

Good Governance and Economic Growth in Nepal: A Critical Appraisal

Pramshu Nepal, PhD

Abstract

The paper seeks to examine the connections between good governance and economic growth in the context of Nepal. In doing so, it attempts to examine Nepal's existing level of good governance and how it affects economic growth, identify the difficulties Nepal has in promoting good governance, and make recommendations for enhancing good governance and fostering economic growth in Nepal. This paper concludes that Nepal has long grappled with challenges of corruption and weak institutions, which have hampered its ability to thrive economically. One of the biggest challenges to good governance in Nepal is corruption. Corruption can take many forms, including bribery, nepotism, and embezzlement. It can distort the market and discourage investment, leading to slower economic growth. Another challenge to good governance in Nepal is political instability. Despite these obstacles, the paper further concludes that Nepal has improved recently in terms of lowering poverty and increasing access to services, as well as by taking steps to promote the expansion of the private sector. In addition, the paper suggests some measures to cope with corruption and take initiatives for the good governance. By investigating the interplay between good governance and economic growth in the context of Nepal, this study aims to contribute to the existing knowledge base and inform evidence-based policy decisions.

Keywords: Economic Growth, Good Governance, Effective Use Of Resources, Stable, Corruption

1. Introduction

There is widespread agreement that sustained economic growth and development depend on good governance. It is essential to guaranteeing the effective use of resources and the provision of public services, as well as establishing a stable and predictable climate in which enterprises can operate. An important element in Nepal's economic success has been identified as strong governance. However, Nepal has always grappled with challenges of

corruption and shoddy institutions, which have impeded economic growth. In recent years, there has been a lot of study and discussion on the connection between good governance and economic growth. The World Bank defines good governance as “the manner in which power is exercised in the administration of a country’s economic and social resources for development” (World Bank, 1992). In other words, good governance relates to how a government manages its resources and makes decisions to support economic growth and development.

An increasing body of research is pointing in the direction of a favorable relationship between excellent governance and economic expansion. For instance, a World Bank research (Kaufmann, Kraay, & Mastruzzi, 2010, p. 4) discovered that nations with good governance frequently have greater rates of economic growth and are more inclined to pursue sustainable development. In a similar vein, a 2016 study by the International Monetary Fund (IMF) discovered that strong governance is positively correlated with economic growth and that nations with good governance are more likely to attain macroeconomic stability and lower poverty rates. In Nepal, encouraging economic development and growth is considered as being dependent on effective administration. However, Nepal has long suffered with challenges of corruption and underdeveloped institutions, which have slowed down the country’s economic development. The nation has moreover experienced political unpredictability and a dearth of capable leadership, both of which have impeded economic growth.

In spite of these difficulties, Nepal has improved governance and encouraged economic growth recently. The nation has made progress, for instance, in reducing poverty and expanding access to essential services like health and education. Moreover, Nepal has taken measures to facilitate business transactions and encourage the expansion of the private sector.

2. Literature Review

Good governance encompasses a set of principles and practices that ensure effective, accountable, and transparent decision-making processes within a country. It involves the participation of citizens, the rule of law, respect for human rights, transparency, responsiveness, and consensus-oriented decision-making (World Bank, 1992, p. 2). Scholars have identified various dimensions or components of good governance, including political stability, voice and accountability, government effectiveness, regulatory quality, rule of law, and control of corruption (Kaufmann, Kraay, & Mastruzzi, 2019, p. 140). Extensive research has established a positive correlation between good governance and economic growth, particularly in developing countries. Studies consistently highlight the significant role of good governance in fostering economic

development. For instance, a study conducted by Knack and Keefer (1995, p. 207) found that countries with better governance indicators experienced higher economic growth rates. Similarly, the World Bank's research on the relationship between governance and growth in 2000 concluded that good governance is a critical determinant of economic performance and prosperity (World Bank, 2000, p. 3).

Numerous studies have explored the relationship between good governance and economic growth in developing countries. For instance, Gupta, Davoodi, and Tiongson (2000, p. 223) conducted an empirical analysis of 27 developing countries and found that improvements in governance significantly contributed to higher economic growth rates. Similarly, Alguacil, Cuadros, and Orts (2010, p. 856) examined a panel of 83 developing countries and confirmed that better governance positively influenced economic growth. Several studies have examined Nepal's governance framework and its impact on economic growth. Sharma (2012, p. 91) investigated the relationship between governance indicators and economic growth in Nepal and found a positive association between governance and economic performance. Additionally, Khatiwada and Pandey (2016, p. 1366) explored the impact of governance on Nepal's agricultural sector, highlighting the importance of effective governance in driving sectoral growth. Furthermore, Adhikari and Bharati (2017, p. 1) analyzed the relationship between governance and tourism development in Nepal, emphasizing the role of good governance in attracting tourists and stimulating economic growth in the tourism sector.

A study by Kaufmann, Kraay, and Mastruzzi (2010, p. 4) discovered a favorable relationship between excellent governance and economic growth. They showed that countries with better governance had faster rates of economic growth using data from 215 nations between 1996 and 2008. Additionally, they discovered that the link between governance and growth is true even when other factors such as baseline income, the availability of natural resources, and trade openness are taken into account.

Knack and Keefer (1995) discovered a favorable correlation between excellent governance and economic growth. They studied data from 85 nations and discovered a positive correlation between GDP per capita growth and good governance, as defined by the presence of the rule of law and the degree of corruption.

It is discovered a favorable relationship between excellent governance and economic growth. They studied data from 88 nations and discovered a significant correlation between strong governance, as indicated by the degree of investor protection under the law and the effectiveness of the bureaucracy, and economic growth, as indicated by GDP per capita (Djankov et al, 2002).

Another study by Mauro (1995) revealed a negative relationship between corruption and economic expansion. Using information from 85 nations, he discovered a negative correlation between corruption and economic growth as assessed by GDP per capita and the quantity and frequency of irregular payments. In conclusion, research indicates a beneficial relationship between sound governance and economic expansion. According to studies, countries with better governance typically have faster economic growth. GDP per capita growth is positively correlated with good governance as evaluated by the rule of law, the level of corruption, the strength of investor protection laws, and bureaucratic efficiency. There is growing agreement that good governance is a significant contributor to economic growth. The relationship between good governance and economic growth has been extensively researched in the literature. Numerous studies have been done to look at the connection between economic growth and good governance in the context of Nepal.

According to a study by Koirala and Paudel (2016), Nepal's economic growth is positively correlated with the country's strong governance. They discovered that excellent governance, as defined by the World Governance Indicators, is positively correlated with economic growth, as measured by GDP per capita, using panel data from 1995 to 2012. Good governance is positively correlated with economic growth in Nepal, according to Koirala's 2017 study. This study used data from 1995 to 2015 and discovered a positive relationship between GDP per capita growth and good governance, as determined by the World Governance Indicators.

According to a study by Pandey and Paudel (2019), Nepal's economic growth and sound governance are positively correlated. The study, which analyzed data from 1995 to 2017, discovered a positive relationship between good governance and GDP per capita-measured economic growth. Last but not least, a study by Adhikari, Paudel, and Gautam (2020) discovered a favorable correlation between excellent governance and economic growth in Nepal. The study, which examined data from 1995 to 2019, discovered a positive relationship between GDP per capita growth and good governance, as determined by the World Governance Indicators. In conclusion, the research points to a favorable correlation between good governance and economic growth in the context of Nepal.

In this context, this study's objective is to examine the connection between good governance and economic growth in the context of Nepal. Its specific objectives are to:

- Examine Nepal's existing level of good governance and how it affects economic growth;

- Identify the difficulties Nepal has in promoting good governance; and
- Make recommendations for enhancing good governance and fostering economic growth in Nepal.

3. Methods

Based on the qualitative inquiry, the paper is based on the secondary sources. Secondary data sources comprise existing datasets from national statistical agencies, international organizations, research institutions, and scholarly publications. The study focuses on key governance indicators such as political stability, voice and accountability, government effectiveness, regulatory quality, rule of law, and control of corruption. These indicators will be measured using established indices, such as the Worldwide Governance Indicators (Kaufmann, Kraay, & Mastruzzi, 2019) and other relevant indices tailored to the Nepalese context. Economic growth will be measured through indicators such as GDP growth rate, investment levels, employment rates, and sectoral contributions to the economy.

An analysis of the literature pertaining to prior research on the subject will be part of the research technique for this study on the connection between good governance and economic growth in Nepal. The review of the literature would look at the results of earlier studies that looked at the relationship between governance and economic growth in various nations, including those by Kaufmann, Kraay, and Mastruzzi (2010), Knack and Keefer (1995), Djankov, La Porta, Lopez-de-Silanes, and Shleifer (2002), and Mauro (1995). Studies on Nepal's governance, economic development, and the difficulties the nation has in these areas are included in the literature review as well. The research may also include examining historical data on Nepal's governance and economic development, contrasting it with data from other nations, and looking for any correlations or trends. In order to get perspective on the current situation and make recommendations, interviews with specialists in the subject, officials, and business leaders in Nepal may also be carried out.

4. Analysis and Discussion

Current status of corruption in Nepal can be assessed in the following paragraphs. Corruption is a serious problem in Nepal that has a number of harmful effects. It, as per Dix Sarah's research (2011, 20-34) can lead to misallocation of resources, increased inequality, damage to the rule of law, and diminished trust in government.

- Misallocation of resources: When corrupt officials are in charge of allocating resources, they may choose to give them to their friends and allies, rather than to those who need them most. This can lead to

a situation where essential services are not provided to the people who need them, and where resources are wasted on unnecessary projects.

- **Increased inequality:** Corruption can also lead to increased inequality. When wealthy individuals and businesses are able to use their influence to get special favors from the government, they can become even wealthier, while the poor are left behind. This can lead to a society that is divided between the haves and the have-nots.
- **Damage to the rule of law:** Corruption undermines the rule of law, which is the principle that everyone is subject to the same laws, regardless of their status or wealth. When corrupt officials are able to break the law without consequences, it sends a message that the law does not apply to everyone. This can lead to a breakdown in social order and a society that is governed by fear and intimidation.
- **Diminished trust in government:** Corruption can also lead to diminished trust in government. When people see that government officials are corrupt, they are less likely to believe that the government is working in their interests. This can lead to a decline in public participation in government, and a decrease in the legitimacy of the government.

In addition to these harmful effects, corruption can also lead to the denial of basic services to the poor, environmental damage, and the undermining of democracy. It is important to raise awareness of the harmful effects of corruption and to work to reduce it. There are a number of things that can be done to fight corruption, including strengthening the rule of law, improving transparency and accountability, and increasing public participation in government. By working together, we can create a more just and equitable society where corruption is no longer a problem.

Likewise, a number of various factors, including accountability, transparency, rule of law, and corruption control, must be examined in order to assess Nepal's current level of good governance. The Ease of Doing Business report from the World Bank places Nepal 110th out of 190 nations in terms of how easy it is to conduct business, highlighting some difficulties with good governance. Similarly, Nepal's ranking of 110th out of 180 nations in the World Press Freedom Index for 2021 indicates that the nation still has issues with press freedom and freedom of expression, which are important indications of effective government. In addition, Nepal's ranking in the Human Development Index (HDI) for 2020, which compares 190 nations, shows that, despite improvements in areas like health and education, there is still a substantial difference between Nepal and other nations in terms of human development. For Nepal to practice effective administration, corruption is one of the

country's biggest obstacles. Nepal is ranked 124th out of 180 nations in Transparency International's index measuring corruption perception, which indicates a high level of corruption in the nation. Because corruption may inhibit entrepreneurship, innovation, and competition, it is a substantial barrier to economic growth. Studies have revealed that strong governance has a favorable relationship with economic growth in terms of its effects on it. Sustainable development is more likely to occur in nations with effective governance since they often experience higher rates of economic growth. Economic growth depends on enterprises operating in stable and predictable environments, which are made possible by a well-functioning government. In addition to ensuring the effective delivery of public services and the optimal use of resources, which are both essential for economic growth.

However, other significant elements, including investments in infrastructure and human capital, macroeconomic stability, and a strong educational system, are all crucial for the economy's growth. Good governance is not the sole factor that contributes to economic success. It is obvious that effective governance is essential to fostering economic progress in the setting of Nepal. However, Nepal's economic development is likely to remain a challenge if the problems of corruption, underdeveloped institutions, and political instability are not addressed. In order for Nepal's economy to thrive sustainably, governance needs to be improved.

Major Difficulties for Good Governance:

1. **Corruption:** A major barrier to good government is Nepal's high degree of corruption. Corruption can impede entrepreneurship, innovation, and competition. It can also deter foreign investment. It also erodes the public's trust in governmental institutions and the rule of law.
2. **Weak institutions:** The government finds it challenging to provide public services and encourage economic progress in Nepal since the country's institutions are frequently inadequate and ineffective. Furthermore, it is challenging to enforce laws and regulations and to hold government officials accountable when there is a weak and unreliable court.
3. **Political instability:** Political unrest has plagued Nepal in the past, impeding both economic growth and effective government. Governmental transitions have occurred often in the nation, and a dearth of strong leadership has made it challenging to put ideas into action and encourage good governance.
4. **Lack of accountability and transparency:** Citizens find it challenging to hold government officials accountable because of Nepal's government's alleged lack of openness and accountability. Furthermore, the absence of

a free press and freedom of expression makes it challenging for citizens to get information about governmental operations and hold authorities accountable.

5. Poverty and underdevelopment: Nepal is one of the world's poorest nations, and because of its severe poverty and underdevelopment, it is challenging to encourage good governance. It is challenging for residents to obtain government services and hold officials responsible when basic infrastructure and services—such as electricity and clean water—are lacking.
6. Education gap: Nepal's low literacy rate limits individuals' ability to take part in governance and hold leaders responsible. The inability of citizens to grasp their rights and hold public authorities responsible for their acts is another consequence of a lack of knowledge.

It is significant to recognize that these issues are interconnected, and that fixing just one of them will not be sufficient to advance good governance in Nepal. All of these issues must be addressed concurrently and comprehensively in order to advance good governance in Nepal.

In order to improve good governance and foster economic progress in Nepal, a multifaceted strategy that takes into account the issues and barriers mentioned above is necessary. A few suggestions for encouraging good governance in Nepal include:

1. Institutional strengthening: In order to encourage effective governance, Nepal's institutions need to be reinforced. This involves funding efforts to increase the capabilities of government employees and civil servants as well as maintaining the independence and accountability of institutions. To ensure that rules and regulations are upheld and that government officials are held accountable, the rule of law should also be maintained, and the judiciary should be strengthened.
2. Reducing corruption: In order to foster good governance, Nepal needs to take action to minimize corruption. This entails putting anti-corruption legislation and regulations into effect, raising accountability and transparency standards, and encouraging morality and integrity among public servants. In order to investigate and prosecute corruption cases, Nepal needs also set up impartial anti-corruption institutions.
3. Investing in infrastructure and human capital: Nepal must make investments in both of these areas to support economic growth. This entails spending on essential amenities like power and clean water as well as on healthcare, education, and other sectors. In order to increase

- connectivity and foster economic growth, Nepal also needs to invest in infrastructure, including ports, bridges, and highways.
4. Fostering the growth of the private sector: Nepal must foster the expansion of the private sector in order to foster economic growth. The ease of doing business is increased while rules and bureaucracy are decreased. In order to encourage the expansion of the private sector, Nepal should also make investments in fields like technology and innovation.
 5. Promoting accountability and transparency: In order to support effective governance, Nepal must encourage accountability and transparency. Implementing laws and rules that encourage transparency, such as legislation governing access to information, is part of this. In order to encourage accountability and openness, Nepal should also invest in the media and the right to free speech.
 6. Improving education: Nepal must spend money on education to build up its human capital, which is necessary for economic expansion. By improving citizens' understanding of and participation in governance, education also plays a crucial role in supporting good governance.
 7. Local level governance improvement: Nepal needs to concentrate on local level governance improvement. Decentralizing decision-making and giving local governments more freedom to make decisions are two ways to accomplish this. Nepal should also teach local government officials and help them strengthen their capacities so that they have better knowledge and abilities. It is crucial to keep in mind that these suggestions are not all-inclusive and will call for a combination of short- and long-term measures. Strong political will, cooperation and coordination between many sectors, as well as the active involvement of citizens, will all be needed for the implementation of these proposals.

Corruption is a deeply ingrained and taken-for-granted problem in Nepal. It is a complex issue with a number of causes, including the country's weak legal and institutional framework, high levels of poverty, and a culture of impunity. The effects of corruption are far-reaching, undermining the rule of law, distorting the economy, and preventing Nepal from achieving its development goals. Addressing corruption in Nepal is a challenge. There are a number of factors that need to be addressed, including the weak legal and institutional framework, the culture of impunity, and the high levels of poverty. However, there are some things that can be done to start to tackle the problem. One important step is to strengthen the laws against corruption and to improve the enforcement of these laws. This will make it more difficult for corrupt officials to get away with their crimes. Another important step is to increase

transparency and accountability in government institutions. This will make it more difficult for corrupt officials to hide their activities. Finally, it is important to address the root causes of corruption, such as poverty and inequality. This will require a comprehensive approach that includes economic development, social welfare programs, and education reform. Corruption is a serious problem in Nepal, but it is not insurmountable. By addressing the factors that contribute to corruption and by taking steps to strengthen the rule of law, Nepal can make progress in tackling this problem.

Here are some additional challenges to addressing corruption in Nepal:

- The lack of political will to tackle corruption. Many politicians are themselves corrupt, and they are not interested in rooting out corruption in the government.
- The lack of public awareness about corruption. Many people in Nepal do not understand the negative effects of corruption, and they are not motivated to fight against it.
- The lack of resources to fight corruption. The government does not have the resources to investigate and prosecute corruption cases effectively.

Despite these challenges, there are some reasons to be hopeful about the future of Nepal's fight against corruption. In recent years, there has been a growing awareness of the problem of corruption, and there have been some high-profile cases of corruption that have been investigated and prosecuted. This suggests that there is a growing public demand for action against corruption, and that the government is starting to take the issue more seriously. If Nepal is to achieve its development goals, it must address the problem of corruption. Corruption is a major obstacle to development, and it is holding the country back. By taking steps to strengthen the rule of law, increase transparency and accountability, and address the root causes of corruption, Nepal can make progress in tackling this problem and creating a more just and prosperous society.

5. Conclusions

Despite issues with corruption and weak institutions, Nepal has made strides in recent years to enhance governance and promote economic growth. The country has made strides in decreasing poverty and increasing access to vital services like health and education, and has also taken steps to make it easier for people to conduct business and promote the growth of the private sector. Good governance and economic growth play pivotal roles in shaping the country's progress. Good governance, characterized by transparency, accountability, rule of law, and effective institutions, is widely recognized

as a catalyst for sustainable development. Similarly, economic growth is a fundamental objective for nations, as it enhances living standards, reduces poverty, and provides opportunities for prosperity.

Good governance is a key factor in economic growth in Nepal. A well-functioning government that is transparent, accountable, and responsive to the needs of its citizens can create an environment that is conducive to investment and economic development. There is a growing body of evidence that supports the link between good governance and economic growth. For example, a study by the World Bank found that countries with better governance tend to have higher levels of economic growth. In Nepal, there have been some positive developments in recent years with regard to good governance. The country has adopted a new constitution that enshrines the principles of good governance, and there have been some improvements in the areas of transparency and accountability. However, there are still some challenges that need to be addressed.

One of the biggest challenges to good governance in Nepal is corruption. Corruption can take many forms, including bribery, nepotism, and embezzlement. It can distort the market and discourage investment, leading to slower economic growth. Another challenge to good governance in Nepal is political instability. Nepal has experienced a number of political upheavals in recent years, which have made it difficult to implement reforms and achieve long-term economic growth. Despite these challenges, there is reason to be optimistic about the future of good governance and economic growth in Nepal. The country has a young and growing population, and there is a growing awareness of the importance of good governance. With continued effort, Nepal can overcome its challenges and achieve its economic potential. Understanding this relationship is essential for policymakers, practitioners, and scholars seeking to foster effective governance and economic development. By investigating the interplay between good governance and economic growth in the context of Nepal, this study aims to contribute to the existing knowledge base and inform evidence-based policy decisions.

The government of Nepal has made significant efforts to curb corruption in recent years. Although these efforts are not adequate, these efforts have included the establishment of anti-corruption agencies, the engagement of non-state actors, and the investment in infrastructures and equipment. The government has also allocated a budget for anti-corruption activities and has taken action against corrupt officials. Some of the major outputs achieved by the government include the blacklisting of corrupt contractors, the drafting and enforcement of codes of conduct and laws, and the conduct of compliance training and workshops. The government has also engaged with a range of stakeholders, including the media, the private sector, citizens, civil society

organizations, and development partners.

The government is committed to continuing its efforts to curb corruption in Nepal. They believe that corruption can be effectively controlled through a combination of legal, structural, and policy arrangements, as well as through the engagement of a wide range of stakeholders. Here are some of the key points from the text:

- The government of Nepal has made significant efforts to curb corruption in recent years.
- These efforts have included the establishment of anti-corruption agencies, the engagement of non-state actors, and the investment in infrastructures and equipment.
- The government has also allocated a budget for anti-corruption activities and has taken action against corrupt officials.
- Some of the major outputs achieved by the government include the blacklisting of corrupt contractors, the drafting and enforcement of codes of conduct and laws, and the conduct of compliance training and workshops.
- The government is committed to continuing its efforts to curb corruption in Nepal.

References

- Adhikari, B., & Bharati, L. (2017). Governance and tourism development in Nepal: An empirical analysis. *Journal of South Asian Development*, 12(1), 1-19.
- Adhikari, B., Paudel, K., & Gautam, R. (2020). Good governance and economic growth: Evidence from Nepal. *International Journal of Economics, Commerce and Management*, 8(4), 1-8.
- Alguacil, M., Cuadros, A., & Orts, V. (2010). Does good governance promote the investment climate? Evidence from a panel of developing countries. *World Development*, 38(6), 856-866.
- Dix, Sarah. *Corruption and Anticorruption in Nepal: Lessons Learned and Possible Future Initiatives*. Norad, 2011.
- Djankov, S., La Porta, R., Lopez-de-Silanes, F., & Shleifer, A. (2002). The regulation of entry. *The Quarterly Journal of Economics*, 117(1), 1-37.
- Gupta, S., Davoodi, H., & Tiongson, E. R. (2000). Corruption and the provision of health care and education services. In *Proceedings of the Annual World Bank Conference on Development Economics 1999* (pp. 221-245). World Bank.

- International Monetary Fund. (2016). *The Role of Governance in Economic Growth and Development*.
- Kaufmann, D., Kraay, A., & Mastruzzi, M. (2010). *The Worldwide Governance Indicators: Methodology and Analytical Issues*. World Bank Policy Research Working Paper, (5430).
- Kaufmann, D., Kraay, A., & Mastruzzi, M. (2010). *The Worldwide Governance Indicators: Methodology and Analytical Issues*. World Bank Policy Research Working Paper, (5430).
- Kaufmann, D., Kraay, A., & Mastruzzi, M. (2019). The worldwide governance indicators: Methodology and analytical issues. *World Bank Research Observer*, 34(2), 137-167.
- Khatriwada, D., & Pandey, S. (2016). Governance and agricultural sector growth in Nepal. *The Journal of Development Studies*, 52(9), 1366-1383.
- Knack, S., & Keefer, P. (1995). Institutions and economic performance: Cross-country tests using alternative institutional measures. *Economics & Politics*, 7(3), 207-227.
- Knack, S., & Keefer, P. (1995). Institutions and economic performance: Cross-country tests using alternative institutional measures. *Economics & Politics*, 7(3), 207-227.
- Koirala, B. (2017). Good governance and economic growth: Evidence from Nepal. *International Journal of Economics, Commerce and Management*, 5(4), 1-8.
- Koirala, B., & Paudel, K. (2016). Relationship between good governance and economic growth: Evidence from Nepal. *Journal of Economics and Sustainable Development*, 7(5), 96-107.
- Mauro, P. (1995). Corruption and growth. *The Quarterly Journal of Economics*, 110(3), 681-712.
- Pandey, A., & Paudel, K. (2019). Good governance and economic growth: Evidence from Nepal. *International Journal of Economics, Commerce and Management*, 7(4), 1-9.
- Sharma, K. (2012). Impact of governance on economic growth in Nepal. *South Asia Economic Journal*, 13(1), 91-112.
- World Bank. (1992). *Governance and Development*. World Bank Policy Research Report. Oxford University Press.
- World Bank. (2000). *World Development Report 2000/2001: Attacking poverty*. World Bank.