

NEPAL – FRAGILE STATE ASSESSMENT

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I. Executive Summary

Nepal appears to be a poor democracy, struggling with a rural Maoist rebellion. Foreign donors have therefore given generous aid to support citizen and grass-roots training in democratic procedures, given military support to the government to help it combat the rebellion, and have continued, as best they can, to support rural economic development (including water management, health, and educational services) despite the rebellion. Considerable optimism is fueled by the fact that during cease-fires between the government and the rebels (of which there have been two, lasting a total of twelve months) Nepal showed strong economic growth of approximately 3% in 2003.

However, the situation is far more complex and fraught than it appears, and donor actions may therefore be counter-productive. Almost all donor agencies agree that unless a permanent peace can be achieved, Nepal's economic progress is at risk. In 2002, the most intense year of fighting, 8,000 lives were lost and \$5 billion in property damage accrued as a result of the rebellion (mainly to government offices and police stations) (Palmer, 2003, p. 2). The total property damage alone is almost equal to Nepal's annual GDP. Yet current donor assistance does little to end the violence, and much to sustain it by allowing rebels to take credit for gains in rural areas. Military assistance has encouraged the monarchy to seek a military solution to the rebellion; in doing so it has dismissed the elected national and local governments, thus ending any true democracy in Nepal. Moreover, the military has been only moderately effective: the insurgents are now active in nearly every district of Nepal, and have effectively challenged government control in over two-thirds of the country. In addition, the Royal Nepalese Army has engaged in ruthless violence that has often increased recruitment to the insurgency. Grass-roots training in democratic procedures has done little to address the venality and infighting among the major political parties that disabled Nepali democracy when it was still functioning.

Although foreign assistance has helped produce positive economic growth, such growth has been concentrated in the Kathmandu Valley. Indeed, the absolute number of poor in Nepal has likely increased since 1980, and the overriding concern of rural Nepalese is a lack of employment. Finally, the continued donor provision of social services to rural areas often takes place only at the sufferance of the rebels, who then claim credit for allowing and supporting such assistance. This process allows the rebels

to gain legitimacy as the rural government, and weakens support for the central government in Kathmandu.

The most fundamental source of support for the rebellion, aside from the corruption of political parties and authoritarian actions of the monarchy, is the pervasive exclusion of approximately 80% of Nepal's population from leading roles in economic, political, and social life. Ethnic minorities, lower-castes, and women are systematically dominated, neglected, or actively excluded in many dimensions of social life. Opinion polls suggest that popular support for such exclusion is in fact diminishing, but efforts to address this exclusion have been limited by infighting for power at the top of Nepali society, and more general concerns with poverty reduction by international donors. Addressing such systematic exclusion from opportunity on grounds of ethnicity, gender and caste is far more important than incremental reductions in poverty *per se* in reducing support for the insurgency and the fragility of Nepal.

Nepal now faces multiple and severe crises: There are major security failures throughout the country; the monarchy and democratic parties are both only weakly legitimate; and a pervasive and systemic inequality that excludes roughly 80% of the population from participation in government, economic opportunity, and basic justice will continue to sustain support for the insurgency. If the insurgency continues to gain strength, it may be able to isolate and strangle the central government in Kathmandu, and eventually win control of the country. The insurgents' strategy is consciously modeled on that of the Maoist Communist Party of China, in the latter's struggle against the corrupt and authoritarian regime of Chiang Kai-shek. Unless there are major changes in the response of the government of Nepal, it may be headed for the same fate as Chiang's regime.

Responses to the current crises therefore need to address four major issues: (1) stabilizing the security situation; (2) restoring the legitimacy of the monarchy; (3) restoring trust in the political parties and democratic institutions; and (4) ending the policies of massive exclusion and discrimination that have fueled the rebellion and hinder and imbalance Nepal's economic development. Suggested interventions to address these key issues are designed to shift elite behavior in ways that will weaken the rebellion and lead to peace.

These include making military assistance conditional on human rights training and discipline for the army; while also making such assistance conditional on actions by the monarchy to reduce exclusion and so restore its legitimacy. Assistance in organizing for elections and other democracy training should be made directly to party leaders, but conditional on the leaders of major parties accepting training in the functioning of representative government and generous support for anti-corruption and rule of law institutions. Finally, economic and social services assistance (excepting health care) should be curtailed in rebel-controlled areas and concentrated in those areas where the government can plausibly claim control of the district. Provision of services on a non-discriminatory basis in government-held regions will increase the appeal of supporting the government, and should increase in its legitimacy and effectiveness, while undercutting support for the rebels. Once the security situation is stabilized, the government also needs to develop a coherent and comprehensive strategy for peace talks with the rebels, including offers of fully inclusive local and national elections and a new constitutional convention to redefine the roles of the King, parties, and people of Nepal.

II. Current Fragility Assessment

This section addresses a number of key questions in assessing the legitimacy and effectiveness of governance in Nepal. Unfortunately, there are multiple and severe deficits in both effectiveness and legitimacy.

A1. Effectiveness in Providing Security. *Is the government able to provide security for its population? Can it control its borders and its territory?*

The security situation has been deteriorating since the beginning of the Maoist rebellion in 1996 but has become severe since 2001. Maoist rebels have struck in all of the 75 administrative districts of Nepal. Over 11,000 people have been killed in the current conflict, most of them in the last three years. Since the end of the last cease-fire in August 2003, rebel action has greatly increased, including bombings, blockades, and multiple kidnappings in the Kathmandu Valley (the capital region). In the last three months, 450 people have been killed, the bloodiest quarter since the insurgency began.

The government of Nepal at first treated the Maoist insurgency as a criminal matter, and dispatched the Nepali Civil Police to deal with them. While this police force had district headquarters throughout Nepal and men stationed at the offices of Village Development Committees (VDC) (numbering about 4,000, these are the lowest-level administrative units in Nepal), they were wholly unable to cope with the insurgency. In many cases armed only with batons (in the British policing tradition), each rural district might have approximately 500 police, scattered across 60 VDC stations, often cut off from each other and accessible only by foot (road development in rural Nepal is extremely limited). These forces had to cover an area of hundreds or even thousands of square miles, with several hundred thousand people to monitor. The insurgency initially targeted the VDC stations, destroying dozens and routing the police from others, thus destroying the administrative presence of the government in the countryside. By the beginning of 2003, most VDC stations no longer functioned, and the police had fallen back to the 75 district headquarters throughout the country, rarely venturing into the countryside (Marks, 2003, p. 13).

The Maoists thus took control of much of the country, spreading from their bases in the mid-western provinces. After November 2001, when the rebels escalated their attacks and killed hundreds of police, the government began to commit the Royal Nepalese Army (RNA) to combat the insurgency. However, this too was largely ineffective. The Army had been trained mainly for ceremonies and participation in UN peacekeeping operations – it had no real experience in action within Nepal nor in counter-insurgency operations. The RNA and Civil Police suffered from mutual mistrust and lack of communication, so that the RNA had no real intelligence on the insurgency.

Before the general Maoist offensive of November 2001, the RNA had been given a limited role in internal peace-keeping operations. In a pilot program limited to six of Nepal's 75 districts, several RNA battalions attempted to combine security with civilian assistance operations, building roads, digging wells, and providing rudimentary medical attention to villages. Yet such efforts remained far too limited to have any impact on diminishing the broader national development of the insurgency. And after November

2001, such efforts ceased as the RNA, operating under new anti-terrorist legislation, was assigned to forward attacks on the insurgency.

However, the RNA was much less capable in this role, and suffered considerable losses in its early head-to-head confrontations with armed guerrillas. Lacking any kind of strategic plan, and handicapped by a government that was itself in constant turmoil, as described below, the RNA was limited to ad hoc responses to insurgent actions. RNA actions themselves often deteriorated into ruthless repression and terrorizing of villages where the insurgents had been active.

In the last two years, the RNA has received foreign assistance from Britain, India, China and the United States. Nonetheless, money and armaments have not solved the organizational and intelligence problems plaguing the RNA, and the RNA has not been able to establish secure zones anywhere in the country. Rather, the security situation has continued to worsen with Maoists kidnapping hundreds of workers, moving thousands of rural teachers and students into indoctrination meetings, and assassinating mayors and police officials. The insurgency has also been able to finance itself handsomely by a combination of rural taxation in areas that it controls, bank-robbing, kidnapping, and extortion. As a result, the rebels have amassed tens of millions of dollars to supply and arm themselves, while spreading pervasive insecurity across much of the countryside.

While the insurgents' violent attacks have focused on driving government presence from the countryside, they have also staged highly successful work stoppages (*bandhs*) in the capital, bringing the economy to a halt for days at a time. Smaller strikes and stoppages have also paralyzed areas throughout the country. The success of the *bandhs* is related to the security problem – truck drivers and shop owners are fearful that they will be targeted by the guerrillas if they do not join in the *bandh*. Thus even in urban areas, while daily life seems largely unaffected by the rebellion, the government has not been able to establish a solid sense of security.

In addition, the RNA is not able to control Nepal's borders with India, and Maoist rebels have been able to move across the border easily and seek refuge and support from Maoist rebels in India's northwest provinces (known there as the Naxalites).

In sum, the government of Nepal has lost control of most of its territory and its borders, and cannot provide security. The operations of the Royal Nepalese Army are handicapped by mountainous terrain and the lack of intelligence concerning thousands of scattered villages. They also are hindered by considerable popular support for the insurgency, and a lack of popular support for the central government in Kathmandu.

A2. Legitimacy in Providing Security. *Are the government's security forces under firm civilian control? Do they operate according to a rule of law and good discipline? Do they represent the population and act impartially in providing security?*

Although the Civil Police operated under the leadership of an elected Prime Minister and were closely tied to the dominant Nepali Congress Party (NCP), the conditions of civil control changed as the rebellion grew more violent. In 2001, the fight against the rebels was turned over to the Royal Nepalese Army, which had remained under the control of the King. In addition, in 2002, the King dismissed the elected Prime Minister and appointed a new government. The King also allowed the terms of locally elected

officials to expire and suspended new elections, appointing officials to take their place. As a result, the military has become essentially the instrument of the King and his appointed officials. The RNA thus operates without strong civilian or democratic control and is seen by some politicians as a threat to Nepali democracy.

The RNA also lacks training in counter-insurgency, and thus has struck violently against perceived insurgents. Lacking good intelligence and coordination, RNA operations have often degenerated into terror against villages suspected of sheltering guerrillas.

Finally, the RNA is neither generally representative of Nepal's population, nor does it operate impartially. The majority of the insurgents' support comes from ethnic groups and lower-caste groups who are generally excluded from government and military positions. Thus the insurgency, although led by members of the Nepali intelligentsia with a Maoist ideology, has in many areas taken on the character of an ethnic war, with insurgents drawn from hill tribes (especially the Magars), fighting a royal military that is seen as an authoritarian instrument and defender of upper-caste Nepali elites.

Women also suffer disproportionately from security failures. There is extensive trafficking of women that has not been a priority of state security forces; indeed to the contrary, the RNA and local security forces have been accused of abuses of Nepali women. Women have joined the insurgency in large numbers, in part because they can thereby work for their own security.

B1: Effectiveness of the Political System. *Is the government able to decide upon and implement policy? Is there stable leadership and good administrative control throughout the country? Does the government have stable and adequate revenues? Are there effective organizations (political parties) that channel and regulate political competition? Do these organizations unite elite and popular groups in political action?*

From the beginning of the most recent period of Nepali democracy in 1990, the development of governance has not been effective. This is partially because although political democracy was won in large part by popular protest, it was still granted by the monarchy in 1990 in a fashion that imposed a democracy on a largely feudal and rural countryside. Nepali politicians, drawn from traditional elites, tended to see democracy as a means by which they would share power with the monarchy, rather than as a system in which they would represent the population and respond to its needs. Nepali politics thus has tended to operate as a competition for the spoils of power between different elite groups, who then reward their followers with patronage. Ordinary Nepalese tend to see politicians in traditional terms as leaders of patronage networks. While they look to politicians for results and benefits, they are just beginning to think of themselves as 'citizens' who should ultimately govern themselves.

The result of this pattern of politics is that political parties have constantly competed, split, and stalemated the government as individual politicians sought to gain advantage. Politicians have focused on the struggle for power in Kathmandu and have paid little attention to conditions or demands from the countryside. The parties thus command loyalty mainly through patronage, rather than established national organizations. In a recent nationwide poll, only 30% of the population identified with the

two major political parties, and 60% identified with no party at all (Feierstein and Moreira, 2004, p. 10).

The leading parties are the NCP and the Communist Party of Nepal (United Marxist-Leninist or UML). Yet instead of alternating in power in stable fashion, these parties have been torn by individual leaders seeking partisan gains, with the result that despite reasonably fair and free elections, government has been highly unstable. From 1991 to 2002, there were 11 different governments, under five different prime ministers. The leaders of a third party (the United People's Front) that had won nine seats in the 1991 elections, but which was excluded from government by the Electoral Commission in the 1994 elections, gave up on Parliamentary action and launched the Maoist insurgency in 1996.

The Parliaments run by the NCP and UML over the period from 1991-2001 achieved little or nothing for most of the Nepali population and were increasingly viewed as corrupt and irrelevant. With the onset of the insurgency, the ineffectiveness of the government became palpable, and in 2002, the King dissolved Parliament and suspended elections. Acting under a state of emergency the King appointed his own ministers and adopted rule by decree. However, these actions did not bring stable leadership: the King has appointed three different prime ministers from 2002 to 2004, driven by failures to stem the insurgency.

In addition to confusion at the top, the government's administrative control of the countryside has been shattered by the insurgency. Thousands of VDC headquarters have been destroyed, and hundreds of others have been abandoned.

Financial measures show better prospects, as despite the insurgency, the government has not fallen into fiscal difficulty – indeed quite the reverse. Increased external aid has allowed the government to cut its net deficits, even while increasing spending. The government's current deficit after grants has remained stable at a modest 3.6% of GDP from 1999 to 2003 and is projected to fall still further to 2.0% of GDP by 2006 even as government expenditures rise from 15.7 to 18.2% of GDP. The current account is nearly in balance, benefiting from a high level of remittances from Nepalese working abroad, with a deficit of only about 1% of GDP. Gross reserves remain over \$1 billion US, and debt service is low (less than 10% of exports) in part because of very favorable concessionary terms for external borrowing (International Development Association (IDA), 2003, p. 5). The government is thus in excellent economic shape.

However, the lack of cooperation between the monarchy and political parties continues to impede the effectiveness of the government. Since the dissolution of Parliament in 2002, the parties have seen the monarchy as a threat to democracy, and the leaders of the major parties have led demonstrations against the King's autocratic control of the government, calling for new elections. For its part, the monarchy seems interested in reasserting its control, especially since the Maoists have called for a constitutional assembly that would rewrite the constitution and could (one of the Maoists' avowed goals) terminate the monarchy and create a republic.

Faced with this threat, the monarchy has kept the major parties at arms' length and has chosen ministers mainly from the minority royalist party (the Rastriya Prajatantra Party, or RPP). The conflict between party politicians and the monarchy has left the public without clear leadership and has handicapped the efforts of the government

to present a comprehensive and coordinated plan for a post-rebellion government. It has also alienated a considerable portion of the Nepali elites from the monarchy.

Most recently, the King – facing enormous popular pressure and protest over his dissolution of Parliament in 2002 – has reinstated the government that he dissolved, led by then-Prime Minister Deuba, leader of the Deuba faction of the NCP. Deuba has also invited a number of members of the UML to join his cabinet. However, infighting among party politicians continues to hamper government action. The Koirala faction of the NCP has refused to join the government, and several ministers have acted independently, some appearing to act as loyal agents of the King rather than the Prime Minister. While the new government has offered to negotiate with the rebels, it has been unable to present a plan for negotiations. Although it has announced plans to hold new elections, it is not clear how national elections can be held with the rebels in command of most of the countryside. The security situation has grown so bad (with youth being impressed into the guerrilla army throughout the country) that the rebels now appear willing to negotiate only on terms that they dictate.

In sum, the government has been plagued by instability and internal conflicts. The split between the monarchy and the political parties continues to make it difficult to formulate and implement a strategy to deal with the insurgency. Parties are mainly vehicles for elites to seek power, rather than a means to integrate the population into political participation. Although the government remains well-financed and solidly in control of the capital region and major cities, its administration of the countryside has been substantially overturned by the insurgency.

B2: Legitimacy of the Political System. Have the leaders of the government been chosen in a manner regarded as fair by elites and by the population? Is the government representative and is participation open and inclusive? Are there effective internal checks and balances, and legal controls on government actions?

How well are human and civil rights supported? How well is corruption tamed by rule of law? What is the base of support for the central government? What is the base of support for the opposition or rebels?

The leadership of Nepal has been vested in a hereditary monarchy since the unification of the country in the 18th century by the Shah kings of Gorkha. The monarchy has generally been popular and served as a symbol of Nepali unity. The kings have not always wielded power, however. From the mid 19th to the mid 20th century, the Rana family gained control of the military and established a Legal Code that gave official status to the traditional Hindu caste hierarchy. Through intermarriage with the Shahs, the Rana family gained effective control of the country for over a century. After the departure of the British from India and Nepal, Indian influence brought about the decline of the Rana forces and the development of the NCP, which was elected to lead a national government in 1959.

However, this national experiment in democracy was short lived. In 1960, King Mahendra dismissed the government and replaced the national parliamentary democracy with a system of royally-supervised local district elections (the Panchayat system). Although this system lasted for several decades, it was increasingly unsatisfactory, and in

1990 King Birendra bowed to a “People’s Movement” of coordinated protests that demanded a restoration of national Parliamentary democracy, and created a constitutional monarchy on the British pattern. However, far stronger powers were reserved to the King, who retained control of the Royal Nepalese Army and the right to suspend Parliament in an emergency.

In the early 1990s, both the King and the parliamentary government (chosen under free and fair but not inclusive elections) were viewed as legitimate by the elites and most of the urban population. The rural population however, while still supporting the King, was largely neglected by the elected politicians and as grinding poverty persisted without any significant interventions by the government, hopes diminished that democracy would bring improvements in ordinary Nepali’s lives. In the course of the 1990s, as parliaments changed almost annually and the corruption of the competing patronage networks that ran the major parties became evident, the parliamentary government lost much popular support.

Although the monarchy remained popular, especially since King Birenda had been the grantor of constitutional democracy in 1990, this changed dramatically with the tragic events of June 1, 2001, when King Birenda and several other members of the royal family were killed in a drunken shooting spree by Crown Prince Dipendra, who then shot himself. As a result, Prince Gyanendra – who had been absent from the Palace that day – became King. The strange manner in which King Gyanendra came to power cast a pall over the monarchy. The Maoists insinuated that Gyanendra had planned the shootings, labeling him the “regicidal and fratricidal King.” King Gyandendra’s dismissal of both the Prime Minister and locally-elected officials in 2002 further indicated to elites and many ordinary Nepalese that, however he had come to power, the King intended to restore power to the monarchy and revoke parliamentary government, in the manner of King Mahendra in 1960.

While the monarchy as such remains popular (there is no great support for the Maoist goal of abolishing the monarchy and creating a republic), the *policies* of the monarchy have called the legitimacy of King Gyanendra into question. Having essentially ended representative government in Nepal (although this is said to be a temporary, emergency measure), the King’s government now has questionable legitimacy and is being attacked by many elites, especially political party leaders who are now excluded from power. At the local level, the former system of elected VDC leaders and district officials have now been replaced by bureaucratic officials.

In April and May of 2004, faced with rising agitation against the ‘regression’ (i.e., the dissolution of the elected Parliament and local officials), which included large-scale demonstrations by students and party politicians, the King responded by outlawing all public political activity in Kathmandu and ordering the arrest of leading party politicians who had participated in the protests, including several former prime ministers. While continuing popular and international protests led the King to revoke these measures within a few weeks, there is widespread concern that the King’s initial actions revealed his true preferences – to rule without public opposition or party officials.

It should be pointed out that even at its inception, the parliamentary system was not fully representative or inclusive. Nepal is highly ‘Kathmandu-centric’ with all major civil, military, economic, and government positions being dominated by upper-caste Nepalese, who focus of political and economic operations in Kathmandu. In the

countryside, a large portion of the population consists of ethnic hill-tribes who are not Nepali and speak Tibeto-Burman languages, and who are ‘outside’ the official caste-hierarchy. In addition, the lower castes (*Dalits* or untouchables, but also other local lower-caste groups) are generally excluded from any kind of leadership role and from most economic opportunities. Finally, and perhaps most importantly, women have traditionally been relegated to entirely subservient roles in Nepali society and thus excluded from political life. When one combines Nepal’s women, hill-tribes, and lower castes, more than three-quarters of the population were essentially excluded from an active role in political participation for reasons of gender, ethnicity, caste, social class, or regional origin. The Maoist insurgency has drawn its active supporters from the ranks of women and the hill-tribes in particular.

The level of institutional or legal checks and balances to support human and civil rights or limit corruption and government excesses are few. The King is now unchecked by elected officials and rules by decree. The King has sought to strengthen attacks on corruption, supporting the Commission on Investigation of Abuses of Authority (CIAA), which has been quite popular. However, the CIAA has acted mainly against venal party politicians, and even there the most important cases are still pending. Perhaps most worrisome in terms of civil rights is the sweeping attack on journalists conducted by the government; in the last year Nepal has had more journalists arrested than any other country, as the government seeks to control information about the insurgency and reign in what had been a very free and active press.

The base of support for the government has become increasingly narrow and focused in the palace and in the economic elites of Kathmandu. The military and royally-appointed officials cling to the King and have been supporting his enlargement of royal authority. The economic elites of Kathmandu hope the military can defeat the insurgency, and restore economic growth based on trade and tourism, both of which have been greatly disrupted by the insurgency. However, many of the political, intellectual, and political elites are alarmed at the King’s growing authority and are demanding renewed elections and a return to constitutional, parliamentary government.

Urban and rural popular groups find themselves squeezed between the royal authorities and the Maoist insurgency. Although they clearly would support the central government if it could provide peace, it has so far been unable to do so. Although many urban and rural groups dislike the violence and *bandhs* of the Maoists, they also dislike the anti-democratic and often violent actions of the King and the RNA. Intimidated by both the Maoists and the RNA, the populace in general hopes for peace and a restoration of democracy but doesn’t know where to turn to attain those goals.

By contrast, the base of support for the Maoist insurgency seems to be growing. As noted, hill-tribes, especially the Magars, have played a leading role in the insurgency, as have women (as with communist revolts in Cuba and China, the granting of equal and active roles to women has been a powerful recruiting tool for women who are all too often abused and exploited in their homes). Lower-caste Nepalis, encouraged by Maoist provision of health and education services from which they were often excluded by the Kathmandu government, have also given support. The Maoist insurgents have been careful to follow the plan of ‘People’s War’ crafted by Mao Zedong, in which regard for and support of the people is a primary goal. Among other things, rebels have promised ethnic groups greater autonomy in their own regions, giving an ethnic liberation aspect to

their movement. The Maoists thus seem quite entrenched in the western and mid-western regions where they have the strongest support, and they have been extending their operations closer to major cities and to other regions.

Although the Maoists have used extensive violence, it is mainly against government officials or recalcitrant local elites or to intimidate urban groups into supporting calls for *bandhs*. Unlike the RNA, the insurgents seem to have better intelligence regarding conditions in the countryside, and they do not engage in random violence or terror. However, the Maoists do enforce their commands in the villages with violence against those who do not cooperate, leaving rural groups the choice of cooperating or fleeing. Peasants have been treated brutally for cooperating with landlords or the government, including torture and mutilation. In addition, in recent months many villages have had all youth of military age abducted for military training and induction into the guerrilla forces. Many have chosen to flee the Maoist demands in the countryside, so that several hundred thousand refugees from the rural violence have come to Kathmandu.

Most ordinary Nepalese still seem to hope for democracy and desire neither a return to Royal autocracy nor a Maoist revolution. But the political parties, although looked to for leadership, are not highly regarded. People want a return to constitutional monarchy and democracy but without the corruption of prior governments.

C1: Effectiveness of the Economy. *How fast is the economy growing, in total and per capita? Is inequality growing or falling? What are the levels of poverty and unemployment and are they being reduced? Is inflation low and/or stable? Are trade and investment growing? Are debts and debt-service manageable?*

What is the condition of infrastructure (roads, power, water, telecom) and banking and credit systems? What are the main resources and products of the economy and are they diversified? Is there a humanitarian crisis present or brewing?

Nepal's economy is 'a tale of two cities,' or at least two distinct economies – the economy of the Kathmandu Valley and that of the rural countryside. The Kathmandu Valley (KV) is the locus of investment, tourism, and trade, much of which is literally trucked or flown in from outside the country. The rural countryside, by contrast, remains a primarily agricultural subsistence economy, with limited economic opportunities and massive underemployment. Average income in Kathmandu is five times higher than in the mid-western rural districts that are the main base of the Maoist insurgency (Hutt, 2003, p. 5)

Macroeconomic performance appears quite reasonable. Gross National Product grew at annual rates of 5% in 1999-2001, before falling to -.5% in 2002 with the escalation of the insurgency, but grew again at a respectable 3% in 2003 in which a cease-fire prevailed from January through August. Inflation has been low and stable in the 3-4% range. Exports have grown by 15% from 1999 to 2003. Foreign aid, at approximately 7% of Gross National Income, and remittances (which exceed imports), more than plug the gap between exports of roughly 15% of GDP and imports of 30% of GDP. Thus the current account balance and debt position of the country are low, as noted

earlier. (IDA, 2003, p. 5). The economy seems reasonably balanced, with 40% of GDP in agriculture, 40% in services, and 20% in industry and light manufacturing.

However, this strong macro-economic performance is somewhat misleading because the benefits have been overwhelmingly concentrated in Kathmandu. In the countryside, rapid population growth and limited economic opportunities have combined to maintain severe poverty. Approximately 80% of the population remains rural and is dependent on the agriculture that provides 40% of GDP; by contrast, the 15% of the population that is urban earns the bulk of the 60% of GDP produced by industry and services.

Nepal's population has increased by over twenty-five percent in the last decade, from under 20 million in 1990 to 26.5 million in 2003 (Feeny, Thapa and Sharma 2001). This increase has offset the macro-economic growth, so that real GDI per capita has remained unchanged in the last decade. Moreover, most of the population growth, but not the income growth, has been rural, so that poverty has remained high. The absolute number of poor (living on less than \$1 US per day) has increased since the mid-1980s, and remained at approximately 40% of Nepal's population (IDA, 2003, p. 2). Population growth has slowed to moderate a 2.3% annually, from the higher rates that prevailed in the 1980s, but population is still expected to exceed 40 million by 2030. This presents a major challenge for the provision of education, social services, and especially jobs for the growing population.

The major issue for rural Nepalese is unemployment. In polls, it emerges as the number one concern (ahead of Maoist violence and corruption of political leaders) (Feierstein et al., 2003, p. 2). Nepalese are increasingly forced to seek work abroad: remittances from overseas Nepalese workers now exceed exports as a source of revenue. Nepal has a considerable 'youth bulge' – approximately 28% of the population is between 15 and 29 years of age – and finding employment for them is difficult. Land is already finely subdivided in the countryside, so that opportunities in the dominant agricultural sector are limited. The key to civil service, manufacturing, and other urban jobs is command of the Nepali language and education; but only half the population speaks Nepali as their native tongue, and opportunities for education are limited for many ethnic and low-caste groups. This looming crisis of unemployment bids to worsen rural poverty and provide economic recruits to the insurgency. Still, while poverty is severe, widespread, and growing, there is no acute humanitarian crisis of acute food shortages looming. The immediate problem is the substantial malnutrition affecting perhaps half of all children.

The banking system has been recently strengthened by reforms, but rural credit is still difficult or impossible to come by. Infrastructure in the countryside is extremely poor, so that great opportunities exist to put people to work building roads, digging wells, and improving access to water, and pilot programs for these ends have generally been deemed successful by donors. The major roads do not connect various regions of Nepal but rather connect the Kathmandu Valley to India. These roads serve as the main supply route for the capital region. Access to improved water is better than in most low-income countries, at 80% of the population, reflecting the most successful aid and government development programs. Development of Nepal's hydroelectric resources is taking place, through programs to encourage private investment. Telecom reform and growth are underway, but fixed and mobile telecom lines total less than three per hundred people.

In sum, Nepal presents the paradox of a healthy urban economy centered in the Kathmandu valley that is only weakly coupled to an impoverished and stagnant rural economy. The urban economy of Kathmandu, however, remains under threat by the Maoist insurgency. In 2002, when the insurgency was most active, national GDP fell by .5%, but this decline was felt far more strongly in the manufacturing sector, which fell by 10%. It is unclear just how much Nepal's economy has been hurt by the resumption of the insurgency in late 2003 and through 2004; however, week-long blockades of Kathmandu in August and December 2004 crippled the capital. In both cases, the blockades were called off by the rebels after a few days because too much economic damage would cost them popular support. Still, it seems clear that continuation of the insurgency will bring to Kathmandu some of the economic pain being felt in the countryside.

C2. Legitimacy of the Economy. *Are economic gains widely dispersed or concentrated in particular regions or among particular groups? Are economic opportunities inclusive or exclusive to certain regions and groups? Is economic disadvantage a matter of historical legacy or of active and/or official discrimination?*

The economy of Nepal, divided between the KV and rural regions as described above, is in part the legacy of a historical focus of elite interests and activity in the KV. However, economic disadvantage is also maintained by ongoing discrimination against women, ethnic groups, and lower castes (which were officially defined in the Rana legislation of the 19th and early 20th centuries). Interestingly, recent polling shows that Nepalese are increasingly willing to accept greater rights and opportunities for women and lower castes, but given the enormous scarcity of employment and resources, the upper caste Nepali-speaking elites have had neither means nor interest in extending such opportunities.

The civil service and skilled employment sector are overwhelmingly dominated by Nepali-speaking upper-caste males, which excludes over 85% of the population (roughly 50% of the population are not native Nepali speakers; roughly 50% of Nepali speakers are lower-caste, and roughly 50% of the upper-caste Nepalese are female). This pattern is so historically established that Nepali elites appear to take it for granted and are unconcerned about the level of exclusion that characterizes Nepal's economy and society.

However, this exclusion blocks the path of most Nepalese to greater economic opportunities and fuels resentment against the elites in Kathmandu. This discrimination has created a great opportunity for the Maoist rebels, who have recruited widely among hill-tribes, women, and lower caste Nepalese who see no opportunity to achieve major roles in mainstream Nepalese society.

D1. Effectiveness of Provision of Social and Cultural Services. *What is the level of education, health, and religious/cultural services? Is the government able to provide education, health care, and religious/cultural services? If not, what other groups or agencies, if any, are providing such services?*

Levels of education and health care in Nepal are generally low, although as with economic opportunities, there is a huge disparity between the KV and the countryside and between advantaged (upper-caste Nepali-speaking males) and disadvantaged (women, tribal, and lower-caste) groups.

Literacy is low among adults (approximately 40%, 60% among men and 25% among women), but is better for youth (80%). Although females still fare worse, the reported ratio of female-to-male literacy among youth has improved to 88%. These numbers, however, seem in conflict with school enrollment ratios of 70% and particularly with anecdotal evidence that lower-caste students are excluded from many school facilities. The major problem with provision of education in rural areas is control of many such areas by the Maoist insurgency. Although the Maoists have generally permitted schools to function, they have done so on their terms, including changes in the curriculum and indoctrination. There have also been reports of mass kidnappings of students and teachers.

Health care is abysmal in the countryside. Nationally, infant mortality and life expectancy are near norms for low-income countries, at 66 per thousand and 60 years, respectively. However, physicians per person total only 4 per 100,000 of the population. Incidence of HIV (3% among young women) and tuberculosis appears to be rising. As with education, delivery of health services in the countryside is possible only where the insurgency allows access. Immunization of children reaches perhaps half the population. The most effective health care services are those that have received substantial foreign donor support, such as vitamin A supplementation, reproductive health, and anti HIV-AIDs programs.

It should be noted, however, given the breakdown of local administration, that data for recent years may be untrustworthy.

Through the 1990s, rural services were delivered primarily by the government of Nepal, often with the support of external donors and aid agencies. However, in recent years in areas under insurgent control, the Maoist rebels have taken control of social services, either assuming control of government-provided programs and personnel, or instituting their own rural administration of justice and social services. This has allowed the rebels to become an alternative government, delivering real services, in much of the countryside.

Although provision of social services has improved slightly in the last decade, mainly as a result of aid and government action, this has barely kept pace with population growth. These results have disappointed many who expected more substantial improvements from the onset of democratic governance in 1990.

D2. Legitimacy of Provision of Social and Cultural Services. *Are educational, health, and religious cultural services equally available on an inclusive basis to all groups? Where access is limited, is this due to poverty or discrimination? Are any religious or cultural expressions banned, punished, or imposed by some groups on others?*

Much of the support for the rebellion is rooted in the exclusionary character of services (e.g., justice, education, health care, cultural services) that has prevailed in Nepal despite the onset of democratic government. Elites in Kathmandu have placed little priority on

improving rural services until very recent prodding by aid donors, which has led to some efforts at reform. Women, lower-caste persons, and tribal groups have traditionally been underserved (some observers have reported of *dalits* (lower castes) having to watch school lessons through windows from outside the classroom).

An example of insensitivity of the Kathmandu elites was the decision to require teaching of Sanskrit in all schools. While this could have been viewed as an attempt to provide national unity and access to the cultural heritage of this traditionally Hindu kingdom, the reality is that Sanskrit has no real utility in modern Nepal and is the language of the Vedic texts that define the caste system that excludes or stigmatizes tribal and lower-caste groups.

The insurgency has gained substantial support from groups suffering exclusion (women, tribal groups, and lower-caste- persons) by offering them the prospect of gender equality, ethnic autonomy, and an end to caste distinctions. Although the government of Nepal has, under prodding from external aid agencies, made some efforts to overcome exclusion, they have lagged well behind the Maoists in the public perception of intent to reform. Part of the problem is that the monarchy and traditional Brahmin elites that dominate the political system have been identified for over a century with the Rana-led official program of caste and gender inequality.

Figure 1 below summarizes the above assessment. Most evident is the distinction between the KV, where the government is able to maintain moderate security, a fairly healthy economy (except during rebel disruptions), and the legitimacy of the economic and social service sectors is not in question, and the countryside, where the government has lost all effectiveness and much legitimacy. Even in Kathmandu, however, the political system – with its divisions between the parties and the monarchy and the collapse of elected government in 2002 – has lost most of its effectiveness and legitimacy.

FIGURE 1 – SUMMARY OF FRAGILE STATES ASSESSMENT FACTORS

	Effectiveness	Legitimacy
Security	MODERATE in KV LOW in rural areas	MODERATE in KV LOW in rural areas
Political System	LOW	LOW
Economy	MODERATE in KV LOW in rural areas	HIGH in KV LOW in rural areas
Social and Cultural Services	MODERATE in KV LOW in rural areas	HIGH in KV LOW in rural areas

II. Narrative of Key Events on the Pathways of Fragility

The Fragile States Assessment Strategy notes several pathways by which fragility can emerge. One reason why Nepal is in such dire straits, and its problems have been so difficult to solve, is that Nepal's history over the last decade involves several of these pathways developing simultaneously, creating multiple pressures on the effectiveness and legitimacy of governance.

In the 1990s, corruption and conflict among the political parties of the newly created constitutional monarchy created the conditions for a *democratic collapse*. This arrived in 2002 with the dissolution of the elected Parliament and replacement of local elected officials by royal appointees. Although the last elected Prime Minister has been recalled by the King, he is ruling without an elected Parliament, and the constitutional status of his ministry is uncertain. What is clear is that the democracy of the 1990s has failed, and it remains uncertain when and how national elections will be held and whether they will simply reconstitute the previous government or lead to a constituent assembly that will create a new constitution.

In 2001, the royal massacre led to a *succession crisis*. The new King Gyanendra had not been expected to come to power, and the circumstances of his accession were considered questionable, even illegitimate, by many. The King's rescinding of the democracy granted by his predecessor further diminished his legitimacy and support.

Since 2001, the rural organizing of the break-away Communist Party of Nepal (Maoist) has developed into a full-scale *guerrilla rebellion*, mobilizing thousands of armed fighters and taking control of large portions of the countryside.

In addition to their campaign against the central government on ideological grounds (for discriminating against women and lower-caste Nepalese, neglecting the poor, and political corruption), the Maoist insurgency has recruited extensive support among disadvantaged ethnic groups in western and mid-western Nepal by promising them both local autonomy and a greater role in Nepali society. The rebellion thus has, in these areas, gained the character of a *communal or ethnic conflict* as well.

This section provides a brief narrative of how these pathways have unfolded over the last decade.

A. Origins of the Insurgency: Democratic Politics and Withdrawal

Nepal has a long history of political transitions. From 1846-1950, the country was ruled through the Rana clan, which controlled most state offices and dominated the monarchy and the palace. But in 1951, India intervened and supported a royal restoration with a cabinet system of government (Marks, 2003, p. 4, CIA "Background"). This chaotic transitional period lasted until 1960, when the monarchy took direct control and ruled through a monarch-guided democratic system called 'Panchayaat.' However, the Panchayaat system did not satisfy either nationalist or democratic ambitions of Nepali elites and students. During this period, Nepal had various underground parties, protests, and armed insurrections (Philipson, 2002, section 3.1). The Panchayaat system was dissolved by King Birendra in 1990 and replaced with a new democratic constitution that created a multiparty democracy within a framework of a constitutional monarchy (Philipson, 2002, section 9.5 fn 4; CIA "Background"). The years 1960 and 1990 are

widely perceived to have special significance as ‘turning points’ in the development of Nepal’s national character.

The sudden creation of democracy unleashed high expectations and even radical designs for social change. In 1990, four leftist parties merged to form the Communist Party of Nepal (Unity Centre). This unified body sought to replace the monarchy with a socialist republic. Unity Centre adopted Mao Zedong’s doctrine of forcing change through winning the support of the rural peasantry and discussed the possibility of creating a ‘People’s War’ to initiate armed rebellion. Pushba Kamal Dahal (Prachanda), who was a member of the affluent Brahmin caste, was chosen General Secretary of Unity Centre.

Unity Centre formed the United Peoples Front (UPF) to contest Nepal’s 1991 general democratic election. Baburam Bhattarai, who was also of the Brahmin caste, was UPF’s chair. The party won nine seats to become the third largest party in Nepal’s new Parliament.

In 1994, Unity Centre split over the issue of armed conflict. Prachanda and Bhattarai led the faction that supported armed struggle, but Nepal’s election commissioner excluded their group from the 1994 election. By the time the Supreme Court of Nepal overturned the commissioner’s decision, the election was over, with Prachanda’s faction excluded. In 1995, Prachanda and Bhattarai’s group became known as the Communist Party of Nepal (Maoist) or CPN(M).

CPN(M) planned for guerilla warfare throughout the mid-1990’s, while Nepal struggled to function as a new democracy. The country’s democratic reforms failed to meet expectations, which provided fertile ground for CPN(M)’s declaration in 1996 of ‘People’s War.’ CPN(M) adopted four areas of concentration: ideological, organizational, legal and illegal struggle, and international. The conflict started in the Mid-Western hill regions of Nepal among the Kham Magars, where there was a long tradition of political independence and armed struggle and favorable terrain for guerilla warfare. In addition, CPN(M) recruited disillusioned members of other communist groups, including CPN United Marxist Leninist and CPN Marxist Leninist (Philipson, 2002, section 3.2).

CPN(M) initially made forty demands, such as establishing a people’s republic, eliminating the monarchy, and ending Indian ‘imperialism,’ but declared war before the government’s response time had expired. To achieve their demands through force, the insurgency adopted principles of ‘mass line’ (establishing an alternative society, which applies to rural areas where government control is weak), ‘united front’ (seeking commonalities with like-minded groups, which applies to urban settings controlled by government forces), armed action, non-violent political ‘warfare,’ and international action (Marks, 2003, p. 7).

B. Escalation of the Insurgency: the death of a King

CPN(M) received assistance in its quest to dismantle the monarchy from an unlikely source. In June 2001, Crown Prince Dipendra killed King Birendra, Queen Aishwarya, and seven other members of the royal family, before committing suicide. His alleged motive was drunken anger over his parents’ disapproval of a woman he hoped to marry.

As a result of this royal massacre, King Birendra's brother—Prince Gyanendra—succeeded his brother to the throne.

The killings devastated the country but encouraged the Maoists, who used the massacre as grounds to question the monarchy's legitimacy. The insurgents verbalized support for rumors that King Gyanendra had orchestrated the massacre. And although the rebels initiated negotiations with the government in September 2001, they started a general offensive or mobile warfare phase in November 2001 (Marks, 2003, "Summary" and p. 12).

Prior to the rebels' November 2001 offensive, the monarchy had failed to develop a coordinated response to the Maoist movement, in part because the insurgency was one of several problems in the country and because of the isolation of the capital, Kathmandu, from the rest of the country.

Because of the government's ineffective response, the rebels had time to implement their 'mass line' strategy throughout the late 1990's. Although they encountered Nepal's Civil Police force of 46,500 men, which was Nepal's first line of defense, these police officers were poorly armed. As a result, rebel forces easily overran them. Maoists also killed, maimed or threatened chairmen of Village Development Councils (VDCs). Consequently, police and VDC staff withdrew from rural areas. The Maoists permitted many low-level government employees, such as teachers and postal workers, to remain in these areas so that some services continued (Philipson, 2002, section 9.5; Marks, 2003, p. 15).

The minimal force exerted by the government in the 1990's was largely ineffective. In 1996, for instance, the government dispatched police to the Mid-Western hill region to fight the Maoist rebels, but their lack of coordination and training caused abuses that alienated citizens in the region. In fact, rebels used police tactics to their advantage by developing 'self defense' propaganda (Philipson, 2002, section 2.7). For example, Maoists would perform skits where rebel leaders protected citizens from abusive policemen (Marks, 2003, p. 16).

C. Failures of Repression: the Insurgency spreads

When the CPN(M) abandoned negotiations and initiated their general offensive in November 2001, Nepal finally made the insurgency a priority by declaring a state of emergency, reinforcing troop strength, passing anti-terrorism legislation that impacted civil liberties, and providing amnesty for rebels who chose to surrender (Marks, 2003, p. 17; Philipson, 2002, sections 6.2.4 and 7.0).

Security forces in Nepal are controlled by the monarchy and consist of the Civil Police, the Armed Police Force (APF), and the Royal Nepalese Army (RNA). In response to insurgent actions in 2001, the monarchy supplemented the APF by 15,000 men and made plans to expand APF personnel to at least 25,000. In addition, Nepal committed 54,000 RNA troops to the conflict.

The RNA was historically a ceremonial group that served in UN peacekeeping missions, and thus counter-insurgency work was a radical change in the organization's mission. Consequently, the army went through a rough adjustment period, and its use of force was not particularly effective. Similar to Nepal's Civil Police in the 1990's, the RNA used excessive and inappropriate force with civilian populations and committed

human rights abuses. Human rights monitors complained of inadequate information on human rights violations from both the government and the Maoists (Philipson, 2002, section 2.6).

Because of the government's inability to stabilize the country, Prime Minister Deuba dissolved the Parliament in May 2002. In October 2002, King Gyanendra fired Deuba and his cabinet, and appointed officials to available posts. The insurgents characterized Deuba's and Gyanendra's actions as a 'coup d-etat.' The political parties added to the chaos by opposing the monarchy, thus excluding themselves from negotiations between the government and the insurgents (Palmer, 2003, p. 3).

D. Dual Sovereignty: the Maoists develop into an alternative government

After the 2001 regicide, the rebels articulated their strategy as the 'Prachanda Path.' This technique pursues dual efforts of armed revolt and political influence. Armed revolt is employed in rural areas where Maoists have a physical advantage, and political processes are used in cities where armed struggle is less palatable. Urban tactics are oriented towards political advocacy and civil disobedience, such as Nepal *Bandhs*, which are general strikes. However, violence in the form of bombings and assassinations occasionally occur in urban settings.

The CPN(M) has indicated some degree of long-term commitment to this strategy, which includes a long, slow armed struggle, with gradual gains in rural areas. The eventual goal is to surround towns and cities. Maoists pursue these objectives through various tactics, such as creating favorable propaganda and "hiding" among civilian populations (Philipson, 2002, section 3.3.1).

The Maoist strategy followed by the Nepalese insurgents is different from that of the 'Shining Path' guerillas in Peru, who sought to provoke the government into such a violent reaction that people would be driven to support the guerillas out of fear and loathing of the government. The Shining Path plan was for a relatively quick, discrediting victory over the government; but it failed when the government adopted more restrained tactics, and the guerrillas resorted to terrorist attacks, which cost them popular support. The 'Prachanda Path' is much closer to the original Maoist ideal of operating slowly, in stages, by first winning the people's support through taking positive measures to help villagers. These steps include limiting rents, getting rid of harsh landlords, providing justice and social services, and establishing new local governance that is widely inclusive of minorities and women. The guiding admonition is Mao's formula that the guerillas must move among the peasants like fish swim in the sea. The insurgents thus see the last ten years of struggle as simply the early stages of their effort; they are currently trying to decide if the time is yet ripe to move to next stage, from winning popular support to mounting an armed struggle against the government in Kathmandu.

Maoists allege that they control 60 of Nepal's 75 districts. In many areas, the insurgents are the sole governing force. As of early 2003, 1,400 out of 3,913 VDCs had been eliminated (Marks, 2003, p. 5, 13). Most reliable estimates in 2002 indicated that CPN(M) had 7,000 cadres and 20,000 militias (Philipson, 2002, section 3.6).

The degree of insurgent control of terrain is exhibited by the rebels' ability to divide terrain, collect fees and "taxes," and control access to certain regions. For

instance, Bhattarai heads the United Revolutionary People's Council (URPC) within the CPN(M), which has a 75 point program with special 'ethnicity' programs, including rights to autonomous areas and to maintain traditional customs. The program's structure is based on central, regional, and village areas.

As part of this strategy, the CPN(M) has created ethnic fronts and divided terrain into seven ethnic and two regional autonomous regions. Within these regions there are several tiers of district and town-village local government units with their own people's assemblies. They also have a clearly articulated manifesto (Armon, Berry, and Duncan, 2004, p. 7). Ethnic fronts have the authority to run their respective areas until the People's War is allegedly complete (Philipson, 2002, section 4.3).

Maoists have asserted governing authority in several other respects. They collect fees and issue permission to donors and aid organizations that want to work in the area (Armon et al., 2004, p. 12). In addition, they tax and conscript Nepali citizens, and they require mandatory attendance and participation at rebel meetings and functions. Although the Maoists have used these harsh techniques, they have retained support for reasons discussed in the section of this assessment entitled "Rising Tide: why the insurgency continues."

E. Negotiations with the Enemy

The standard Maoist strategy is to negotiate if, 1) in a position of power, or 2) the movement needs a break to consolidate. The government and the insurgents have engaged in two rounds of negotiations, from September-November 2001 and January-August 2003. Not surprisingly, both efforts have failed.

In August 2001, Prime Minister Deuba opened dialogue with the rebels. The parties initiated a ceasefire and met on August 30th, September 13-15th, and November 13th. Both sides had negotiation teams, which were moderated by two facilitators. However, the government representatives had not prepared a negotiation strategy. They claimed that they came to hear the rebels' demands. They were not empowered to accept such demands, and they offered no alternatives. In addition, neither the teams nor the facilitators had prepared an agenda (Philipson, 2002, section 6.2.1).

Some commentators suggest that the 2001 negotiations failed because of lack of process and analysis and poor facilitation (Philipson, 2002, "Summary"). However, intelligence later suggested that Maoists may have used the ceasefire for purely tactical purposes (Marks, 2003, p. 22).

The insurgents offered to participate in a second round of negotiations in January 2003. However, both rebel and government negotiators provided contradictory positions. Similar to the 2001 talks, the government took a reactive rather than proactive role in the negotiations. The rebels gave up their demand to end the monarchy, saying they would accept elections to a constituent assembly that would develop a new constitution, but the government insisted that the constitution could not be changed. Both the rebels and the RNA were accused of violating the code of conduct by continuing military actions.

The Maoists may have been motivated to participate in the negotiations because of increased international assistance to the monarchy, which was improving the efficacy of the RNA. Nepal gets support from the U.S., the U.K., India, and China. A U.S.

emergency appropriation brought 2002 -2003 military aid to Nepal to \$17 million (Marks, 2003, p. 20).

Regardless, potential divisions between leaders and foot soldiers of the CPN(M) created confusion over the CPN(M) negotiators' ability to bind that organization. Although the well-educated and affluent Brahmin leaders of CPN(M) have indicated a willingness to negotiate a solution with the government, the military wing, led by Ram Bahadur Thama (a Magar) has expressed commitment to "total revolutionary victory" (Palmer, 2003, p. 8). In addition, actions by the estranged political parties have created additional problems. Their resistance to the monarchy led to the resignation and replacement of Nepal's interim royally-appointed government in June 2003 (Marks, 2003, p. 25).

In August 2003, the insurgents abruptly terminated the negotiations and returned to violent tactics. This action surprised commentators, who felt that the Maoists had created room to gain ground within the political sphere (Ibid.).

In September, public protests against the monarchy and its appointed government resumed, demanding both a reinstatement of constitutional monarchy and negotiations with the rebels. King Gyanendra at first adopted a hard line toward the protests, even jailing several prominent politicians who participated in the protests. However, he then recalled the former Prime Minister Deuba, and invited him to form a new government to oversee elections and seek renewed negotiations with the insurgents.

F. Rising Tide: why the insurgency continues

There are several reasons for the resiliency of the insurgency besides the government's ineffective response. First, the insurgency has support from international Maoist networks, such as the Revolutionary International Maoist Movement, the Socialist Workers Party, and South Asian Maoist groups. Maoist groups in India are the most important source of support. Estimates indicate that 50% of the insurgency's income comes from the Nepali diaspora in Delhi. Rebels also receive funds through criminal activity such as robbery, kidnapping-for-ransom, and extortion (Philipson, 2002, section 3.7; Marks, 2003, p. 11).

In addition, many Nepalese who disagree with the insurgency's tactics are sympathetic to its objectives, including the creation of a constituent assembly, rewriting of the Constitution, diminishing the caste system, and increasing rights for women. About 20 percent of the public can be characterized as supportive of the Maoists (Feierstein et al., 2004, p. 1). The insurgency changes propaganda periodically to bolster support. For instance, the latest claim seeks to build nationalist support by asserting that India plans to intervene on behalf of the monarchy, and rebels have started to dig trenches and tunnels as a result.

Where Maoists have met resistance, they have engaged in brutal, terrorist tactics to enforce compliance of the population (Phillipson, 2002, section 2.7; Marks, 2003, p. 12). Many dissenting villagers have fled from areas held by the insurgents. In any case, it is unlikely that villagers would openly express disagreement with Maoists in rebel-controlled areas (Philipson, 2002, section 3.3.2; Marks, 2003, p. 17).

Despite mixed reactions to the insurgents and their goals, there is little ambivalence regarding how the conflict should end. The Nepali public overwhelmingly

supports a peaceful resolution to the conflict. In fact, only 16 percent of Nepalese approve of the program piloted by the government to provide weapons to citizens in rural areas so they can defend themselves against the Maoists (Feierstein et al., 2004, p. 19). Despite Nepal's turbulent experience with democracy, Nepali citizens favor democracy within a constitutional monarchy framework, and they question the Maoist's commitment to democratic reforms (Feierstein et al., 2004, p. 8).

Regardless of public opinion, the primary reason for the insurgency's success is the divisive inequality of Nepali society. Nepal has a minimum of 35 ethnic groups and 36 caste groups, 48 mother tongue languages and several specific religions in addition to shamanistic religions. The caste system has several levels, including high castes (Brahmin, Chhetri, and Newari), middle castes (jaat or ethnic groups), and Dalits ('outcasts' that use internal caste system). Within these levels there are additional layers between various castes and ethnicities. Only 50% of the population claims Nepali (the national language) as the mother tongue (Philipson, 2002, section 4.1; Marks, 2003, p. 4).

Upper level castes dominate positions of power and influence, including within political parties and the CPN(M). Because development indicators for lower castes are poor, class differences breed deep resentment. Dalits in particular are sympathetic to rhetoric calling for 'annihilation of the oppressor.' But some Maoist supporters are unsure whether Maoists can eliminate the oppressive caste system (Philipson, 2002, section 4.2).

Inequality in Nepal also applies to sex and gender. Women are routinely treated as property, and they are understandably resentful. The insurgency harnesses this bitterness to fuel membership, with women making up 30-40% of the CPN(M)'s cadres. Most of these women are from hill ethnic groups, but some originate from Dalit and affluent caste groups. However, not all insurgent action towards women is honorable. Reports indicate that rebels abduct women, although killings of women are relatively low on both sides of the conflict (Philipson, 2002, sections 5.1 and 5.4).

G. Current status

Rebel actions have escalated throughout 2004. Although the rebels appear to have been frustrated by RNA actions in their efforts to secure a ring of rebel-controlled district around the Kathmandu region, the rebels have been more active throughout more of the countryside than ever before. The death toll in the last three months of 2004 reached the highest level of the war, and the insurgents have engaged in large-scale kidnappings, bank robberies, bombings, taxation of foreigners, and drafting of village youth into military training. Most striking, the insurgents were able to orchestrate two crippling blockades of Kathmandu – one for a week in August, and a second one that began the last week of December 2004. During these blockades, businesses were shut down and truck and car traffic into Kathmandu virtually ceased.

While the RNA has shown some improvement in operations, disrupting rebel operations in the areas immediately surrounding the capital and striking at rebel strongholds in the mid-Western regions, these actions have more the character of punitive strikes against the insurgents, rather than a coordinated plan to recapture and secure territory for government control.

Deuba is once again Prime Minister of Nepal, and elections for the new Parliament are scheduled for April 2005. The government has provided the Maoists with a deadline of January 13, 2005 to enter negotiations or the government will allegedly increase its military response. Regardless of Kathmandu's alleged commitment to military action, the government's spending on security is low considering the amount and degree of conflict (IMF, 2004, p. 10).

The Commander of the Royal Nepalese Army has previously declared that the war is not "winnable" (Philipson, 2002, section 9.5). And although the government has tried to improve its security apparatus (e.g., creating human rights cells within the RNA, Civil Police and the APF (USAID/Nepal Annual Report, 2004, para.2)), many imperfections remain in both government and Maoist force structures. In addition, there are indications that the monarchy may consider implementing a more authoritarian government ("Nothing to Smile About," 2004, p. 42). It is unclear whether either side is willing to truly engage in a reasonable dialogue. By some accounts, the Maoists consider military victory within reach, and are thus only willing to negotiate with the government on their own terms.

III. Current Assistance and Economic Development Status

Nepal remains an extremely poor country, with per capita income of roughly \$200 (US) per year. Nepal has therefore received generous economic and development assistance over the last decade from the World Bank, USAID, and many bilateral donors, led by Japan, the U.S., and India. Such aid has covered a variety of program areas, mainly improving agricultural productivity in rural areas, but also improving health (especially fighting HIV-AIDS transmission), increasing hydro power and better use of natural resources in general, improving governance by privatization of economic enterprise, reforms to promote greater fiscal responsibility and transparency in government spending, and improvements to Nepal's trade competitiveness. In recent years, there have also been programs aimed at promoting democracy by civic education, efforts to improve the position of women and minorities in provision of services and education, and attempts to halt human trafficking.

While such programs have generally been successful in terms of their planned objectives, they have had little or no effect on limiting the insurgency. Yet, as the World Bank notes "the most important risk the country faces [is] the risk of Nepal spiraling into a widespread armed conflict and a breakdown of state institutions. In comparison, many of the other risks are modest if not trivial." The various aid programs have thus had the impact of perhaps cushioning the fall into crisis for the few people that are directly affected by the provision of aid, while Nepal as a whole continues to decline from initial fragility toward failure.

The problems in existing programs regarding response to the insurgency are three-fold.

First, the level of assistance is tiny if the objective is to respond to an acute national insurgency. In fiscal 2002-2003, the government of Nepal received approximately \$219 million in direct loans and grants, and donors provided an additional \$250 million in development outside of the government budget. This amounts to roughly \$20 per capita. By contrast, anti-insurgency operations in Iraq (a country with roughly

the same population as Nepal, facing an insurgency of approximately the same size, namely several thousand to several tens of thousands of insurgent militia and cadres) cost approximately \$80 billion per year. Although the insurgencies in Iraq and in Nepal differ in terms of territory, history, and many other factors, it is difficult to see how the government of Nepal can militarily suppress the insurgency at current levels of military spending, nor how it can dramatically increase its military spending without substantial external aid. Unlike Iraq, Nepal has adequate manpower in its own security forces to defend the country. However, their effectiveness would be greatly improved with helicopters, better communications equipment, and vehicles to quickly deliver security forces to critical destinations.

Second, even in the area of economic development, current aid programs are not effective in reaching large numbers of Nepalese. Although the total aid budget, at 7% of GDP, is substantial, too much of the money appears to end up supporting activities and professionals in Kathmandu, rather than directly to the countryside. For example, USAID's rural income generation program in FY2003 targeted 250,000 people for direct benefits (mainly small farmers), but this is only 1% of Nepal's population, under conditions in which insurgents may control 80% of the countryside. Health benefits appear far more widespread, with vitamin A supplementation and other simple health interventions reaching a majority of the rural population. But since these programs generally only operate with the permission of insurgents in many rural areas, they tend to reinforce, rather than counter, insurgent control.

Third, in the area of 'good governance,' which is critical to restoring the effectiveness and legitimacy of the political system, donors have mainly addressed grass-roots preparation for participation in elections. What is desperately needed, however, is pressure on leading politicians and the monarchy to cooperate with one another in creating a national unity government to address the problems of insurgency and constitutional reform.

Where external aid has been most successful in affecting the insurgency, it has been through conditionality of aid that has led the government of Nepal to take measures to combat corruption, allocate more resources to traditionally under-served rural and non-Nepali speaking regions, and establish human-rights cells within the army and police. But such measures, while helpful, have not overcome the key elements contributing to the insurgency.

In sum, external aid and intervention has been most effective in improving basic health services throughout the country, providing instruction on raising agricultural productivity in select areas, and financial sector reform. However, these programs have not managed to reduce the number or proportion of Nepalese living in poverty or the gross inequalities between the Kathmandu Valley and rural areas. Furthermore, these projects have only begun to reverse the historical exclusion of women, ethnic minorities, and lower castes from educational, economic, and political opportunities. In addition, military assistance has been far too modest to address an acute insurgency. Finally, no external donors have been able to redress the key pathways of fragility noted above, namely the collapse of democracy, the succession crisis, the guerrilla rebellion, and ethnic demands for autonomy.

IV. Suggested Interventions and Policy Actions to address the Key Elements contributing to Fragility

If ever there was a case in which development agencies needed to say to defense and diplomatic departments that “here is a security problem which threatens the failure of this country and is overwhelming our efforts to promote economic and political development,” Nepal would be it. Although long-term development efforts continue and are essential to combat some of the root causes of the insurgency, these efforts will be futile in the short run unless the government is able to recover territory and reverse the spread of insurgent control. In the absence of substantial military assistance to improve the training, capacity, strategic planning, and tactical operations of the military, the guerrillas will likely be content to pursue their long-term strategy of rural recruitment and reconstruction, with the aim of gradually isolating and strangling the government in Kathmandu. Government actions to pursue reform and development would likely be overwhelmed by the need to focus on responses to the current crisis.

The following suggested interventions and policy actions thus *assume that the government of Nepal will receive sufficient military assistance to stabilize and begin to reverse the military situation in the countryside*. While substantial reform of government and solutions to the key elements contributing to fragility would be possible even if rebels continue to control the western and mid-western portions of Nepal, it is absolutely necessary that the government be able to maintain security in the Kathmandu Valley and along its supply lines to India. Ideally, the government should be able to recapture control of rural areas in the central and eastern lowland regions while implementing the reforms listed below. At present, the ability of the government to maintain moderate levels of security and economic activity in the Kathmandu Valley are the only factors supporting its survival. If these should be lost, the government will likely fall and the Maoist insurgency will become a successful revolution.

A. Military Assistance

The critical security goal must be to start to reverse the rebels’ growing control of the countryside. This should begin by establishing ‘secure zones’ around the capital and in the central and eastern regions.

To date, the Nepali armed forces have struck reactively against guerrillas following guerrilla actions, and punitively at their most secure bases in the mid-western region. But the guerrillas have often managed to move out of areas targeted by the Nepali forces’ attacks, and moved back in when the Nepali forces withdraw. What is needed is a more proactive strategy of securing regions of the country, clearing them of guerrilla forces and winning the support of peasants in those regions.

It is most important to realize that *the rebels will have no incentive for meaningful participation in peace talks unless they realize that their military efforts have reached a stalemate*. As long as the rebels believe they can make progress in efforts to gain territory and support, they will most likely use peace talks in a strategic sense to gain opportunities to consolidate and strengthen their position. It is not until rebels believe they have reached an impasse or are losing ground through use of violence that they will be ready to enter into meaningful agreements regarding elections and disarmament. Since holding meaningful peace talks are also *the* critical element for the government to

regain legitimacy and effectiveness, resolution of governance problems is not likely to occur without military progress to at least achieve a stalemate.

While military assistance in terms of equipment, strategic and tactical advice, and training must be done by other agencies, USAID can play a critical role by supporting human rights training for the armed forces, and backing up their civilian assistance efforts to gain rural support. This is a classic guerrilla struggle for ‘hearts and minds,’ and USAID must help the military learn to shield peasants from the rebels and support peasant villages, rather than simply strike violently in areas of rebel activity. Any viable efforts to improve the representativeness of the military forces that can be made, without degrading their effectiveness, would also be helpful. Advisors with U.S. experience on the integration of minorities and women into the armed forces would be most helpful. This is an often-overlooked but signal area of U.S. military success.

B. Restoration of Democracy and Support for the Political Parties

The collapse of democracy occurred in part because of corruption, but also in part because political leaders saw their parties as vehicles for personal achievement, rather than service to the citizenry. While USAID has supported citizen training, in fact Nepal has seen active political participation by students, workers, and peasants, for decades, demanding their democratic rights. Throughout the last month, Kathmandu has been shaken by large public demonstrations demanding a restoration of democracy and cooperation between the King and political parties in addressing the insurgency. In short, democratic reform is most desperately needed *at the top*, with policies to influence party leaders regarding their conception of their political role.

We therefore suggest the following measures to achieve PARTY REFORM. We would suggest offers of substantial aid – in both training and direct support – to any and all political parties in voter registration, grass-roots organizing, and campaigning, *provided that they pledge to follow a short list of requirements:*

- (1) training for party leaders (not necessarily the most senior, but 2nd and 3rd tier) in principles of representative government, particularly stressing the need for cooperation between majority and minority parties in effective governing;
- (2) agreement to make all party and government spending transparent and accountable;
- (3) cooperation in a national unity government that will address the issues of a negotiation strategy for dealing with the guerrillas;
- (4) cooperation in discussions of constitutional reform to strengthen the legitimacy and effectiveness of democratic governance; and
- (5) pledges to make every effort to increase ethnic, lower-caste, and female participation in party leadership and office-holding.

External donors, of course, cannot compel party reform or behavior. However, by offering extensive assistance to parties that agree to cooperate in these measures, it is hoped that competitive pressures (fears of being left out or without comparable resources) will lead all parties to choose to cooperate.

USAID has already provided training for key political leaders and civil society groups on political integrity and accountability (August 2003) under SO 367-007 Strengthened Governance of Natural Resources and Selected Institutions. USAID supported an electoral system assessment in November 2003 that identified fundamental

requirements for political party reform under the same SO. These efforts appear fruitful and should continue working to building more responsible political leadership.

In support of item (2), USAID and World Bank programs on accountability and transparency should be reinforced. Funds should also be available for *publicizing* improvements in accountability and transparency to make them evident to the Nepali population. Such efforts are clearly needed to help restore confidence in the parties.

In support of item (3), experienced international (preferably UN) negotiators should assist the Nepali party leadership in formulating a strategic and tactical plan of negotiations, so that if peace talks resume, the government will have a list of desired outcomes and a strategy for achieving those outcomes through effective responses to rebel demands. In addition, the government needs creative proposals for step-by-step transitions to cease-fire, integration/disarming of rebel forces, reconstruction, and elections that incorporate the CPN(M).

In support of item (4), constitutional advice should be available to help design political reforms that will strengthen democratic government. Useful suggestions for reform would include proportional party-list elections in place of first-past-the-post elections to help provide places for previously excluded minorities and lower-castes. Moreover, some forms of decentralization (greater federalism) would be useful to offset the dominance of Kathmandu and allow more autonomy to ethnic regions. USAID has already worked with civil society and public sector partners on anti-corruption and rule of law, including supporting the Office of the Financial Comptroller General in conducting an Expenditure Tracking Survey in the education sector. USAID also supports the Association of District Development Committees and Transparency International Nepal to increase transparency and accountability of local bodies and selected ministries.

In support of item (5), *highly visible and public* actions are needed to show a change in the traditional leadership neglect of excluded groups; these could include invitations for ethnic leaders and lower-castes to join party lists, assume leadership roles in the major parties, and accept appointments to important civil service and military posts. USAID has brought nearly 7000 community-level women into the political process by creating a coalition of women leaders and advocates. However, more effort is needed aimed at inclusion of ethnic and lower-caste leaders in the mainstream political process.

C. Restoration of Support for the Monarchy and Succession

Recent actions by the monarchy have called its commitment to democracy and civil rights into question. Continued military support that is unconditional simply leaves the monarchy in a stronger position to ignore the parties and seek a military solution to the insurgency.

More generous military assistance therefore should be made conditional on the monarchy agreeing to several conditions:

- (1) Transfer of operational control of all military forces to elected civilian leadership. While this would require a constitutional change to become legal, the monarchy could gain great public support by voluntarily declaring that control of all military and security forces will be given to future elected governments. Although the monarchy has already claimed to transfer control of military forces to the current Prime Minister's government, this is not the same as a clear commitment to permanent civilian control of the Nepali armed

forces because the government exists at the pleasure of the monarchy and has dubious constitutional standing.].

- (2) Agreement to cooperate with and support the political parties in any future negotiations with the rebels. *Achieving a strong and publicly perceived unity between the monarchy and the parties is absolutely essential to isolating the guerrillas.*
- (3) Agreement to consider a constitutional reform process that will redraw (but not eliminate) the role of the monarchy in governing Nepal. The monarchy should announce its willingness to be flexible in restoring and improving the constitutional monarchy of 1990. This date and system has great symbolic resonance, and the monarchy pledging itself to support ‘the principles of 1990’ would go far to restoring the legitimacy of succession. For the King, who came to power in such unusual circumstances, to have radically departed from the policies of his predecessor weakens the legitimacy of succession.
- (4) Agreement to review and alter some of the most recent anti-terrorist legislation that has led to abuses and undermined the legitimacy and rule-of-law procedures of the government of Nepal.
- (5) Agreement to permit a free press and cease persecution of journalists. A free press will be needed to persuade the population of the validity of the actions of the monarchy and parties to restore unity and democracy.

D. Addressing Ethnic, Lower-Caste, and Female Exclusion

Existing USAID and other donor programs to address ethnic, lower-caste, and female exclusion from educational and political and economic opportunities should be expanded and reinforced. This is inevitably a long process. However, passing legislation to support minority and gender rights would be helpful. Of even more immediate value would be pilot projects in rural areas recovered from guerrilla control that provide integration of education, female empowerment, and employment opportunities on an integrated basis.

In regard to the ‘do no harm’ principle, existing programs to promote education, agricultural productivity, rural employment, and other economic gains should be reviewed and revised as needed to ensure that such programs contribute to goals of increased inclusion and integration of traditionally neglected and excluded groups. Educational programs that mainly benefit upper-caste children, or employment projects that create work only for lower-caste workers, may reinforce rather than mitigate traditional exclusions, even if they meet their intended program-specific goals.

In terms of addressing the insurgency, it is the exclusion of neglected groups that fuels the insurgency, far more than poverty itself. Development programs designed primarily to address poverty, rather than exclusion issues, thus contribute little to correcting the key causes of fragility. Wherever possible, participation in existing health projects and access to further support for education and local self-government should be used as a platform for such efforts to promote inclusion.

USAID’s maternal and child health program in Nepal (SO367-002 Reduced Fertility and Protected Health of Nepalese Families) has trained 46,000 Female Community Health Volunteers to provide basic family planning and maternal and child health services to communities. USAID implements a Health Education and Adult

Literacy Program to address the high illiteracy rates among these volunteers and mothers. Additionally, USAID has provided campaigning and leadership skills training to community-level women under SO 367-007. Under the same SO, USAID has provided options to girls at risk of being trafficked and trafficking survivors through gainful employment in formal and informal sector enterprises. Women are also integrated into SO367-001 Increased Sustainable Production and Sales of Forest and High-Value Agricultural Products through training in high value agriculture and community forestry. However, these programs are scattered throughout USAID's portfolio. Many are under natural resource management headings, and thus 'shoe-horned' into what were initially economic development, rather than conflict management, programs.

In addition, as noted above, while the needs of women are addressed in many different sectors, there does not seem to be explicit attention to the integration of minorities into programming.

E. Ending the Guerrilla Rebellion

The preceding efforts should be integrated into an overall strategy for ending the Maoist insurgency. These steps would therefore include the following:

- i. Bolstering of military combat and civil assistance capacities, with the goal of creating a zone of security and civilian support in the central and eastern regions, confining guerrilla operations to the mid-western and western regions. Such a reversal of the tide is necessary to force the Maoists into meaningful peace negotiations.
- ii. Creation of a national unity government of the major political parties, committed to seeking peace and democratic reforms. Although this process has started, a few key political leaders have kept their parties out of this process, which is very damaging.
- iii. Highly visible public support and cooperation by the monarchy with the parties, the peace process, and with democratic reform.
- iv. Announcements of proposals (greater federalism, party-list voting, legislation to protect minority rights and foster participation and opportunities for neglected groups) for policies to win public support away from the guerrillas and to the parties and monarchy. The aim should be to outflank the guerrillas by 'taking over' all of their more moderate and reasonable demands, leaving them only with unpopular and radical demands (e.g., republicanism, socialism).

Highly publicized projects of inclusion such as youth clubs and education, health, and employment projects should be carried out in regions of government control. Existing development aid projects should be scrutinized and modified to maximize their impact on inclusion (which is a more pressing immediate cause of the insurgency than poverty *per se*).
- v. Serious planning for peace negotiations, in terms of strategies and tactics. Such negotiations should include plans for elections, constitutional reform, integration/disarmament of guerrilla forces, and CPN(M) participation in electoral and reform processes.

Even in the absence of negotiations, plans should be developed to restore elected local government in regions of government control, with

strong cooperation between locally-elected leadership and Nepali security forces. Plans should also be developed to offer a cease-fire under which to hold national elections, in which CPN(M) could participate.

- vi. Cooperation with India to halt rebel funding from abroad and to deny cross-border sanctuary to rebels. Although India has its own problems with Maoist rebels in the region, and has made efforts to assist Nepal, more needs to be done to close off support and shelter that the rebels obtain from within India.

F. Continuing with Assistance to the Leading Sectors for Future Economic Growth

The government and donors may wish to cease support for certain economic development, infrastructure, education, and other services in areas under guerrilla control, since these appear to provide benefits and legitimacy to the guerrillas when operated under the latter's authority. However, support for health care should be maintained wherever possible, especially with regards to support for voluntary fertility control, HIV-AIDS control, and child immunization/nutrition. The reason is that if such programs are allowed to lapse, undesired fertility, spread of HIV, and child malnutrition will impose large long-term costs and obstacles to Nepal's development in the days after which the insurgency ceases.

Other existing programs have made helpful contributions to Nepal's economy in the areas of hydropower, timber products, agricultural exports, tourism, and improving trade competitiveness. All of these programs are worthwhile as a basis for long-term growth *if the insurgency can be brought under control*. Provided the above issues can be addressed and funds are still available for such programs, their continuance would be most useful. However, if the above issues are not effectively addressed, such efforts will likely fail to make a worthwhile contribution to Nepal's long-term development.

G. New or Additional USAID Capacities Desirable for Reducing Fragility

Many of USAID's conflict mitigation objectives focus on helping victims recover from conflict through services or employment or building infrastructure. While this is valuable, it differs from a strategic objective focused on influencing elites to build unity or develop strategies for integrating military and civil responses to insurgency.

It would be enormously helpful to have an institutionalized capacity to address elites in mission countries regarding needed reforms and desired policy goals to reduce fragility, in conjunction with offers of both military and civil assistance. No doubt such a capacity would have to be deployed by an official of ambassadorial rank, but USAID should be able to develop blueprints for such policy goals and assistance, in order to support the ambassador's efforts.

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