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**A New Nepal: Developments, Dilemmas and  
Directions**

**Achyut Wagle**

Political Analyst/Journalist, Nepal

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# **A New Nepal: Developments, Dilemmas and Directions**

## **1. INTRODUCTION**

Nepal is the youngest republic nation-state in the world. It is a landlocked Himalayan nation wedged between the Tibet Autonomous Region of China to the North and India to the East, West and South. Almost rectangular in shape with its 120 to 240 kilometers in width and nearly 900 kilometers in length, Nepal has altitude variation from 70m. upto 8848m-the top of the world-from the sea level. The altitude variation also contributes to climatic, life-style and biological diversity.

## **2. JOURNEY TO REPUBLICANISM**

Nepal was declared a federal republic by adopting a resolution in the popularly elected Constituent Assembly (CA) on 28 May, 2008. The resolution abolished the institution of monarchy represented by Shah Dynasty that had, though with varied degree of assertion at different points of time in history, ruled Nepal since the unification of Nepal in 1768. In fact, the Shah dynasty reign had begun in 1559 by Dravya Shah<sup>1</sup>, as the king of one of the major principalities called Gorkha; out of which popular term Gorkhali has been derived from.

The monarchy that continued on the right of primogeniture practically ended on 1<sup>st</sup> June 2001 after massacre of King Birendra and his entire lineage in a palace shooting spree by drunken heir-apparent, Crown Prince Dipendra, who allegedly then shot himself.

On 4<sup>th</sup> June 2001, brother of King Birendra, Gyanendra was crowned as the King of Nepal amidst thickly floating conspiracy theories regarding his involvement in eliminating his brother's entire family and relatives. These doubts were compounded with Gyanendra's subsequent political misadventures to seize absolute power through execution of a systematic gameplan of dissolving elected parliament (May 2002) first, and then dismissing the elected government (October 2002).

Because of the royal massacre, the monarchy lost dignity and respect and people did not readily accept Gyanendra as their King on the one hand, and on the other, the insurgency by the name of 'People's War', initiated by Communist Party of Nepal-Maoist (CPN-M)

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<sup>1</sup> Dravya Shah, the prince of adjoining principality of Lamjung, became King of Gorkha. His ninth successor Prithvi Narayan Shah ascended the throne of Gorkha in 1742 and conquered Kathmandu Valley in 1768, which is marked in history as 'unification of Nepal.'

in February 1996, with vowed objective of making Nepal a ‘people’s republic,’ was spreading rapidly in the almost entire rural hinterland of the country.

Right since October 2002, King Gyanendra’s series of highly unpopular and undemocratic political moves, deliberately aimed at relegating mainstream political forces of the country distanced him even from the centrist forces like Nepali Congress (NC) and Communist Party of Nepal-United Marxist Leninist (CPN-UML) who had for long stood for the continuation of the constitutional monarchy. By 2005, after fighting a decade-long guerrilla war and loss of at least 13,000 lives and destruction of infrastructures and facilities worth billions, CPN-M apparently realized the fact that ‘in the existing national and international geo-political realities’ they would neither succeed to capture power at the centre so as to establish a ‘people’s republic’ by toppling down the monarchy, nor would they be able to sustain such republic even if they could achieve it as the flash of the success. Thus, they were exploring for a safer political ground to land.

These realities provided ground for signing of a twelve-point agreement between mainstream political parties, mainly NC and CPN-UML, and Maoist rebels in November 2005, in New Delhi, India. Among other, they agreed on launching a joint peaceful popular movement intended to restore democracy. As the result of weeks of violent strikes and protests against direct royal rule, known as the *Jana Andolan II* (people’s movement II) in April 2006 not only capitulated King Gyanendra to reinstate the parliament dissolved four years back but also brought Maoists into the political mainstream, renouncing violence. The signing of a Comprehensive Peace Agreement (CPA) between the Government of Nepal (GON) and the Communist Party of Nepal-Maoists (CPN-M) in November 2006 that emphasized on holding an election for Constituent Assembly and eventual abolition of the institution of monarchy helped embark Nepal into relative political stability and raised prospects for ensured and lasting peace.

The much-awaited Constituent Assembly elections were held in April 2008 after two postponements—slated for last May and, then, November. It elected 601 CA members through mixed processes of first-past-the-post, proportional representation and nomination. For the interim, the CA would also function as the legislative parliament in addition to its main responsibility of writing a new constitution for Nepal, within two years since its constitution. The first meeting of the Constituent Assembly on May 28, 2008 voted in favour of republicanism with overwhelming majority of 560 to 4 members. Not only republicanism, the resolution adopted by CA says, "Nepal shall turn into an independent, indivisible, secular, inclusive, and federal democratic republic with

sovereignty and state authority vested in the people." It became the last 28<sup>th</sup> and the only Hindu monarchy in the world<sup>2</sup> to be abolished. Other important transformations institutionalized through this resolution were the secularism from 'Hindu Kingdom' and federalism from unitary state.

The CA elections presented many surprises, even to the political pundits. The CPN-Maoist, that fought a decade-long guerrilla war, emerged as the largest political party winning 229 out of 601 seats and, pushing supposedly well-established parties like NC and CPN-UML into second and third positions respectively. Madhesi People's Right Forum (MPRF), a very new outfit advocating for regional cause of the *Terai*<sup>3</sup>, emerged as the fourth force, with 54 seats. Sixty-two percent of total CA seats is occupied by the left parties. Total of twenty-five parties and groups got represented in the CA.<sup>4</sup>

In the process of executing the republic, the CA elected Dr. Ram Baran Yadav as the first President of Republic Nepal with 306 (52%) out of the 590 ballots cast, on July 21, 2008. Paramananda Jha was elected first Vice-president. In the late August 2008, the Maoist Chairman Pushpa Kamal Dahal 'Prachanda' was sworn in as the first Prime Minister of Federal Democratic Republic of Nepal heading a coalition of Maoist-UML-MPRF government. The government took complete shape in the first week of September. A couple of fringe parties have also joined in but the second largest party, NC with 115 seats in the CA, has chosen to sit in the opposition. Prachanda received more than a three-fourth (80%) vote of CA members to be elected to the post of PM.

After election of the CA, the Head of the State and the Head of the Government through fairly democratic and peaceful process, Nepal now enters into the next but more crucial phase of political transition. This is a time when old system, loyalties and values have crumbled and new are yet to take root. As such, the mountains of confusion in the government, uncertainty and desperation in the general public have hindered the desired smooth sail of the political process.

The most engrossing of such confusions lies with the main ruling party—the CPN-Maoist. Although, Prime Minister Prachanda since his takeover has been insisting that his party now adheres to the principles of competitive multiparty politics, respects human rights,

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<sup>2</sup> There now remain 27 monarchies in the world, mostly constitutional and a few in the absolute form. There are 10 in Europe--Belgium, Denmark, the Principality of Liechtenstein, Luxembourg, the Principality of Monaco, the Netherlands, Norway, Spain, Sweden and United Kingdom, six in Asia--Bhutan, Brunei Darussalam, Cambodia, Japan, Malaysia and Thailand, six in the Middle East--Bahrain, Jordan, Kuwait, Oman, Qatar and Saudi Arabia, two in Oceania-- Samoa and Tonga, and three in Africa-- Lesotho, Morocco and Swaziland.

<sup>3</sup> Terai is southern plain of Nepal along Nepal-India border.

<sup>4</sup> For List of parties and seats see Annex-1

rights to property and press freedom<sup>5</sup>, there is a great deal of apprehension in the general masses, intelligentsia and international community alike about their ulterior motives and intentions. The Maoist rank and file, including Prime Minister Prachanda has publicly said that parliamentary system has failed world over they were trying to establish a 'new' system though not an one-party-communist rule. But this 'new' philosophy or system was never defined and explained.<sup>6</sup> The political forces like NC view that the Maoists are working towards establishing a 'proletarian authoritarianism' by *using* the present fluid political transition as a springboard.

Nepal is still in such a delicate state that she may easily fall into liquidation trap if the political leadership fails to act rationally and responsively. Even to bring Nepal in the category of normally functional nation-state, a number of tasks that need to be accomplished within relatively shorter time frame.

### **3. PRIORITY**

#### **3.1 Taking peace process to a logical conclusion**

The CPA signed between the Maoists, then a rebel force, and the government of Nepal in November 2006 and the Interim Constitution 2006 which has seen five amendments in two years, provide for the main basis to take the peace process to its logical end. Other similar agreements signed with different regional and ethnic groups by the government at various stages of political process during last two years will also have a significant bearing in this process.

The worst fears of failure of peace process emanate from the end of the politics of consensus, political polarization seen in the elections for president and prime minister and, NC's decision to sit in the opposition. As the largest party in CA and the leader in the government, it is again the responsibility of the Maoists to resume the culture of political cooperation and work towards full adherence and implementation of the provisions of the constitution and various accords signed in the peace process.

There have been constant complaints of non-compliance of the peace agreement by the Maoists, mainly in controlling over the activities of Young Communist League (YCL) which is involved in all sorts of activities of extortion, looting, 'tax' collection and

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<sup>5</sup> The Rising Nepal Daily, the government mouthpiece, 2<sup>nd</sup> Sep 2008.

<sup>6</sup> The Kathmandu Post Daily, 14<sup>th</sup> Sep, 2008

vandalism.<sup>7</sup> To add to the woes, another communist party CPN-UML, which is now the second largest constituent of the ruling alliance, has also formed similar force recently by the name of Youth Force (YF). Now there are almost daily reports in the media about the clash between YCL and YF, in this or that part of the country. Maoists are now squarely hinting that they are not returning the land and property seized by them during the insurgency and the issue would be ‘resolved at once after announcement of revolutionary land reforms.’ There are fresh media reports that Maoists are still operating labor camps, kangaroo courts and ‘local people’s government.’<sup>8</sup>

The most contentious of all will be the management of PLA. The position taken by the Maoists to integrate the People’s Liberation Army (PLA), now in twenty-one UN camps, into security forces *en masse* has been highly controversial. It is important to note here the difference between the integration *PLA* as an intact entity and, the integration of the individual *PLA fighters*. But other political parties, the security agencies themselves and the security experts believe that the politically indoctrinated groups cannot be integrated as such in a non-partisan professional force. The logic is, this might serve as precedence and incentive for other smaller armed groups to organize in hope of such future integrations. Nepal Army has maintained that one should individually meet the prequalification for induction. But the Maoists argue that UNMIN verification of them should constitute as the sufficient eligibility criterion.

During last two years, the structural framework as envisioned by the CPA that had to be set up to support the peace process could not come into existence.<sup>9</sup> The political equations have changed drastically after the election of CA, but the rational and need of these institutions have not.

### **3.2 Drafting and promulgation of new DEMOCRATIC constitution**

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<sup>7</sup> CPA Clause 5.2.1. There won’t be cash or kind collection or tax collection against anyone’s will or existing laws.

<sup>8</sup> CPA Clause 10.1. Both parties agree not to operate parallel or any form of structure in any areas of the state or government structure as per the letter of the decisions of November 8 and the spirit of the peace agreement.

<sup>9</sup> CPA Clause 8.2. The National Peace and Rehabilitation Commission shall be set up as per the need for making the campaign for peace successful. The composition and working procedures of the Commission shall be as determined by the interim Council of Ministers.

CPA Clause 8.4. Both parties express commitment that the interim Council of Ministers shall constitute and determine the working procedures of the National Peace and Rehabilitation Commission, the Truth and Reconciliation Commission, the High-level State Restructuring Recommendation Commission and other mechanisms as per the need to implement this agreement, the Interim Constitution and all the decisions, agreements and understandings reached between the Seven-party Alliance, the Government of Nepal and the CPN (Maoist).

The interim constitution of Nepal 2006, Part 7, has mandated the CA to write a new constitution. Article 63 (1) says, “There shall be a Constituent Assembly constituted to formulate a new Constitution by the Nepalese people themselves, subject to the provisions of this Constitution.” Article 64 has fixed the 2 year term for CA to draft new of the constitution, with possibility of extension for six months.<sup>10</sup> By now, almost five months have already elapsed without commencing any iota of work.

The very composition of CA--the Maoist as the largest party heading the government, with 62 percent CA seats in aggregate with the communist parties—provides grounds for apprehensions regarding the final outcome of the new constitution. There is a dual challenge of completing the task of formulation of the new constitution in time and, making sure that it incorporates the universally accepted democratic principles ensuring separation of power, provisions not to infringe upon the individual rights, including the rights to own private property, and freedom of opinion and expression.

### **3.3 Restructuring of the State**

Nepal not only became republic but also a federal state after adoption of the resolution in this effect by CA on May 28. The Sub-article (1A) added under Article 138, by the Fifth Amendment to the Interim Constitution says, “Accepting the aspirations of the Madhesis, indigenous nationalities, the marginalized and peoples from other areas for autonomous provinces, Nepal shall be a Federal Democratic Republic. While safeguarding the sovereignty, unity and integrity of Nepal, the Constituent Assembly shall decide on the borders, number, names, structures and headquarters, as well as a detailed list of these provinces, their resources and the sharing of rights.” According to the spirit of the CPA, Sub-article (2) has it: A High Level Commission shall be constituted to recommend for the restructuring of the State.

By now, the political whim, which got incorporated in the Interim Constitution, has pushed the debate, whether federalism was *the* practicably inevitable for Nepal, beyond the point of return. However, it was indeed a matter of serious scrutiny whether a country with population size of a moderate metropolis (29 million) and an area of 141,000 sq. km. remained underdeveloped just because it was a unitary state. The initiation of demarcation

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<sup>10</sup> Article 64, **Term of the Constituent Assembly:** Except otherwise dissolved earlier by a resolution passed by the Constituent Assembly, the term of the Constituent Assembly shall be two years from the date of its first meeting. Provided that the term of the Constituent Assembly may be extended having passed a resolution by the Constituent Assembly, up to an additional six months period in case the task of drafting the Constitution is not completed due to the proclamation of a State of Emergency in the Country.

process of the provinces amidst present uncertainty could be like opening of the Pandora's Box.

In the meantime, many regional, ethnic and other interest groups and issues have already surfaced. Such groups both criminal and political in nature have come forward with varying demands ranging from having a separate province, right to self-determination to breaking a country into separate nation-states on the basis of ethnic group, caste or territory. Nepal has more than five dozen officially recognized ethnic groups; many of them are now demanding a separate province or putative right to self-determination.

In fact the seed for ethnic 'autonomous states' was implanted by the Maoist themselves when they were creating parallel state structures during the time of insurgency. They created nine such 'states' which probably cannot be considered as scientific proposition to delineate provincial borders just on the basis of ethnicity. But, apparently, it is *the* most sensitive issue in restructuring process. Just a slight *faux pas* might trigger ethnic unrest putting the country's territorial integrity itself in jeopardy. Therefore, a delicate balance would be required between the execution of the federal structure and prudent exercise of state authority to prevent likely explosion of anarchism.

### **3.4 Governance**

Nepal is one of the few countries of the world that has, for long, faced crisis of governance. Firstly, the modern system of administration with structured bureaucratic set up started just about 50 years ago. In that sense, it is still in infancy. The political leadership in various hues in course of history largely utilized the state apparatus for their vested, political interests instead of contributing to institutionalize the practices of good governance and improvement of the public delivery mechanism. The decade-long internal conflict drastically shrivelled the presence of any form of state mechanism, limiting them to the capital and a few regional urban centres. Corruption, nepotism, favoritism and non-performance have, as in the case of many underdeveloped countries, been the permanent features both at political and bureaucratic levels of administration.

After Maoist rose to power without dissolving the YCL and several other structures parallel to the state, the 'one-nation-two-state syndrome' has started to manifest, exactly similar to what happened in Mugabe regime some one-and-half decades ago. If YCL continues to extortion, 'tax' and donation collection, capture on personal property, looting, 'arrests' and vandalism, and the state fails to take action against them, just because they belong to the ruling party, the law and order situation is sure to become precarious in no

time, as it is the case now. A simple example, YCL cadres are seen working as the ‘traffic volunteers’ in the main streets of Kathmandu. But nobody knows who gave them instructions to do that job, without any coordination to Traffic Police, no one is convinced about their ability to support to the cause of traffic control and, the most alarmingly, nobody has dared to ask them to go away. In imitation of YCL, YF is also openly engaged not only in threatening and beating up the administrators at local levels but also in using force in the events like awarding public sector tenders to *their* people, by impeding the normal legal process.

The most peculiar incident was that the incumbent Land Reforms Minister led a group of Maoists party workers and supporters to capture a private land and allowed them to build huts and shelters. Instead of making rules and regulations, involvement of minister in illegal activities like this in the pretext that the land belonged to feudal lords has encouraged Maoists party workers for a number of similar activities in other parts of the country.<sup>11</sup>

The Local bodies--District Development Committees, Municipalities and Village Dev. Committees--are without the office-bearers for last six years. The last elections for local bodies were held in 1997 and their terms expired in 2002. In absence of local governments and people’s representatives, public delivery system of services and goods like petroleum products and food grains has virtually collapsed. The bureaucratic structure is limited to district headquarters which itself is days’ walk in remote areas.

Key positions in many constitutional bodies like Commission for the Investigation of Abuse of Authority and Public Service Commission have remained vacant, in some cases, for more than two years now. This has on the one hand created a situation of impunity to the corrupts and, on the other, the postings, promotions and transfers including those of senior civil servants have also been affected, thereby creating additional bottleneck in service delivery mechanism of the state.

Law and order situation is the most engrossing of all concerns now. It may be attributed to transitional anarchy. But every small personal grudge has started to become cause enough to blockade a main highway, sometimes for days. Every smallest of the groups wants to fulfill its ‘demand’ right at the moment, largely because the political leadership has failed to instill confidence among the people that many things automatically get sorted out when system starts to function. No one wants to ‘loose’ the opportunity in fear of being late. The situation gets worsened when the cadres of the ruling parties themselves engage in the acts

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like vandalism, looting and capture of private properties. Political consensus in filling the local bodies, complete halt of the anarchic activities by sister organizations of political parties and administrative assertion in addressing people's needs are the preliminary steps that in course would consolidate the law and order situation.

Two very important aspects -the civic culture and civilian role-in the parlance of good governance seem to have, somehow uniformly, missed in the developing countries. Nepal is, apparently, one of them. Simple things like using overhead bridges to cross the road, adhering to the traffic signals, maintaining lane discipline, standing in queue for one's own turn in shops, public taps and even in temples, and not littering in public can significantly contribute to improve general law and order situation. It is not always the lack of knowledge and skill, but a culture of anarchy that has worsened the situation. A western educated, highly placed and knowledgeable person also deliberately indulges in the same act as of an illiterate without any hesitation or sense of regret. Some assertive initiatives could help change behavior of the masses which in return contribute to good governance.

### **3.5 Economic Development**

The post-civil war economy of Nepal faces three-pronged challenges of reconstruction of infrastructures and public amenities destroyed during the war, catching-up the development process that was completely stalled by the conflict and, providing immediate relief to the people who in virtual absence of the governance are facing acute shortages of basic supplies and unbearable inflation. But to embark on actual growth trail, first there must be a conceptual clarity on the policies of the Maoist-led government. Recently announced policies and programmes of the government said it would encourage the growth of 'nationalistic capitalism' and PPP, but this would require further elaboration. The government announcement that it would ensure the entitlement of land-ownership to actual tillers has raised many eyebrows about the long-term guarantee of private property rights. There are concerns whether the Maoists would exert the muscles to establish a state-controlled economy.

It may be noted here, after reinstatement of multi-party democracy in 1990, the country had determinedly embarked on the path of economic liberalization, structural and institutional reform, and decentralization. The average annual growth rate between 1991 and 1996 was moderate at 5.2 percent. But, the Maoists' armed conflict that began in February 1996 which in a decade's time spread in the entire rural hinterland, and as the shadow of the conflict, political instability at the centre had had a toll on country's economy.

The Nepal Living Standard Survey (NLSS) 2003/04 reported a decline in poverty incidence by 11 percentage points from 42 to 31 percent from the first such survey in 1996 to the second in 2004. This achievement, despite internal conflict, including macroeconomic stability and favourable balance of payment situation during this period, was attributed to significantly increased inflow of remittances from Nepali migrant workers abroad.

### **Principal Indicators**

Projected Population for 2008 (est.)	29,519,114
Life expectancy at birth, 2006	62.6(yrs.)
Literate Population %, 2008	57.2
Population growth rate %, 2007	2.1
Population below poverty line %, 2004	31
Population below poverty line urban %, 2004	10
Population below poverty line rural%, 2004	35 <sup>12</sup>
GDP Growth rate %, 2008 (ADB/Manila)	3.8.
The workers' remittances/GDP ratio %, 2008	17.4
Inflation %, 2008 (Central Bank)	12.1

In FY 2007/08 alone foreign employment surged by 12.5 percent; 241.1 thousand Nepali workers went abroad during this year. The HDI for Nepal is 0.534, which gives the country a rank of 142<sup>nd</sup> out of 177 countries with GDP per capita (PPP US\$) 1,550,<sup>13</sup> and average per capita GDP of US\$ 339 (2007). Nepal remains the poorest country in South Asia and ranks as the twelfth poorest country in the world.<sup>14</sup>

Nepal implemented her Tenth Five Year Plan (2002-2007) as PRSP. On expiry of the Plan, instead of announcing 11<sup>th</sup> five year plan, the government has adopted a three year interim plan (2008-2011) in view of country's ongoing political transition. The first priority of the interim plan is to give special emphasis to relief, reconstruction and reintegration followed by creation and expansion of employment opportunities. The Interim Plan aims to achieve

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<sup>12</sup> Central Bureau of Statistics, Nepal  
<sup>13</sup> UNDP Human Development Report (2007/08)  
<sup>14</sup> The World Bank 2007

the growth rate of 5.5 percent (agricultural sector 3.6 and non-agricultural sector 6.5). This also seems highly ambitious as there is acute power shortage (40 hrs. per week load-shedding); output of non-agricultural sector is likely to be heavily affected. The agricultural sector is mainly subsistence in character, with its 36 % contribution in GDP and 71 % workforce engagement. In response to the government's interim plan, development partners like the World Bank and UNDP have also come-up with interim support strategies for these three years.

After the end of armed conflict in the country for about three years now, the foreign direct investment (FDI) commitment has been rising substantially. In the last fiscal year that ended on 15<sup>th</sup> July 2008, US\$ 140 million was committed for 212 projects in comparison to US\$ 41million in the preceding year. Nepal received FDI commitment from 39 countries out of which Indian investors are on the top in the list followed by South Korea, China, UAE and UK. However, actual inflow of the funds has not yet begun since everyone seems to be apprehensive and in a mood to 'wait and watch' the 'Maoist government' for some time.

In FY 2007/08, the current account showed a surplus of US\$ 310 million in contrast to a deficit of US\$ 13 million in the previous year. The robust growth in external net transfer of remittances by the Nepalese working abroad that rose by 42.5 percent to Rs 142.7 billion in FY 2007/08, contributed to such a significant surplus in the current account despite a widened deficit in the merchandise and services trade account by 22.2 percent to US\$. 2.63 billion. Of the total, the trade deficit with India amounted to US\$ 1.51 billion and the remaining deficit of US\$ 0.84 billion with other countries. In mid-July 2008, the gross foreign exchange reserves stood at US\$ 3.03 billion, showing a growth of 28.8 per cent from the level of US\$ 2.35 billion in mid-July 2007, which is adequate for goods imports of 11.3 months and goods and services imports of 9.1 months.

One area that is registering continuous growth despite conflict and political uncertainty is the financial sector. A total of 30 new banks and financial institutions were established in 2007/08. These included 5 commercial banks, 20 development banks, 4 finance companies and 1 micro-finance institution. The branches of commercial bank increased by 106 to 558 in mid-July 2008 from 452 in mid-July 2007.

### **The Number of Banks and Financial Institutions**

<u>Bank and Financial Institutions</u>	<u>Mid-July 2007</u>	<u>Mid-July 2008</u>
Commercial Banks	20	25
Development Banks	38	58
Finance Companies	74	78
Micro Finance Institutions	12	12
NRB Licensed Cooperatives (undertaking limited banking transactions)	17	16
NRB Licensed NGOs (undertaking micro finance transactions)	47	46
Insurance Companies	21	25

Nepal has become member of the WTO since 23 April 2004, the first least-developed country (LDC) to join the WTO through the full working party process. The financial services, along with other services sectors, will be opened for international service providers from 2010 January as per the WTO commitment.

As for the prospects, Nepal has tremendous potential of economic growth by concentration in three sectors-water resource, tourism and agriculture. Nepal is recognized second largest hydropower potential in the world with great prospects of power exports to very large, rapidly expanding two neighbouring economies of India and China. Being abode to Mt. Everest, birth place of Lord Buddha and several other cultural and natural heritages, and relatively well developed infrastructure for it, tourism has real prospects of becoming a major contributor to economy. The extreme variations in climate bestowed by altitude variations, unconventional and off-season farming and eco-farming present real prospects of transformation from present subsistence form of traditional farming to commercial agriculture.

To meet the cost of massive reconstruction, initiation of large or medium sized hydropower projects and construction of other infrastructures, Nepal must attract a huge amount of FDI. This is possible only when there is full confidence of the investors on the government. Appropriate and predictable economic and fiscal policies like of capital account convertibility, SEZ and tax holidays must be in place. But, so far, the tag 'Maoist' itself is

still a big anathema and intimidating factor to large international as well as national investors.

Industrial relations and industrial security are other vital issues. Maoists had left their trade unions as free-to-do-anything force even after signing of CPA that led to closure of several joint venture industries due to their unruly activities. As the 'party of workers' it would be difficult even for the government to reign over them immediately. Apart from collective bargaining, involvement of the politically protected groups in seeking ransoms, destructions and obstructions in productions and marketing processes would not surely create suitable atmosphere for investment.

In the meanwhile, the government presented its highly populist, unrealistically ballooned and hugely deficit budget on 18<sup>th</sup> September, 2008. The inclination and trend of the budget are towards a controlled economy that squarely hints to move against the concept of free market economy. A few highlights:

Total Outlay	US\$ 3.3 billion ( +45% of last year )
Recurrent expenditure	US\$ 1.8 billion
Capital expenditure	US\$ 1.3 billion
Repayment of loans	US\$ 230 million
Revenue :	US\$ 2 billion ( +32% of last year )
Foreign Aid and Credit :	US\$ 900 million ( +91% of last year )
Projected GDP growth	7 %
Inflation projected	7.5%

On September 13<sup>th</sup>, Asian Development Bank published a revised economic outlook for Nepal that estimated growth of 5.6 percent against earlier estimation of 3.8 for 2008, and 5 per cent for 2009. The inflation would remain 13.4% in 2008 and will go down to 8.5 in 2009, it said.

### **3.6 International Cooperation**

International development partners have made very significant contribution in Nepal's development by providing support in the form of financial and human resources, and technology transfers. In absence of defined policy priorities and, at times, donors imposing their own, Nepal's development process is often taunted as donor-dependent, donor driven

and, sometimes, donor-dominated one. Nevertheless, the importance of donors' support can never be over emphasized. For example, the national budget of FY 2007/08 had proposed to finance 26.5% of annual expenses from external grants and loans. The current and capital grants assistance amounted to US\$ 480 million in FY 2007/08 against US\$ 320 million last year. The six major donors are The World Bank, Japan, UK, Germany, Denmark and USA, approximately accounting for more than 75 percent of gross overseas development assistance.<sup>15</sup> Nepal's current external debt stands at about \$3.17 billion (March 2007) that devours 15% of GDP in annual debt servicing in the form of interests and repayments.

Nepal's development partners could roughly be categorized as

- a) Multilateral organizations like The WB, IMF, ADB and EU who generally emphasize on institutional reforms, transparency and people's participation in the development process but work with all forms of governments.
- b) Bilateral agencies with political concerns, like USA, UK and India who somehow would like to further their interests through financial support and very keen to make their presence felt, politically and diplomatically.
- c) Bilateral/multilateral partners, less concerned with political mileage or political change but keen on helping solely for the betterment of Nepal and Nepali people, like Nordic and Scandinavian countries, Japan, Australia, China etc.

For last several years, Nepal Development Forum--NDF (earlier known as Paris Aid Group Meeting) has been the main basis for government-donor relations. The NDF 2002 meetings held in Pokhara, the first to be held in Nepal, provided platform for donors to reach in a consensus to largely agree to align their assistance under the country's budgetary framework. The last NDF was held in May 2004 in Kathmandu and poverty reduction and harmonization of external assistance were among the main topics of deliberation. In fact, there have been a number of exercises to harmonize the both, the process and resources, of the external assistance. The Government had agreed to an Aid Integration Process framework in order to synchronize external development assistance with the annual budget formulation process but could implement with very limited success, largely, due to political transition.

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<sup>15</sup> *OECD/DAC Aid Statistics, 2004*

However, an increased level of harmonization was reflected in formulation and adoption of the three-year Interim Plan. The government's policy to adopt an interim plan in view of the country's ongoing political transition was suitably responded by major external partners like The World Bank, UNDP and European Union by announcing their own support strategies for three years. However, channeling all external assistance through one window and implementing the Aid Integration Process by introducing adequate bylaws are still among the pending agenda. Some other programmes like the pursuit of Millennium Development Goals (MDGs) and introduction of Medium Term Expenditure Framework (MTEF) and Immediate Action Plan (IAP) have provided platform for development partners to coordinate their efforts in achieving the main objective of Nepal's poverty reduction.

In particular reference to Australian development assistance to Nepal that began in 1960s, it has been important as it has mainly come in the form of grants and holds special significance in the present context of reducing global warming since the largest chunk of this support has gone for afforestation and conservation of the natural heritage. In my personal view, instead of either being small part of multi-stakeholder, big projects channeling funds through the government agencies or, working largely through other agencies like DFID, set specific priorities of its own could perhaps yield much better results. Fresh involvement in new areas like training rural people on carbon trading mechanism and its benefits, expansion of modern communication networks like village internet centres and facilitation in increasing the presence of subject teachers in the high schools of far-flung areas would make really meaningful transformation at the grassroots.

In a slightly different context, there is long ongoing debate on confining the centralized planning structure to policy planning level alone. Since the country has decided to adopt a federal structure, the provincial units of planning may be constituted facilitating a further step of decentralization.

#### **4. DILEMMAS AND DIRECTIONS**

Nepal presents an exciting test case for the political thinkers and socio-economic analysts. At a time when the West is celebrating a sense of triumph over communism after collapse of Soviet Union, and China's paradigm shift from Maoism to Deng-ism, in Nepal CPN-Maoists led government took charge last month. After fighting a decade-long guerrilla war, the party ultimately chose ballots over bullets to ride to power saddle. There has been a

meteoric rise in the communist influence (62% CA members) in the country's politics over the years.

It should have been a matter of satisfaction that by choosing the ballots, Maoists have accepted the competitive politics, multiparty system and universal practices on human rights, more importantly individual property rights, and press freedom. But this impression instantly evaporates when you got to hear that winning elections was just a first step to their complete revolution to 'people's republic,' they were using the 'parliament' as springboard to achieve the ultimate goal of 'proletarian dictatorship,' and only 'mode' of their revolution had changed not the 'goal.' Thus, one perspective is, they would never change themselves to be true democrat but could return to their original ideology no sooner the opportunity knocked the door.

Another perspective is: the way world has become extremely interdependent, interactions among persons, institutions and countries have risen unimaginably due to communications and transportation boom, and the regional and global geo-political realities are not in favour of such reversal, Maoists would gradually accustom themselves to parliamentary multi-party democracy.

So far, the first argument holds more waters. First, any form of radical politics thrives in a situation where common man's critical judgment is nil, education system dysfunctional, communication and delivery channels nonexistent, and hopelessness and desperation due to extreme poverty are rampant. In this sense, Nepal undoubtedly was and remains potentially a fertile ground for armed insurgency like the one Maoists waged.

Second, the sub-regional level solidarity of the Maoists is believed to be very much functional. The Nepali Maoists have not disassociated from COMPOSA-Coordinating Committee Of Maoist Parties & Organisations of South Asia (also known as South Asian Communist Corridor) formed on July 1, 2001, by the Maoists from India, Nepal, Bangladesh and Sri Lanka. Among dozens of armed communist groups in India, six outfits<sup>16</sup> are actively carrying out surprise armed attacks on security personnel and installations mainly in the States of Bihar, West Bengal, Andhra Pradesh and Chhattisgad. On the one hand, these groups are encouraged by the fact that Maoists in Nepal could 'capture' power out of consolidated strength of guerrilla war, and on the other, there are no

<sup>16</sup> Communist Party of India Maoist, Communist Party of India (Marxist-Leninist) (Naxalbari), Maoist Communist Centre, Revolutionary Communist Centre of India (Marxist-Leninist-Maoist), Revolutionary Communist Centre of India (Maoist) Communist Party of India (Marxist-Leninist) People's War Group. (RCCI-M and MCC merged in 2003 and became MCCI. MCCI and CPI (M-L) (PW) announced merger in 2004 and became the Communist Party of India Maoist. But still original groups are also functional in different pockets. Many of them are the International Revolutionary Movement (RIM) affiliates.

convincing sign of discontinuation of cooperation between these groups and Nepali Maoists that began during high time of Nepal's insurgency. These are indeed some danger signals for the political stability of entire region.

Third, to reemphasize here, entire party structure of CPN-M, political and military, was created by selling the dream of 'people's republic.' The Maoist leaders in the government may easily relent to extreme pressures from hardline rank and file; either may act to create a 'real' communist state or revert back to insurgency. In fact, the new Acting Chief of the Party declared, "The parliamentary system has failed world over and we will leave no stone unturned to make Nepal a people's republic."<sup>17</sup>

## 5. CONCLUSION

Nepal will remain in volatility of political transition unless a new democratic constitution is drafted and promulgated. Nepal plunging again in the civil war-like situation in countrywide scale as in the past is only a bleak possibility. However, smaller armed groups are likely to imitate the Maoists' *modus operandi* to make their presence felt and forward their cause. The Left dominance in the country's politics is likely to remain there for some time to come. Once the fear of reprisal among the masses (threat perceptions) from organized and armed groups begins to recede, such influence may gradually wane.

Since the Maoists have already come to the power, politics of engagement than politics of isolation could be the better strategy to transform them into a responsible political force. International community can play an important role in this by providing moral boost to the relatively rational leaders in the government from the Maoists party. It is also important for preventing them to succumb to the radical pressures from their own party and mitigate the chances of disturbances in regional scale to be caused through the networks like COMPOSA.

This may be the reason, India, despite having its own problem of sporadic violence from radical communists, has manifested somehow overtly supportive approach to the Maoist-led government in Nepal. Many other countries have a tendency of following the Indian pattern in diplomatic dealings with Nepal.

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<sup>17</sup> The Himalayan Times, 14 September, 2008

For peace, stability and progress of Nepal, it is also equally necessary to make the forces in government responsible by involving them in meaningful debate to expose their impractical policy stances. Only way to steer Nepal to sustainable democratic polity is to enhance the ability of critical judgment of the common people, and means to it is expansion of education opportunities and communication networks.

Therefore, the priority of our development partners in providing development assistance should be to support livelihood of the poorest of the poor in the short-run and, in the long run, expansion of education and communications. Education automatically brings about necessary changes in gradual basis; as one can easily imagine an alternative scenario of present Nepal had there been adequate level of awareness among the people in general, generated through easy access to education and communications.

No doubt, political leadership and people should work together to chart out better future for Nepal. Nonetheless, apathy and indifference of international community and media, to the appalling situations in these poor countries like Nepal, particularly during the political transition, contribute to further deterioration of the situation. By the time when international community responds to, it is invariably too late like in Darfur, Afghanistan or Zimbabwe. Experiences have it, whenever the international attention is drawn, fundamentalists posture as rationals. But for the so called international community and international media alike, one kidnap in Gaza is a headline and hundred lives killed in fighting in our part at the same moment is just one line newswire pick. Unless we begin to value every human life as equal, not merely a politically correct subject to scandalize, the dream of seeing the end of the rise in fundamentalism, political or otherwise, from the Third World remains a dream forever.

## 6. ANNEXES

### 1. Political Parties, number of votes and seats in Constituent Assembly 2008.

Party	First-Past-the-Post			Proportional		Seats				
	Votes	%	+/-%—	Votes	%	FPTP	Prop.	Nom.	Total	%
<a href="#">Communist Party of Nepal (Maoist)</a>	3,145,519	30.52		3,144,204	29.28	120	100	9	229	38.10
<a href="#">Nepali Congress</a>	2,348,890	22.79	-14.50	2,269,883	21.14	37	73	5	115	19.13
<a href="#">Communist Party of Nepal (Unified Marxist-Leninist)</a>	2,229,064	21.63	-16.62	2,183,370	20.33	33	70	5	108	17.97
<a href="#">Madhesi Jana Adhikar Forum, Nepal</a>	634,154	6.15		678,327	6.32	30	22	2	54	8.98
<a href="#">Tarai-Madhesh Loktantrik Party</a>	345,587	3.35		338,930	3.16	9	11	1	21	3.49
<a href="#">Rastriya Prajatantra Party</a>	310,214	3.01	-10.84	263,431	2.45	0	8	—	8	1.33
<a href="#">Communist Party of Nepal (Marxist-</a>	168,196	1.63		243,545	2.27	0	8	1	9	1.50

<a href="#">Leninist)</a>											
<a href="#">Sadbhavana Party</a>	174,086	1.69		167,517	1.56	4	5	—	9	1.50	
<a href="#">Janamorcha Nepal</a>	136,846	1.33	-0.89	164,381	1.53	2	5	1	8	1.33	
<a href="#">Communist Party of Nepal (United)</a>	39,100	0.38		154,968	1.44	0	5	—	5	0.83	
<a href="#">Rastriya Prajatantra Party Nepal</a>	76,684	0.74		110,519	1.03	0	4	—	4	0.50	
<a href="#">Rastriya Janamorcha</a>	93,578	0.91		106,224	0.99	1	3	—	4	0.66	
<a href="#">Rastriya Janshakti Party</a>	79,925	0.77		102,147	0.95	0	3	—	3	0.50	
<a href="#">Nepal Workers Peasants Party</a>	65,908	0.64	+0.08	74,089	0.69	2	2	1	5	0.83	
<a href="#">Sanghiya Loktantrik Rastriya Manch</a>	36,060	0.35		71,958	0.67	0	2	—	2	0.33	
<a href="#">Nepal Sadbhavana Party (Anandidevi)</a>	45,254	0.44	-2.78	55,671	0.52	0	2	1	3	0.50	

<a href="#">Rastriya Janamukti Party</a>	38,568	0.37	-0.70	53,910	0.50	0	2	—	2	0.33
<a href="#">Nepali Janata Dal</a>	17,162	0.17	+0.04	48,990	0.46	0	2	—	2	0.33
<a href="#">Communist Party of Nepal (Unified)</a>	51,928	0.50		48,600	0.45	0	2	—	2	0.33
<a href="#">Dalit Janajati Party</a>	31,444	0.30		40,348	0.37	0	1	—	1	0.17
<a href="#">Nepa Rastriya Party</a>	11,352	0.11		37,757	0.35	0	1	—	1	0.17
<a href="#">Samajbadi Prajatantrik Janata Party</a>	13,246	0.13		35,752	0.33	0	1	—	1	0.17
<a href="#">Chure Bhawar Rastriya Ekta Party</a>	18,908	0.13		28,575	0.27	0	1	—	1	0.17
<a href="#">Nepal Loktantrik Samajbadi Dal</a>	10,432	0.10		25,022	0.23	0	1	—	1	0.17
<a href="#">Nepal Parivar Dal</a>	—			23,512	0.22	—	1	—	1	0.17
<a href="#">Communist Party of Nepal</a>	1,759	0.02		21,234	0.20	0	0	—	0	

<a href="#">(Marxist)</a>									
<a href="#">Tamsaling Nepal Rastriya Dal</a>	5,468	0.05		20,657	0.19	0	0	—	0
<a href="#">Rastriya Janata Dal</a>	5,556	0.05		19,305	0.18	0	0	—	0
<a href="#">Communist Party of Nepal (United Marxist)</a>	10,076	0.10	-0.04	18,717	0.17	0	0	—	0
<a href="#">Lok Kalayankari Janata Party</a>	6,700	0.06		18,123	0.17	0	0	—	0
<a href="#">Nepal Janabhavana Party</a>	104	0.00	±0.00	13,173	0.12	0	0	—	0
<a href="#">Rastriya Janata Dal Nepal</a>	4,497	0.04		12,678	0.12	0	0	—	0
<a href="#">Nepal Janata Party</a>	5,635	0.05		12,531	0.12	0	0	—	0
<a href="#">Mongol National Organisation</a>	6,349	0.06	-0.01	11,578	0.11	0	0	—	0
<a href="#">Nepal Shanti Kshetra Parishad</a>	45	0.00		10,565	0.10	0	0	—	0

<a href="#">Shanti Party Nepal</a>	970	0.01		10,511	0.10	0	0	—	0
<a href="#">Rastriya Bikas Party</a>	2,612	0.02		9,329	0.09	0	0	—	0
<a href="#">Nepal Sukumbasi Party (Loktantrik)</a>	1,459	0.01		8,322	0.08	0	0	—	0
<a href="#">Nepal Rastriya Bikas Party</a>	1,603	0.01		8,026	0.07	0	0	—	0
<a href="#">Nepal Dalit Shramik Morcha</a>	93	0.00	-0.08	7,107	0.07	0	0	—	0
<a href="#">Samajbadi Party Nepal</a>	1,197	0.01		6,564	0.06	0	0	—	0
<a href="#">Muskan Sena Nepal Party</a>	2,490	0.02		6,292	0.06	0	0	—	0
<a href="#">Nepali Congress (Rastrabadi)</a>	—			5,721	0.05	—	0	—	0
<a href="#">Nepal Samyabadi Dal</a>	60	0.00		5,478	0.05	0	0	—	0
<a href="#">Nawa Janabadi Morcha</a>	992	0.01		5,193	0.05	0	0	—	0
<a href="#">Hindu Prajatantrik</a>	265	0.00		4,902	0.05	0	0	—	0

<a href="#">Party</a>									
<a href="#">Nepal Samata Party</a>	459	0.00		4,697	0.04	0	0	—	0
<a href="#">Rastrabadi Yuba Morcha</a>	496	0.00		4,772	0.04	0	0	—	0
<a href="#">League Nepal Shanti Ekta Party</a>	316	0.00		4,443	0.04	0	0	—	0
<a href="#">Rastrabadi Ekta Party</a>	43	0.00		4,150	0.04	0	0	—	0
<a href="#">Sa-Shakti Nepal</a>	532	0.00		3,752	0.03	0	0	—	0
<a href="#">Janamukti Party Nepal</a>	281	0.00	-0.11	3,396	0.03	0	0	—	0
<a href="#">Nepal Rastriya Loktantrik Dal</a>	57	0.00		3,216	0.03	0	0	—	0
<a href="#">Nawa Nepal Prajatantrik Dal</a>	34	0.00		3,016	0.03	0	0	—	0
<a href="#">Liberal Samajbadi Party</a>	152	0.00		—		0	—	—	0
<a href="#">Nepal Rastriya Janakalayan Party</a>	96	0.00		—		0	—	—	0

<a href="#">Independents</a>	123,619	1.20	-1.54	—		2	—	—	2	0.33
Total (turnout %)	10,306,120	100.00	—	10,739,078	100.00	240	335	26	<b>601</b>	100.00

*Source: Election Commission, Nepal*

## 2. How has poverty reduced in Nepal?

- (i) Increased remittances—with an estimated 1 million workers abroad in 2004 (primarily in India, the Gulf and East Asia), remittance inflows soared from 3% of GDP to 12%. The share of households receiving remittances has also increased from 24% in FY95/96 to 32% in FY03/04. The increase in remittances is responsible for more than one-half (6.2 percentage points) of the overall reduction in headcount poverty rate between FY95/96 and FY03/04.
- (ii) Higher agricultural wages—agricultural wages rose 25%, non-agricultural unskilled wages rose 20% and skilled wages more than doubled. Increased aggregate demand, improved connectivity and better access to markets stimulated entrepreneurial activities and allowed non-agricultural incomes to increase. Out-migration and availability of jobs outside the agricultural sector tightened local labor markets and stimulated agricultural wages, improving the welfare of the agricultural laborers who tend to be the poorest. Agricultural incomes stagnated because of the weak performance of the crop sector, but the decline in real prices of major staples (rice and wheat) benefited poor consumers.
- (iii) Increased connectivity—Nepal’s road network annually increased by 6.7% between FY95/95 and FY03/04, with the largest expansion occurring in roads classified as “district or rural roads”, which grew annually by 11%. This pro-poor expansion, as well as improved modes of transportation increased access to shops, markets, schools and hospitals. Improvements in rural connectivity helped raise non-agricultural employment and incomes.
- (iv) Urbanization—was a powerful driver of poverty reduction, moving workers from low productivity jobs in rural areas to higher productivity activities in urban areas. Changes in the population shares across urban and rural areas and across regions accounted for about one-fifth of the overall reduction in the poverty headcount rate. Urbanization was also important for changing social relations between advantaged and disadvantaged ethnic population groups, as discrimination is less entrenched in urban areas.
- (v) A decline in the dependency ratio—the number of non-working people per working adult fell between FY95/96 and FY03/04 as a result of the decline in fertility that began in the 1980s. In urban areas, the number of working males per household increased the most.
- Nepal: Interim Strategy Note WB 2006*