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From Historical Context to Contemporary Realities: Illicit Capital Outflows from Nepal

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Abstract

This paper explores illicit capital outflows, explaining its multifaceted implications in underdeveloped countries like Nepal. The paper also highlights the historical dynamics adjacent to illicit financial transfers, including their causes, mechanisms, and repercussions. The paper examines the various facets of illicit capital outflows, corruption, and bad governance mechanisms in Nepal. It explores how modern technology and global financial structures facilitate these outflows, contributing to a drain of resources from Nepal. Moreover, the study delves into historical contexts where significant capital outflows occurred due to political transitions and exploitation of national treasuries. The paper also discusses contemporary instances of illicit financial activities, including illegal transactions through Currency Smuggling, Hundi, and the involvement of banks and business entities in illegal capital flights from Nepal to abroad. It emphasizes the challenges faced by regulatory bodies in curbing these illicit practices and their adverse impacts on economic development, revenue collection, and the formal economy in Nepal.

Keywords: illicit, capital, outflow, underdevelopment, Nepal

From Historical Context to Contemporary Realities: Illicit Capital Outflows from Nepal

Illicit capital outflows are a substantial challenge to the economic growth and development of less developed countries. This research paper's main objective is to explore the implications of illicit capital outflows in Nepal. The research sheds light on the various causes, instruments, and impacts associated with illicit capital flights. Similarly, the paper explores the roots of illicit capital outflows, encompassing bad governance, corruption, and socio-political situation and instabilities prevalent in the nation. In the meantime, the paper also explores the impact of modern technology and financial market structures in spreading capital outflows, analyzing how these factors contribute to the flights of resources from Nepal to other countries. By examining historical contexts and contemporary instances, including instances of Hundi, currency smuggling, illegal financial activities in the country. This paper also seeks to expose the complex layers of challenges faced by regulatory bodies in mitigating illicit capital flights from Nepal.

Understanding Illicit Capital Outflow

The 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. (2019), illicit capital outflows derive from under-invoicing of exports and over-invoicing of imports. Multinational and transnational corporations help to promote illicit capital outflow through tax evasion.

The modern technology and financial market structure facilitate the transfer of capital from one country to another (Schneider & Enste, 2000).

Bouchet (2012) identifies that the major factors of capital outflow from one country to another are internal causes like political disturbances, bad governance, high levels of corruption, socio-political and economic instability. Furthermore, he 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 the corruption and rent-seeking extractive political institutions. Acemoglu and Robinson (2004) examined that 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, bad governance system will lead to illicit capital outflow from developing and underdeveloped countries to the developed. Rodrik et al. (2002) argued that inflation creates pressures and stimulates domestic agents to engage in illicit capital outflow. While agreeing to this argument, Ajayi (1995) reasoned that it may inspire domestic financiers to transfer their capital and wealth to foreign countries. Blankenburg and Khan (2012) find 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. 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 the black economy and find out that they 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). Moore (2012) further argues that illicit capital outflows have 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 consequences of corruption and financial irregularities (The Organization for Economic Cooperation and Development, 2012).

Illicit capital outflow threatens developing countries' good governance, development, and financial integrity. It is driven by factors like corruption, ugly governance, and dull financial systems. Its underground flora allows tax evasion in the host country and facilitates the flights of illegal assets across borders (Kar & Cartwright-Smith, 2010).

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 accounts 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 lead to widespread rent-seeking and corruption and supports the illicit capital outflows.

Saleh (2004) argued that the weakness of institutions has stifled investment, leading to illicit capital outflows in underdeveloped countries. Ali and Walters (2011) found that state institutions significantly contribute to illicit capital outflows from Africa. Rahaman et al. (2018) also noted that these outflows have a strong relationship with underdevelopment. The OECD (2013) reported that illicit capital outflows negatively impact the economies of developing nations. UNECA (2012) showed that widespread corruption and illicit capital outflows are mutually inherent in rent-seeking economies, promoting underdevelopment. Le and Zak (2006) conducted a survey in forty-five developing and underdeveloped countries, finding that political uncertainty and instability directly contribute to increases in illicit capital outflows. Additionally, the easy opportunities for capital outflow and transferring money and assets abroad through illicit sources damage the investment

environment, economic growth, and development activities in developing and underdeveloped countries (Rahaman et al., 2018). The rapid increase of these outflows day by day negatively affects the economic development of third-world countries.

The 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 a data which shows that India lost about 213 billion USD because of illicit capital outflows between 1947 and 2010. The socio-economic and political structural factors and bad governance system played an important role for outflows of assets from India.

Global Financial Integrity (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. The majority of the underdeveloped countries are underdeveloped because of the flights of capital illegally (Erbe, 1985). 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. We can find the similar situation in the whole underdeveloped world. 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. The capital outflow also damages the

state institutions like banks, financial investigation agencies, and legal mechanisms.

The corruption and money laundering mutually promote the 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. 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 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 identify that Cyprus offers 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 lunched such kind of passport program and was able to attract more than 200 million Euros till mid-2016 (Cooper, 2016).

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 (de Willebois et al., 2011; Massa, 2014). 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.

Illicit capital outflows significantly undermine a nation's development by depleting resources that could be invested in crucial sectors like health and education. When financial resources are drained, governments have fewer funds to allocate towards building robust healthcare and educational systems. This underfunding leads to poor health outcomes and inadequate educational opportunities, resulting in a workforce that is less productive and innovative. Consequently, low productivity and limited employment opportunities perpetuate low-income levels, trapping the country in a cycle of underdevelopment.

This vicious cycle is self-reinforcing. Poor health and education weaken the population's ability to contribute effectively to the economy, which in turn hampers economic growth and development. As illicit capital continues to flow out, it further diminishes the nation's capacity to improve its physical, economic, and social structures. The continuous loss of financial resources deepens the state of underdevelopment, making it increasingly difficult for the country to escape poverty and stagnation. Thus, illicit capital outflows are a major cause of the persistent low income, low productivity, and overall poor development in Third World countries.

Research Objectives and Methodology

The key objective of the research is to explore the phenomenon of illicit capital outflows from Nepal, across historical contexts to contemporary realities. The research utilized narrative review methodology. The research involves an extensive review and synthesis of existing available literature, research, many study reports and other relevant publications. The analysis encompasses both historical perspectives and contemporary instances and explore the causes, mechanisms, and repercussions of illicit capital outflow related activities in Nepal.

Findings: Capital Outflows from Nepal

During the Shah and Rana regime, significant capital outflows in the history of Nepal have hindered the development of the nation. With Ran Bahadur Shah's travel to Kashi in 1800, the flow of wealth started with substantial amounts of gold and silver. This pattern continued with successive rulers and their families, who outflow large sums and resources to India for personal use and luxury consumption. These actions crippled Nepal's economy, stifling investment in critical sectors such as road, irrigation, industry, healthcare and education, perpetuating the cycle of underdevelopment. This trend of capital outflow did not stop with the end of the Rana rule but continued in modern times through various means including currency smuggling and the use of informal money transfer systems like hundi. These practices have continuously undermined Nepal's economic stability and development prospects.

Capital Outflows during Shah and Rana Regime

The history of Nepal during the Shah and Rana regimes is marked by significant capital outflows that severely hindered the nation's development. When Rana Bahadur Shah faced internal power struggles in 1800, he fled to Kashi with substantial gold and silver, followed shortly by Queen Rajrajeshwori, who took a large amount of the national treasury. This pattern of siphoning national wealth continued with successive rulers and their families, who transported vast sums of money and resources to India for personal use and luxury consumption. These actions drained Nepal's economy, preventing investment in critical areas like industry, healthcare, and education, thereby perpetuating a cycle of underdevelopment.

When Rana Bahadur Shah was proved to be 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, 2061 B.S.). On the third day of his departure, Queen

Rajrajeshwori also went to Kashi with jewelry and huge amounts of money from the national treasury. Later when King Rana Bahadur was out of money, Queen Subarnaprava 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, 2060 B.S.). He had spent too much money while he stayed in India that Nepal had to bear loan (Regmi, 2074 B.S.). At that time, the advisor of the Queen Subarnaprava, Subuddhi Khadka had taken a huge amount to India from the national treasury (Dhakal, 2060 B.S.).

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, 2068 B.S.). 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, 2068 B.S.).

When Queen Rajyalaxmi was exiled to Banaras, she had taken 4.9 million rupees cash and jewelries that were worth more than 1.5 million rupees (Ghimire, 2015). According to Acharya (2068 B.S.) 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 (Ghimire, 2015).

Ranoddip, who 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, 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 got exiled had taken a lot of money with them (Mathema, 2073 B.S.). According to Mathema (2073 B.S.), 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 got established in India as well.

The Rana families who took money from Nepal to India deposited the money in the Indian Bank (Pande, 2076 B.S.). Bir Shamsher had deposited a huge amount of money in Indian Bank (Amatya, 2004 B.S.). The way the national treasury had been drained and national treasury got vanished from Nepal during the Bir Shamsher's tenure has been stated by Nepal (Nepal, 2055 B.S.). 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, 2055 B.S.). 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, 2074 B.S.). Padma Shamsher bought land and home for himself in India right after he went to India. When he was out of power and got sacked from the Prime Minister by Mohan Shamsher, he went to India with a huge amount of money from the national treasury (Bhattarai, 2059 B.S.). Padma Shamsher had taken 11.4 million rupees with him on March 1, 1948 (Pande, 2076b, B.S.).

All the children including 2 sons and 6 daughters of Mohan Shamsher got married in India. The majority of Mohan Shamsher's property was spent giving dowry to his daughters. Through dowry, a huge property went to India from Nepal (Pande, 2076b B.S.). Babar Shamsher 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 Shamsher had got 8 million rupees worth of money and share including Babar Shamsher who had invested the

money adding a lot to his family share to the share market in India (Pande, 2076b B.S.). Last Prime Minister of Rana Regime, Mohan Shamsher 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 *Badahakims* who were not satisfied with the establishment of democracy in 1951 also took a lot of property with them to India (Research and Media Centre against Corruption Nepal, 2063 B.S.).

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, 2063 B.S.). Similarly, when the road from Siliguri to Lhasa through Sikkim was opened in 1904, the trade route from India to Tibet via Kathmandu got closed. Many *Newar* families from Kathmandu took their property and went to Kalingpong (Shakya, 2018).

All the money collected as revenue in Nepal? was deposited to the Imperium Bank of Kolkata, Banaras Bank, and other banks in the border area, 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 doubted 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. So, Indian banks were an easy option for them. They purchased land and houses in India and passed a luxurious life there. Larrain (1989) argues that luxury consumption by backward countries local oligarchies is the main cause of underdevelopment in the third world.

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.

Capital Outflow in Modern Regimes

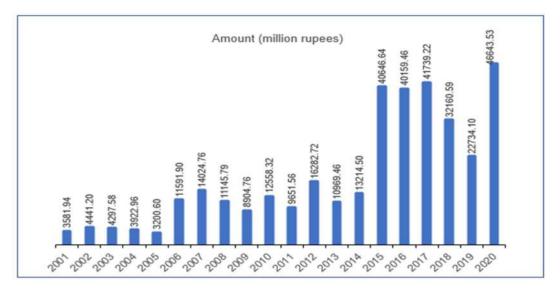
After the Rana regime, the trend of capital outflow legally or illegally did not stop. In coordination with the International Consortium of Investigative Journalist (ICIJ), the Centre for Investigative Journalism, Nepal (CIJ) had done research on the illegal capital outflow from Nepal. Acharya et al. (2077 B.S.) 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 outflown from Nepal illegally in 2009 to 2020. 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 the virtual transactions (Acharya & Sapkota, 2077 B.S.).

A huge amount of money has been deposited in Swiss bank illegally from Nepal. According to CIJ (2075 B.S.), the trend of depositing money in the Swiss bank started when the Maoist insurgency started in Nepal. In 1996, 11 million 42 thousand Swiss Franc was deposited in the bank. This amount increased to 242 million 72 thousand Swiss Franc in June 2006 that has been deposited by Nepalese in Swiss Bank. Compared to 2019, the deposit doubled in 2020, as shown in Figure 1.

Figure 1

Nepali Money in the Swiss Bank



Note. This figure was constructed by the authors based on various reports of the Swiss National Bank.

There is legal provision for prohibition to Nepalese for investment in the abroad. However, according to the data published by ICIJ and CIJ, 55 Nepali have investment abroad (CIJ, 2075a B.S.). 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, 2078 B.S.). CIJ (2075b B.S.) 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 outflown from the country illegally. He had been suspended on November 4, 2019, for this decision by the Bank Executive Committee. A separate committee had been established for

investigating Shrestha. The committee had suspected him of being involved in money laundering and had recommended the Government to act against him. However, the cabinet meeting on January 17, 2020, made the decision that Shrestha was not to be taken action on and was reinstated.

A study by Global Financial Integrity found that between 2002 and 2011, about 80.5 million USD a year was illicitly outflown 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 (Commission for the Investigation of Authority 2077 B.S.).

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 Table 1 shows that the trends of currency smuggling from Nepal.

Table 1Currency Smuggling

Fiscal Year	2011/12	2012/13	2013/14
Amount (Rs.)	25843478.13	73528766	140047926

Source: DRI Annual Reports

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 boarders 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 have been involved 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, 2076 B.S.).

Not only this, 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 while just before fly to Dubai with 93,600 USD on 10 April 2017 (Bhattarai, 2074 B.S.). The illicit capital outflow from Nepal has been increasing through 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. Hundi has direct effects on the inflections, foreign exchange leakage, corruption, black market trade and capital outflow (Ghimire, 2018). The capital outflow from Nepal through Hundi has been increased tremendously. For an example, based on informal discussion with

government representatives an estimated data of researcher's 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 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 made 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, accused of doing transactions through hundi. Annually a lot of remittance is received to Nepal from South Korea (Table 2).

 Table 2

 Remittance received from South Korea to Nepal

Fiscal Year	Number of people going for	Remittance (in \$
	employment	million)
2014/15	5288	187
2015/16	7423	274
2016/17	5804	504
2017/18	4832	1621

Source: Various reports of Nepal Rastra Bank.

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. The amounts are also used for smuggling gold. Similarly, international real states use the amounts as well. 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 (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 a good 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 to abroad through hundi (Acharya, 2076b; 7).

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, 2078 B.S.).

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 money and wealth every year leading to the third world countries drowning into the vicious circle of corruption. Similarly, capital outflows are sent wealth and money 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 to be 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 is 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. So, illicit capital outflows as a serious challenge to the development and economic growth of underdeveloped countries like Nepal. Hundi, currency smuggling, and illegal financial activities played a critical role to illicit capital outflows in Nepal.

Conclusion

Illicit capital outflows pose significant challenges to the economic growth and development of underdeveloped and developing countries like Nepal. This study shows how a union of factors, including political instability, corruption, weak institutions, and technological advancements, facilitates the illicit capital outflows from the underdeveloped and developing countries to developed

countries. Historical instances from Nepal's past regimes and contemporary cases of illicit capital outflow explain the persistence and evolution of this issue.

The research underscores the dire consequences of illicit capital outflows, including revenue loss, hindrance to formal economic growth. Instances of currency smuggling, hundi operations, and involvement of financial institutions in illicit capital outflow further highlight the complexity and scope of underdevelopment.

Despite efforts by regulatory bodies, the challenge of curtailing illicit capital flows persists. This persistent problem continues to impede efforts toward economic progress and hampers the formalization of economies in underdeveloped and developing nations. Addressing this issue demands concerted efforts involving robust regulatory measures, international cooperation, and policy reforms aimed at curbing illegal financial activities and fostering transparent, accountable financial systems conducive to sustainable development.

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