies from an institutional perspective before they are implemented. The authors have introduced a formalized methodology called the Procedure for Institutional Assessment (PICA), which allows policymakers to identify potential institutional incompatibilities. The authors' innovative approach to PICA's methodological and theoretical conceptualization considers the perspective of policymakers intending to influence actor behaviour when designing and implementing new policies. The study concludes that institutions are designed to resist the change but facilitate growth and development. The PICA suggests policy makers to identify potential institutional incompatibility before designing new policy. Aidt (2009) also has made contribution in this field where purpose of the study was to examine growth of wealth per capita, a direct indicator of sustainable development, and corruption. The authors took 85 countries as sample and used cross-national regression technique for the analysis. Corruption might not significantly affect the average GDP growth rate per capita; it appears to pose a substantial risk to sustainable development outcomes. This study concludes that the evidence supporting the 'greasing the wheels hypothesis' is considerably weak. Furthermore, the study reveals that there is no correlation between corruption and GDP growth. Likewise a notable contribution was made by Sugden(2009) through his article 'Neo-liberalism, markets, and class structures on the Nepali lowlands: The political economy of agrarian change'. Objective of the study was to examine the contradictions in neo-liberal ideologies and the political economy of Nepal. The author has applied survey technique and introduced a framework for analysing the compatibility issue in Nepal. The author argues that the depoliticizing assumptions embedded in neo-liberal ideologies can serve the interests of capitalist expansion by masking associated forms of class exploitation. The author concludes that various forms of exploitation have impeded both the classical agrarian transition envisioned in Marxian theory and the emergence of the specific form of rural commodity production envisioned in Nepal's neo-liberal agrarian strategy. It will be rational to remember Khanal et al. (2005) who have made a comprehensive analysis and published report for Institute for Policy Research and Development (IPRAD). Descriptive analytical framework based on political economy and institutional approaches was adopted during the study. The authors conducted investigation into the political economy of Nepal, noting that following the establishment of democracy and economic reforms, some progress was made up to the mid-1990s. The authors' overarching objective was to analyse and understand Nepal's reform program and draw lessons for the future. To achieve this, they posed research questions such as why Nepal initiated reforms, what factors motivated it to

adopt reforms, and whether the reforms achieved their intended objectives, as well as examining their outcomes and shortcomings. The analytical framework primarily involves testing research questions and hypotheses using descriptive and analytical narratives based on political economy and institutional approaches. The authors concluded that political institutions are not compatible to the governing structures for socio-economic transformation.

Research Methodology

Philosophically, the study be based on positivism paradigm which emphasizes that knowledge is derived from empirical observation and scientific methods. Under this paradigm, researcher employ explanatory research design and investigate the connection between the institutional structure, economic growth, and development. The cross-sectional data taken from various sources. The deductive approach is used for exploring the real-world situation and making valid conclusion thereafter. The study follow New Institutional Economic Model(NIE) developed by Neoclassical economists which asserts that institutions are to good governance, thus giving the right incentives to economic agents, and then does an enabling process start(Tridico, 2011). NIE used methodological individualism in order to justify aggregate behaviour of economic agents (Acemoglu & Robinson, 2010b). Authors like novel laureate Elinor Ostrom, Oliver E. Williamson, Timothy J. Yeager, Pasquale Tridico, etc have contributed for the foundation of institutionalism. The secondary data capture the period from 2014 to 2022. The study combines the results obtained from economic growth variables and human development variables. Additionally, the result obtained from the data be compared with the rest of the South Asian Countries' result through descriptive analysis. The EVIEWS software is handled for the reporting.

The study encompasses government institutions as independent variables and development as dependent variables. Economic growth and human development are combinedly presented as development. Thus, the variables included be related to economic growth and human development. It is why because, institutional efficiency can be better presented in this join performance in a holistic fashion. The variables include- voice and accountability, good governance, control of corruption, doing business, GDP (PPP), and GDP growth. The given variables are grouped under economic growth variables and human development variables or both. Besides the given variables, political institutions are taken as control variables and Trust is taken as proxy variable to transaction cost. NIE suggests that transaction costs are constituted by- i) service cost, like legal cost, accounting cost and financial cost, ii) cost of collecting information, exchanging and of protecting and enforcing property right. When institutions work efficiently, it creates trust towards government that leads to optimism and finally achieves growth with development targets. The transmission mechanism of the growth with development be as follows-

Institutional Framework → Human Development → Economic Growth

Table 1 Economic Growth and Human Development.

Variables	Economic Growth	Human Development
1. GDP per capita(PPP)	yes	-
2. GDP growth	yes	-
3. Inflation	yes	-
4. Doing business index	yes	-
5. Voice and accountability	-	yes
6. Control of corruption	yes	yes
7. Good governance	yes	yes

Source: Tridico (2011) and Yeager (1999)

Voice and accountability, control of corruption, and good governance represent the Trust. The trust parameter enhances institutional efficiency which leads to higher level of economic development. The efficient institutions cause productivity to increase, GDP growth, and GDP per capita (PPP) becomes sustained that ultimately improves economic development. So to say, if growth and development scores are above the average, the institutions are functioning properly signifying the sound political system. The data is presented by using descriptive statistics. The descriptive statistics of growth and development variables be separately presented in table 2, table 3, table 4, and table 5. The analysis has captured the period between 2014 to till 2022. The study period is historically landmarked which captures outcome of the political change of Nepal. In order to explore the robustness of Nepalese institutions, the descriptive statistics is used so that a pertinent comparison among the of South Asian countries can be had for the same period.

Result and Discussion

Table 2 highlights Nepal's economic performance displayed by institutions. It captures growth variables like inflation, GDP per capita, GDP growth, and of doing business. The average inflation GDP per capita, GDP growth, and doing business are 6.12 percent, 9968.22 USD, 3.36 percent, and 60.11 respectively which is shown in table 3.

Table 2 : The Average Inflation GDP per Capita and growth Rate.

Year	Inflation	GDP per capita	GDP growth	Doing business
2014	8.364155	8872.128	3.364615	NA
2015	7.868909	9480.432	6.011483	NA
2016	8.790343	9708.141	3.976053	NA
2017	3.627096	10194.75	0.433114	NA
2018	4.061163	11034.72	8.977279	59.70833
2019	5.568685	11349.86	7.622376	58.02771
2020	5.052367	7216.816	6.657055	59.98159
2021	4.149680	10076.32	-2.369621	59.65408
2022	7.650792	11780.82	4.838150	63.18660

Source: Author's own estimation from the dataset WDI

Standard deviation of inflation, GDP per capita, GDP growth, and doing business index is 2.04, 1390, 3.57, and 1.88 respectively. Inflation coefficient is unit root in first difference whereas GDP per capita and GDP growth are highly volatile which is reflected in table 3.

Table 3: Inflation GDP per capita growth.

	Inflation	GDP per capita	GDP growth	Doing business
Mean	6.125910	9968.220	4.390056	60.11166
Median	5.568685	10076.32	4.838150	59.70833
Maximum	8.790343	11780.82	8.977279	63.18660
Minimum	3.627096	7216.816	-2.369621	58.02771
Std. Dev.	2.041690	1390.687	3.571295	1.883287
Skewness	0.084681	-0.614236	-0.656889	0.831061
Kurtosis	1.327017	2.802726	2.523856	2.691184

Source: Author's own estimation from the dataset WDI

Inflation data has unit root in the first difference whereas GDP per capita and GDP growth are highly volatile.

Control of corruption performance of Nepal is almost negative throughout the period. Transparency coefficient is medium i.e. 3 out of 6. In the same way, voice and accountability coefficient is also very poor throughout the time as shown in table 4.

Table 4

Year	Control of corruption	Transparency	Voice and accountability
2014	-0.588591	3	-0.430446
2015	-0.603225	3	-0.415431
2016	-0.826683	3	-0.251383
2017	-0.776277	3	-0.199516
2018	-0.688618	3	-0.129691
2019	-0.691047	3	-0.150054
2020	-0.598266	3	-0.084039
2021	-0.556140	3	-0.084465
2022	-0.532641	3	-0.049159

Source: Author's own estimation from the dataset IMF

Table 4 and table 5 show that except transparency other development variables show dismal result implying poor performance of Nepalese institutions. The coefficient of transparency is just 3 out of 6 indicating average result in the study period on this issue. Control of corruption and people's voice addressed by the institutions are equally important indicator for Trust leading to development. Overall report show that the Trust is alarming that has challenged growth and development status of Nepal. Table 5 shows mean and std. deviation result of the variables. Control of corruption and voice and accountability coefficients have meagre std. deviation (around 10 percent) but transparency does not have any change throughout the period.

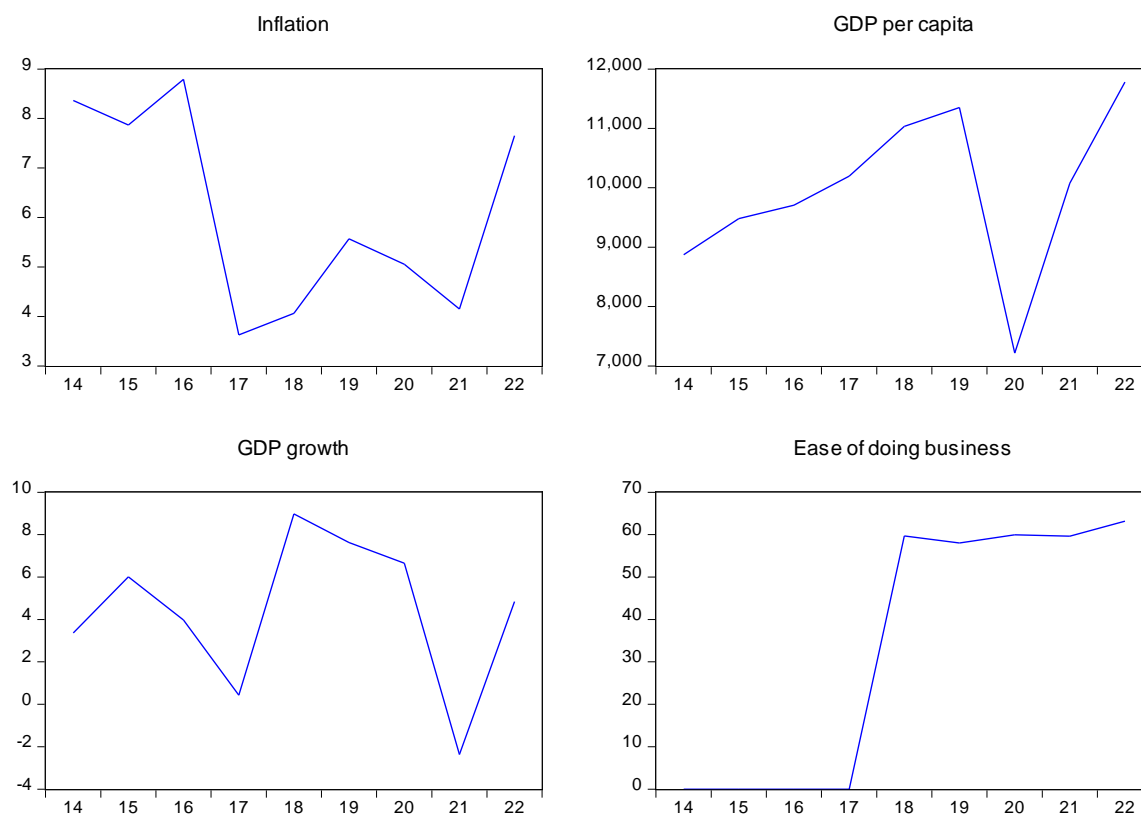
Table 5

	Control of corruption	Transparency	Voice and accountability
Mean	-0.651276	3.000000	-0.199354
Median	-0.603225	3.000000	0.150054
Maximum	-0.532641	3.000000	-0.049159
Minimum	-0.826683	3.000000	-0.430446
Std. Dev.	0.100959	0.000000	0.141040
Skewness	-0.570482	NA	-0.740720
Kurtosis	2.035599	NA	2.106880

Source: Author's own estimation from the dataset IMF

Institutional performance of Nepal in terms of growth and development is presented in figure 1 and figure 2.

Figure 1. Growth performance of Nepal

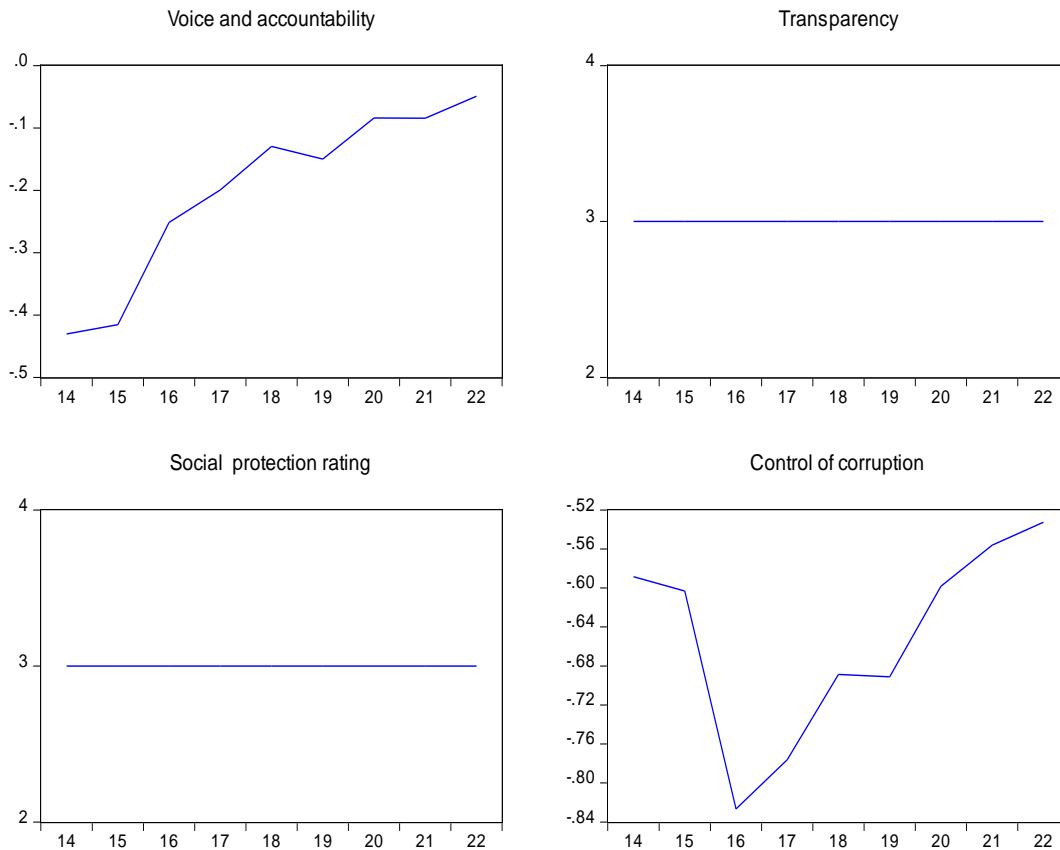


Source: Author's own estimation from the dataset WDI

Inflation and GDP growth pattern satisfies economic theory of Phillip's curve. In the later period, inflation pulled the growth. GDP per capita is also gaining momentum in the later period but 'doing business curve' is marginally increasing showing dismal performance of institutions.

Development performance of Nepal is not so encouraging. Transparency coefficient is not progressing over the time. Remaining indicators like voice and accountability and control of corruption show very sluggish improvement throughout.

Figure 2. Development performance of Nepal



Source: Author's own estimation from the dataset IMF

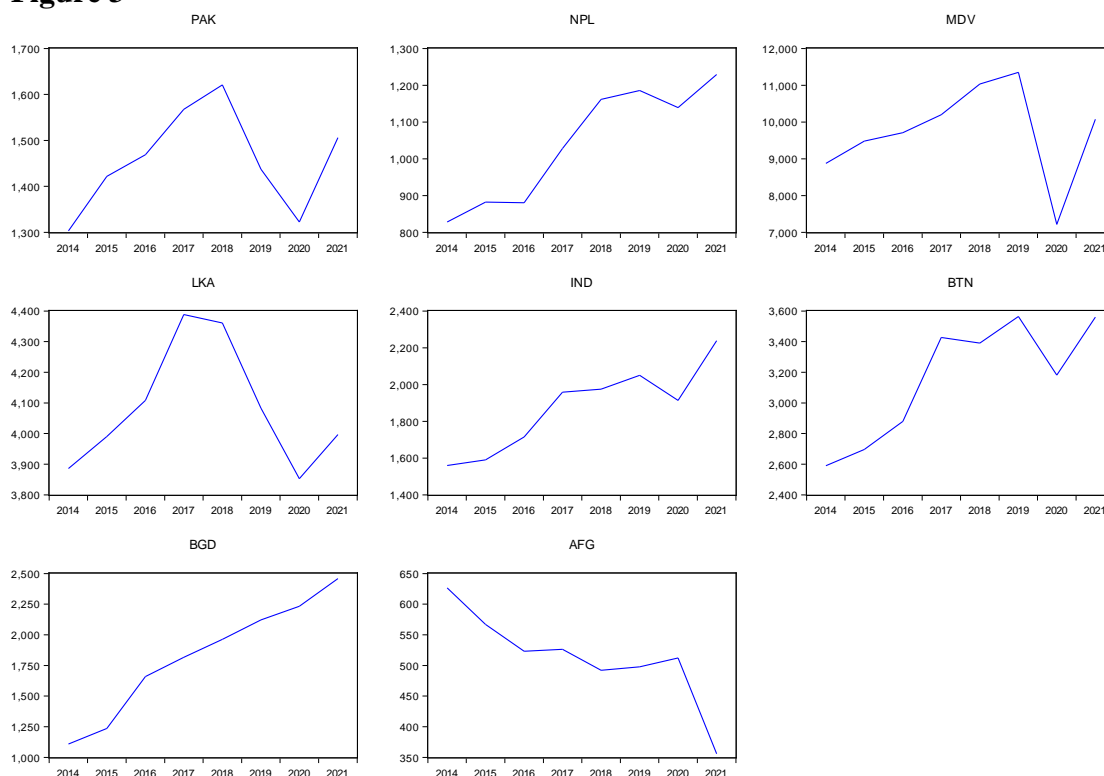
The overall growth and development performance of Nepal must be judged relatively. For this reason, author has made a comparison of Nepalese institutional performance with that of rest of countries in the South Asia. The variables include growth variables and development variables. GDP per capita and inflation are considered as growth variables and transparency and control of corruption are taken as development variables. These variables throw light on the institutional performance of each country.

Table 6. GDP per capita of South Asian countries.

	PAK	NPL	MDV	LKA	IND	BTN	BGD	AFG
2014	1303.185	827.7447	8872.128	3885.624	1559.864	2589.899	1108.515	626.5129
2015	1421.835	882.3077	9480.432	3990.353	1590.174	2695.637	1236.004	566.8811
2016	1468.822	880.2249	9708.141	4107.830	1714.280	2879.547	1659.962	523.0530
2017	1567.641	1027.965	10194.75	4388.202	1957.970	3427.174	1815.610	526.1408
2018	1620.743	1161.534	11034.72	4360.585	1974.378	3389.777	1963.412	492.0906
2019	1437.166	1185.682	11349.86	4082.694	2050.164	3564.599	2122.078	497.7414
2020	1322.315	1139.190	7216.816	3852.389	1913.220	3181.340	2233.306	512.0551
2021	1506.108	1229.394	10076.32	3996.572	2238.127	3560.198	2457.924	355.7778

Source: Author's own estimation from the dataset WDI

Figure 3



Source: Author's own estimation from the dataset WDI

Table 6 shows that Maldives has the highest GDP per capita throughout the period and Sri Lanka holds the second highest position throughout. Nepal's GDP per capita is lowest among other countries. This shows Nepal's institutional performance is very poor in the region. Figure 3 shows that Nepal's GDP per capita is gradually increasing. Likewise, India, Bhutan and Bangladesh also showing upward trend. But Pakistan and Sri Lanka's position is not so satisfactory.

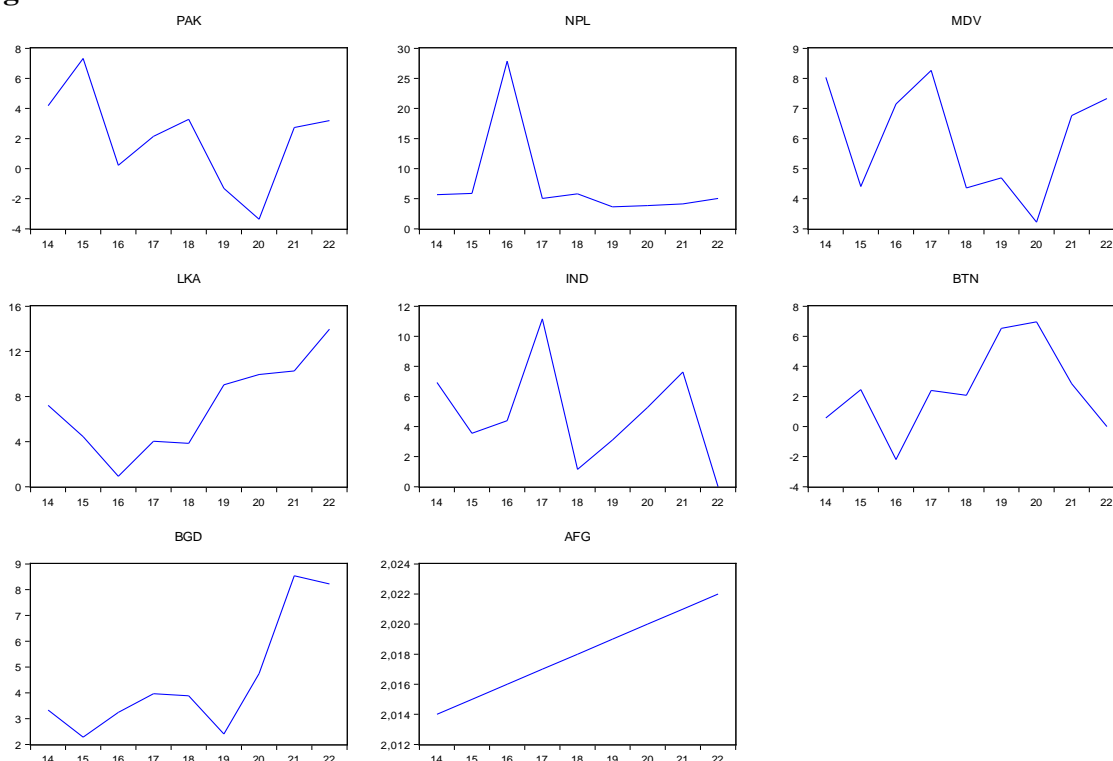
Table 7. Inflation of South Asian countries

	PAK	NPL	MDV	LKA	IND	BTN	BGD	AFG
2014	4.183197	5.668789	8.035366	7.209765	6.920961	0.566945	3.331757	2014
2015	7.323449	5.872777	4.409045	4.441980	3.557068	2.447563	2.279588	2015
2016	0.218876	27.85074	7.150335	0.922163	4.383411	-2.197526	3.237975	2016
2017	2.143583	5.047597	8.261413	4.029746	11.15257	2.403656	3.969258	2017
2018	3.282215	5.805527	4.355858	3.841787	1.150859	2.071349	3.884240	2018
2019	-1.309738	3.658168	4.691156	9.036335	3.108002	6.521480	2.405517	2019
2020	-3.365325	3.841045	3.217402	9.944498	5.287368	6.962946	4.746549	2020
2021	2.732062	4.121175	6.762712	10.26734	7.628020	2.838996	8.538525	2021
2022	3.193863	5.049022	7.327366	13.95701	0.000000	0.000000	8.225869	2022

Source: Author's own estimation from the dataset WDI

Table 7 shows that inflation of Bhutan is lowest forever except in 2019 and 2020 whereas Sri Lanka's inflation shows upward spiral throughout. Nepal's inflation is average 5 percent during the period except 2016. Figure 4 also shows that Nepal's inflation trend is gradually declining after 2016. India is also doing good in controlling inflation in the same period. Bhutan's inflation trend is declining throughout. Rest of the country's inflation trend is moving gradually upwards.

Figure 4. Inflation of South Asian countries



Source: Author's own estimation from the dataset WDI

Control of corruption indicates the foundation of Trust environment where growth and development targets of a government is easily achieved. When atmosphere of Trust prevails in a country, it signifies that government institutions are efficient which is backed by political system.

Table 8. Control of corruption in South Asian countries

	PAK	NPL	MDV	LKA	IND	BTN	BGD
2006	-0.818344	-0.692943	-0.602049	-0.194801	-0.274563	0.854817	-1.442983
2014	-0.838965	-0.588591	-0.364196	-0.345143	-0.457155	1.306129	-0.892130
2015	-0.834246	-0.603225	-0.480371	-0.376569	-0.406171	0.989678	-0.844026
2016	-0.900541	-0.826683	-0.654234	-0.335665	-0.336942	1.091020	-0.886878
2017	-0.803011	-0.776277	-0.798739	-0.489461	-0.291452	1.529063	-0.858939
2018	-0.801387	-0.688618	-0.875026	-0.352467	-0.229412	1.590518	-0.926947
2019	-0.879330	-0.691047	-0.263244	-0.303826	-0.302205	1.572266	-1.016994
2020	-0.856762	-0.598266	-0.339506	-0.330454	-0.292916	1.618237	-1.003677
2021	-0.809737	-0.556140	-0.379970	-0.356353	-0.316494	1.507121	-0.985861
2022	-0.804033	-0.532641	-0.401501	-0.383287	-0.321811	1.514259	-1.075527

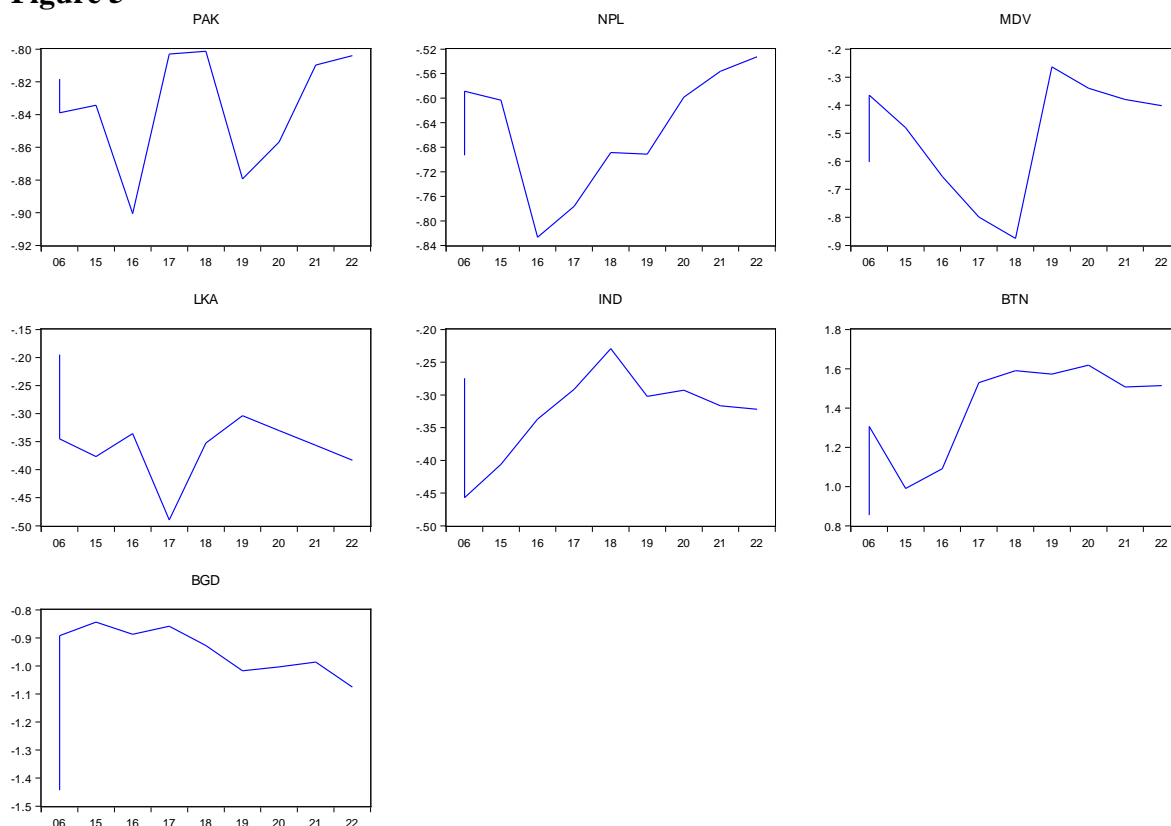
Source: Author's own estimation from the dataset IMF

Table 8 below shows that the coefficient of control of corruption in all South Asian countries except Bhutan is negative. Bhutan is able to show profound picture of good governance. Dedication, ethical integrity, and accountability in institutions is well expressed in Bhutan. Bhutan is a very good example of growth and development that needs to be learnt by the rest of the South Asian countries. Pakistan, Nepal, Maldives, India, and Bangladesh have shown very dismal result on corruption issue. Pakistan and Bangladesh are shown as highly corrupt countries. It reminds the author about a statement of Tridico in the book that when there is discrepancy between formal and informal institutions caused by the institutional failure, corruption persists and develops (Tridico, 2011). So is the case everywhere except Bhutan.

Figure 5 shows the trend of control of corruption in South Asian countries though almost countries are exhibiting poor performance. Nepal's effort to control of corruption is improving as shown by upward trend. Pakistan is also trying gradually to move upwards. Rest of the countries, except Bhutan are not indicating to improve on it.

Transparency also indicates the foundation of Trust where growth and development targets of a government is easily achieved. In the table 9, Bhutan's transparency indicator is very high. It is getting 4.5 out of 6 in average. Bhutan is showing very poor performance in the region. Nepal's achievement is average which is stronger than Sri Lanka and Maldives.

Figure 5



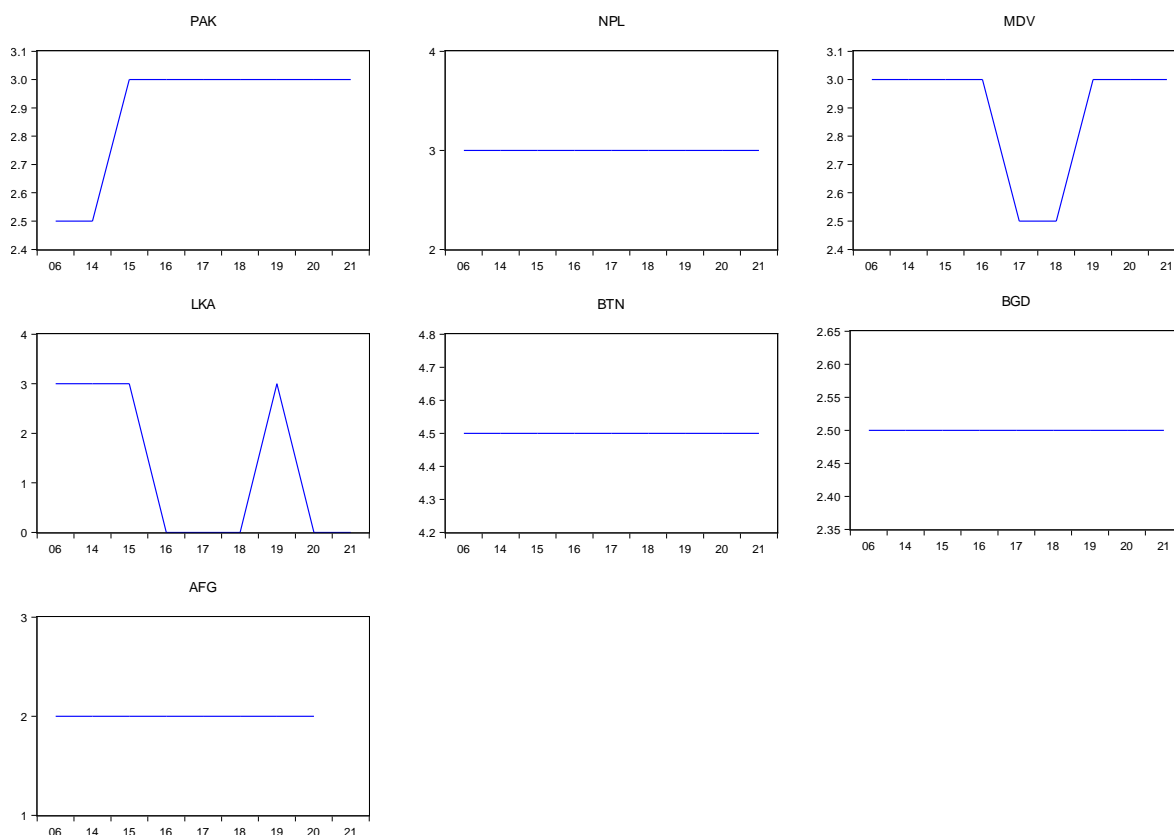
Source: Author's own estimation from the dataset IMF

The trend of Transparency in South Asian countries is represented in the figure 6. Nepal, Bhutan, Bangladesh, Pakistan, and Afghanistan have constant progress in this issue during the period. Maldives is improving it since 2018 whereas Sri Lanka's performance is showing downward trend.

Table 9. Transparency in South Asian countries

Year	PAK	NPL	MDV	LKA	BTN	BGD	AFG
2006	2.5	3	3.0	3	4.5	2.5	2
2014	2.5	3	3.0	3	4.5	2.5	2
2015	3.0	3	3.0	3	4.5	2.5	2
2016	3.0	3	3.0	0	4.5	2.5	2
2017	3.0	3	2.5	0	4.5	2.5	2
2018	3.0	3	2.5	0	4.5	2.5	2
2019	3.0	3	3.0	3	4.5	2.5	2
2020	3.0	3	3.0	0	4.5	2.5	2
2021	3.0	3	3.0	0	4.5	2.5	NA

Source: Author's own estimation from the dataset IMF

Figure 6. Transparency in South Asian countries

Source: Author's own estimation from the dataset IMF

Conclusions

Political parties of Nepal staged movement against constitutional monarchical multiparty system. Main agenda was socio-economic transformation through political change (Bhattarai, 2003). Finally, Nepal was declared as federal republic democratic country in 2015. So, Nepal remained at the transition period in the decade of 2010 till 2020. The pertinent question was that whether new political system has developed institutions so as to meet the aspiration of Nepalese people in the changed context. Literatures show that it takes at least two years to gear up growth after transition is recovered (Yeager, 1999). And it requires fifteen years' time for Nepal for socio-economic transformation as per rule 67. If 67 is divided by GDP growth per capita, the time required for overall development is assessed (Yeager, 1999). Author has explored Nepal's economic and development outcomes during the period and conclusion has been drawn are-

Objective 1: The performance of institutions is reflected in growth and development variables. Economic variables like GDP per capita, GDP growth, and doing business show very poor result except inflation. And development variables like control of corruption,

transparency, and voice and accountability also reveal dismal outcomes. The environment of Trust seems to be decaying. Cost of transaction naturally goes up in this state. This bitter truth is satisfied by the outflow of Nepalese youth to foreign land for diverse opportunities.

Objective 2: Nepal's economic and development outcomes achieved through its institutional provisioning can not be judged without having compared it with the rest of the world. So, relative analysis suggests that economic variables are sound in Maldives and Bhutan and development variables are sound in Bhutan. In aggregate, Bhutan has done marvellous performance. In both parameters, economic and development, Nepal's position is not encouraging.

Way forwards

In nutshell, the role of Nepalese institutions is not satisfactory during this transition. Political parties need to understand the urgency of matter and reform government as well as political institutions at the earliest. So, following steps are recommended to have followed for transformation momentum:

- i) Convert political system into democratic framework,
- ii) Change government institutions so that transparency, accountability, good governance, and control of corruption could be perceived,
- iii) Strong commitment, determination, and integrity in state executives need to be inculcated and moral and spiritual education need to be initiated,
- iv) The rule of law and meritocracy in the nation must be made widespread.
- v) Philosophy of social inclusion needs to be practically addressed and problem of regional disparity, inequality, poverty, and unemployment need to be urgently resolved.

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