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ECONOMIC DIMENSIONS
OF PEACEBUILDING
CASE STUDY SERIES

What role for business in “post-conflict” economic recovery? Perspectives from Nepal

Lindsay Alexander, Canan Gündüz, DB Subedi

About International Alert

International Alert is an independent peacebuilding organisation that has worked for over 20 years to lay the foundations for lasting peace and security in communities affected by violent conflict. Our multifaceted approach focuses both in and across various regions; aiming to shape policies and practices that affect peacebuilding; and helping build skills and capacity through training.

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Strengthening the economic dimensions of peacebuilding – about the project

This series of four country case studies explores the ways in which the economic causes, drivers and impacts of conflict have been tackled in different ways in different conflict-affected countries where Alert works. The aim is to encourage cross-country learning, and inform what has become a vibrant international debate in the last few years on how to adapt economic development interventions to conflict contexts, in a way that makes them conflict-sensitive, and able to support longer-term peacebuilding.

It is not possible of course to discuss the wide range of economic needs and interventions present in each country context comprehensively; each case study therefore focuses on a particular aspect of economic recovery, and presents a particular angle on the question:

- **Uganda:** the case study illustrates the challenge of planning for “early recovery” in the context of an ongoing and fragile peace process, and identifies opportunities for enabling a peace economy through early recovery;
- **Nepal:** this report explores possible roles for the business community in supporting economic recovery after war, and illustrates the need to link capital-centric peace processes and economic development planning with district-level perspectives and needs;
- **Sri Lanka:** this study looks at some of the conceptual links made between youth, unemployment and conflict, and identifies several gaps in practice; and
- **Colombia:** this case study explores lessons learnt on “alternative livelihood” programming in situations of ongoing violence, and identifies entry-points for conflict-sensitivity.

In addition to the country case studies, the project will be producing a series of thematic briefing papers, as well as training resources, in the course of 2009. For more information, please visit www.international-alert.org/peace_and_economy.

The objectives of the project are three-fold:

- To identify lessons in order to generate evidence-based resources and guidance for policymakers and practitioners to improve the conflict-sensitivity and peacebuilding impacts of economic interventions
- To promote uptake of such good practice
- To put the links between economic recovery and peacebuilding on the agenda of relevant in-country and international actors through advocacy, outreach and networking

The project forms part of International Alert’s wider work, ongoing since 1999, on improving business conduct and promoting a peacebuilding approach to economic activities and interventions in conflict-prone and conflict-affected countries. Our firm belief is that just and lasting peace requires broadly shared economic opportunities, including decent work, to redress economic issues and grievances that fuelled violent conflict in the first place, and to address the economic impacts of conflict on the livelihoods and lives of conflict-affected populations.

Indeed strengthening the private sector and market-based economies has become a key concern for development assistance in recent years, including in countries affected by conflict. But while the links between peacebuilding and the economy may be obvious, it is less clear how a peacebuilding approach to such economic interventions can be achieved in practice, and how they can be made conflict-sensitive. Understanding the ways in which these interventions can interact with pre-existing conflict dynamics is crucial given that the allocation of resources and economic opportunities feature prominently as root causes in many conflicts; therefore any external intervention targeting the economic sphere is bound to interact with core conflict issues and the economic legacies left by violent conflict. This will be to the detriment of the local conflict context, and programmes, alike.

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Acronyms

| | |
|----------|--|
| AISC | Army Integration Special Committee |
| BOGs | Basic Operating Guidelines |
| CA | Constituent Assembly |
| CNI | Confederation of Nepali Industry |
| CMP | Common Minimum Programme |
| CPA | Comprehensive Peace Agreement |
| CPN(M) | Communist Party of Nepal (Maoist) |
| CPN(UML) | Communist Party of Nepal (Unified Marxist-Leninist) |
| CSA | Conflict-sensitive approaches |
| FNCCI | Federation of Nepali Chambers of Commerce |
| INCLUDE | GTZ’s Inclusive Development of the Economy programme |
| MJF | Madhesi Jana Adhikar Forum |
| NA | Nepal Army |
| NC | Nepali Congress |
| NCC | Nepali Chamber of Commerce |
| PLA | Maoist People’s Liberation Army |
| PPP | Public-Private Partnerships |
| SEZ | Special Economic Zones |
| SPA | Seven-Party Alliance |
| UCPN(M) | Unified Communist Party of Nepal (Maoist) |
| UML | Communist Party of Nepal (Unified Marxist-Leninist) |
| VDC | Village Development Committee |
| YCL | Maoist Young Communist League |

Executive summary and key lessons

Nepal's war-to-peace transition illustrates the complex political and economic causes, as well as legacies, of conflict that significantly shape chances of success, both for economic recovery and peacebuilding. There can be no successful economic recovery to lay the grounds for inclusive growth without peace and security; conversely peace and security critically depend on the support of economic actors, and rapid improvement of the economic conditions for conflict-affected people. However, purely technical approaches to both do not offer sufficient space to explore the political economy of a fragile transition process; and so can inadvertently fuel conflict afresh.

Within this context, effective and functioning partnerships need to be forged between different actors, including business, government, development agencies and civil society. This report reviews the potentials and obstacles for such collaboration, drawing on opinions and perceptions at the district-level, as well as Kathmandu.

Several key lessons emerge from Nepal that can prove instructive for economic recovery policy and programming elsewhere.

KEY LESSONS

Contextualise economic development planning within past and present peace process dynamics.

The way socio-economic issues are dealt with during a peace process have a significant impact on "post-conflict" economic recovery. In Nepal, socio-economic issues were at the heart of the conflict. The way they have been addressed during the peace process and transition was determined, not by economic rationale alone, but primarily by the ups and downs of a complex political process and ongoing power struggles at the centre.

A strong understanding of economic causes, drivers and impacts of conflict is crucial for prioritising interventions in support of equitable recovery and peace.

Therefore the political economy of conflict and attendant power dynamics must inform post-conflict economic recovery analysis and programming. In Nepal, some donors' strategies reflect this, combining both support to the peace process itself, as well as plans to support priority sectors for inclusive growth.

Identify and draw on economic development and peacebuilding synergies. International evidence shows that strongly diversified economies are better equipped to withstand conflict risks than those that rely on a few sectors and are controlled by a few dominant players. This puts Nepal in the high-risk category in terms of its likelihood of returning to conflict. Nurturing small and medium enterprises in support of a diversified economy that is independent of the risks of elite capture is not only an economic development imperative; it can also contribute to peacebuilding.

Building and sustaining constructive relationships should be central to all economic recovery and peacebuilding interventions.

A multitude of actors, including political, economic and security actors, have a role to play in the complex, post-agreement phase. Government policy-makers, donors and development partners, the private sector, workers, and civil society need to work together effectively to tackle urgent economic and peacebuilding priorities.

Building bridges within the business community is key. The “business community” is highly diverse, with different needs and priorities. In Nepal, like many post-conflict contexts that have undiversified economies and young democracies, it is often larger business and economic actors that have access to and can influence government policy. While potentially positive, this group does not necessarily represent the wider private sector, particularly if the image of big business is bound up in conflict-related grievances.

A degree of realism is required in expectations of business contributions to economic recovery and peacebuilding. Planners need to be mindful of business perceptions of present and future risk and reflect realism in forecasts when planning for economic recovery and investment. Likewise, while policy debates and plans at the centre reflect the need to reduce horizontal inequalities in Nepal, business operations and investment decisions are not necessarily guided by this perspective.

Support business to recognise their interest and role in promoting social equity and inclusive growth. There is a need to illustrate to businesses why it is in their long-term interest to avoid insensitive, exclusionary or illicit practices, and help them tackle attendant risks to themselves and their operations, including through collaborating with others.

Conflict-sensitivity is a bottom line for peaceful recovery. This requires focused analysis, purposeful design, and explicit steps to reduce conflict risks and identify peacebuilding opportunities in all aspects of economic policy and programming. Donors in Nepal have made great strides in this regard over the past five years. This commitment must be carried over into the post-conflict period and continue throughout a fragile transition period.

1. Introduction

As Nepal enters a historic period of political and social transitions, much hope is now being placed on real and rapid change that will improve ordinary people's lives. Time and again, countries emerging from conflict, and the international community supporting them, have found that great expectations for recovery and improved living standards are not met, and peace agreements get only partially implemented, if at all. Consolidating and maintaining the peace after making it is therefore one of the greatest challenges for conflict-affected countries, and their international supporters: indeed a number of “extraordinary constraints”¹ on countries emerging from conflict mean that in 40 percent of all cases, countries return to conflict within the first decade of a peace agreement being signed.²

Yet, despite the importance of broadly inclusive economic recovery for reducing the risk of conflict recurrence, economic reforms and planning frequently get relegated to second place after political and security reforms supported by the international community (such as elections, or the disarmament and demobilisation of ex-combatants). This needs to change, and urgently.

Nepal now has the opportunity to envision and transform its economy from one that has been feeding numerous conflicts for decades, to one that can support a “new Nepal”, including more inclusive politics and security for all its citizens. These factors are linked, and cannot be understood, or addressed, in isolation. Yet even when “what” is known, it is often the “how” that can present the most serious challenges.

1.1 Purpose and structure of this report

Government ministries and donor agencies have begun to look into and make recommendations for economic growth and improving the overall investment climate in Nepal.³ Several studies and reports have been published recently as a result, based on sound economic and business environment technical expertise and analysis.⁴ This report does not aim to replicate these, and refers to them for more technical perspectives on these questions. Rather, the aim is to add a distinct peacebuilding voice to these debates; one that recognises that the political economy of conflict does not end with the signing of a peace agreement, but that purposeful analysis and interventions are needed to strengthen an economy that can support peace and stability in Nepal. In doing so, we apply a “political economy” and “conflict-sensitivity” lens to these questions, to raise issues that are relevant from a conflict risk and peace perspective. For recommendations and interventions, this oftentimes does not imply that agencies need to do different things to be conflict-sensitive; it does however mean that they need to do “things differently”.

Against this background, this report draws on the experiences and efforts at consolidating peace, as well as economic recovery, in Nepal, in order to:

- Explore combined peacebuilding and economic recovery challenges and implications, situated within the wider context of the ongoing peace process, as well as district-level perspectives and perceptions;
- Within this context, identify challenges as well as opportunities for effectively drawing in and mobilising the private sector for peace and recovery initiatives;
- Illustrate how conflict-sensitive approaches and tools can be used to identify and analyse conflict dynamics that will have a bearing on both economic recovery and peacebuilding prospects; and

- Draw key lessons that may find resonance for policy and practice elsewhere, and that can contribute to ongoing international debates about working with the business community for economic recovery in “post-conflict” contexts.

The target audience for this report are economic development practitioners and policy-makers with no previous knowledge of the Nepali context; as well as peacebuilding experts with an interest in exploring the impacts of economic dynamics on their work. Though country-specific recommendations are not developed in great detail, in-country audiences will also find relevant analysis and perspectives in the report; and may find some of the implications and recommendations drawn out helpful in their own planning.

The remainder of **Section 1** presents the methodology and limitations of the study; and explains “conflict-sensitive approaches”, applied throughout the report. **Section 2** presents Nepal’s conflict history; while key economic challenges to recovery and peacebuilding are presented in **Section 3**. **Section 4** discusses some of the challenges, as well as opportunities, for the business community to play a role in this wider context. **Section 5** gives an overview of some of the economic issues that are key to the peace process, and discusses relevant government and donor responses. **Section 6** finally presents key lessons from the Nepali experience.

1.2 Methodology and limitations

The report draws on a desk-based review of policy documents and secondary literature, consultations in Kathmandu, and district assessments in three districts since August 2007. At the Kathmandu-level, relevant policy and planning documents by government and donor agencies were reviewed and several rounds of consultations and workshops were organised with both economic and peacebuilding experts.⁵

At the district-level, action research was carried out by the Alert Nepal programme in Morang in the eastern Terai, Kailali in the western Terai and in Jumla in the mid-western mountains between January and December 2008. In addition, an opinion survey was carried out by the Kathmandu-based research institute Interdisciplinary Analysts among a total of 600 businesspeople in Morang and Parsa Districts, including 205 from big industry/business, 248 small businesses and 147 street vendors and informal businesses.⁶ This survey sought to gauge businesspeople’s perceptions of: economic causes, drivers and impacts of conflict; current socio-economic and political challenges in their district; existing and potential barriers and opportunities for business; perceptions of government and development actors’ roles; and private-sector operations’ impacts on their social context. Similar questions were raised in open-ended interviews with key informants, including representatives from civil society, households, and government offices in the two districts. Throughout the report, findings from these two sources are highlighted in boxes.

The purpose of these different sources of data collection was not to establish a comprehensive picture of the economic situation at district level, or to establish households’ and individuals’ livelihoods challenges at the micro-level.⁷ Rather, the purpose was to gauge district-level opinions and perceptions by businesspeople and the wider public on economic recovery as well as peacebuilding needs, to be able to inform and compare them with Kathmandu-level discussions on the same issues; and better identify what roles the business community can play in this process, at different levels.

1.3 The need for conflict-sensitive approaches to economic recovery and post-conflict peacebuilding

As is evident in Nepal, conflict can reverse development gains and deepen poverty. Different actors

have started to recognise the complex links between their interventions and conflict dynamics. If they ignore conflict dynamics, development agencies' economic development programmes can distort local economies, skew power relationships, destroy social relations, increase divisions between or within communities, and ultimately fuel conflict. Likewise, business operations, whether large- or small-scale, will inevitably have a bearing on the wider social and conflict context, which in turn is likely to be detrimental for business operations. Therefore “business as usual” in conflict settings is either risky, or in fact impossible for companies, as attested by the perceptions and opinions reflected in the report.

In an attempt to work more effectively in conflict-prone and -affected situations and to limit the possibility of “doing harm”, donors, NGOs, and businesses have therefore begun to develop and utilise different, often agency-specific, conflict-sensitive approaches (CSAs – see Box 1 below). At a minimum, CSAs seek to reduce harm. At a maximum, they actively seek to address the causes and drivers of violence whilst identifying and supporting opportunities for peace.

This includes so-called “post-conflict” situations, i.e. countries where a ceasefire or peace agreement was recently signed. In fact the signing of a peace agreement is not to be confused with an end to conflict, as many underlying conflict issues continue to linger to possibly reignite at a later stage. Peace processes themselves can create new grievances and tensions that can lead to renewed armed confrontations, sometimes accompanied by the emergence of new groups and agendas. Incidents of violence typically remain frequent in these situations. In fact, a recent history of violent conflict is a predictor of future conflict risk; therefore conflict-sensitive approaches remain highly relevant in these situations.

1 What is conflict-sensitivity?

Conflict-sensitivity requires development agencies, companies and others to:

- Understand the context in which they operate, especially latent and open conflict dynamics;
- Understand the actual and potential mutual impacts between this context and their own actions; and
- Act on this understanding in order to identify future risks, avoid negative impacts, and maximise positive impacts.

Conflict analysis is a central component of conflict-sensitive practice. It studies the profile, causes, actors and dynamics of a conflict, and their relationships. This can be carried out at various levels (e.g. local around a project site; regional; or national), and seeks to establish linkages between these levels. A multiplicity of conflict-analysis tools now exists; depending on the purpose of the analysis, particular aspects can be emphasised differently.

Key questions for each include the following (these are adapted to the context of economic recovery and post-agreement peacebuilding):

Conflict profile and causes

- What pervasive political, economic and socio-cultural factors persist in the policies, structures and fabric of a society that fed violence in the past, and may do so in future?
- Which factors further contribute to a climate conducive to violence, its escalation or recurrence?
- What is the history of the conflict and peace process?
- What are emergent political, economic and socio-cultural issues?
- What are specific conflict-prone or -affected regions of the country, or parts of the population?

Actors

- Who are relevant actors, both from a peacebuilding and economic recovery perspective? (This

may include political, security, economic and socio-cultural actors.)

- What are their stated goals and positions, as well as interests and needs with regard to economic recovery and peace consolidation?
- What are their capacities and means, as well as challenges, in supporting or hindering economic recovery and peacebuilding efforts?

Dynamics and scenarios

- What have been the main stages of conflict to date? What are likely future patterns?
- What are current and past conflict trends? What have been past conflict trends (e.g. escalation or de-escalation, changes in important framework conditions, for instance elections, or a change in leadership)?
- How are the profile, causes, and actors evolving and changing over a relevant timeframe?
- What are windows of opportunity (e.g. are there positive developments, for example a recent peace agreement)? Which factors support them, and how can they be strengthened?
- What scenarios can be developed from an analysis of conflict profile, actors and causes, to determine possible future dynamics (e.g. best-case, middle-case, worst-case scenarios)?

When it comes to economic recovery in particular, the way in which a country’s **political economy** can either sustain conflict, or support resilience and peace, is key: Political economy analysis is concerned with the interaction of political and economic processes in a society: the distribution of power and wealth between different groups and individuals, and the processes that create, sustain and transform these relationships over time. When applied to situations of conflict and crisis, political economy analysis seeks to understand both the political and the economic aspects of conflict, and how these combine to affect patterns of power and vulnerability ... A political economy approach should incorporate a wide historical and geographical perspective, explain why the relative power and vulnerability of different groups changes over time, and explain how the fortunes and activities of one group in society affect others.⁸

1.4 Linking conflict-sensitive and inclusive approaches in post-conflict contexts

In Nepal, donors and development agencies in particular have gained significant experience in utilising CSA, especially in the latter years of the conflict (these experiences are described in **Section 5**). Different conflict analyses have consistently pointed to dynamics of **exclusion** from social, economic and political opportunities for the majority of Nepalis as one of the main causes of past conflicts in the country (these are described in **Section 2**).⁹ As a result, a frequent policy and programming response is to promote inclusion in development programmes of women, different ethnic groups, Dalits and so on.

However while an important aspect of conflict-sensitivity, numeric inclusion in programmes in and of itself will not contribute to peace, or necessarily be conflict-sensitive. For example, Nepal’s Constituent Assembly (CA) can now boast of being the most gender-balanced legislature in the world, with 33 percent participation from women. However, many Nepali women’s rights activists have expressed concern that sheer numbers of women in the CA will not necessarily serve to address gender injustice in Nepali society; or indeed be sufficient to facilitate their effective participation in Constitution drafting and law-making.

Without understanding the power dynamics between men and women across different identity groups and how it affects cultural attitudes and behaviour (e.g., in relation to gender-based violence, access to security and economic opportunities), some women could be at risk of increased violence against them should they challenge the status quo. The same applies to challenging all forms of exclusion as part of social change, whether it be gender, or caste, class, ethnicity or religious-based. Conflict-sensitivity therefore goes hand in hand with inclusive approaches to building sustainable, equitable and peaceful societies.

2. Nepal's conflict profile

This section gives a very broad historic overview of Nepal's conflict and peace process, for those not familiar with the country. This is to encourage in particular economic development practitioners to situate their own analysis and planning in post-conflict situations within the much wider timeframes and history that led to the present day. Not only will this help explain much of the present-day political dynamics that have a bearing on the chance of success of economic reforms; many of the conflict dynamics are also likely to still be present in the post-conflict context.

Such a historical overview can allow for the identification of conflict trends over time, with a view to informing conflict-sensitive planning and scenario-building. The aim is to inform and better enable planners to build such a “conflict lens” into their programming cycles for economic recovery. This section is broken down into two parts: history, and more recent dynamics (or trends), including also actor analysis.

2.1 Historical overview of Nepal's conflict and peace process

2.1.1 Conflict history

Nepal has been ruled by a royal dynasty (the Shahs), for much of its modern history.¹⁰ This hold on power was consistently challenged from the 1930s onwards through dissidence, and at times armed resistance, by different democratic forces (early political parties operated mainly underground, many based in India). A brief democratic interlude in 1959–60 ended abruptly when the then-King Mahendra abolished multi-party democracy by emergency rule, on grounds of political party corruption. The following decades until 1990 saw a “party-less democracy” system with few limits to royal power, and a series of unstable governments. This so-called *Panchayat* system was brought down in 1990 by the first pro-democracy “People's Movement” (*Jana Andolan*), which reinstated multi-party democracy. Political instability continued throughout the 1990s, however, and traditional political elites further strengthened their grip on political power in Kathmandu, with little social or economic progress felt in much of the rest of the country.

Nepal's decade-long armed conflict (1996–2006) needs to be understood against this history of recurring conflicts between democratic, conservative, and monarchist forces. The insurgency was triggered when government rejected a “40-point list of demands” presented by the Communist Part of Nepal (Maoist) – CPN(M)*, which included wide-ranging social, economic and political reforms.¹¹ The ensuing armed conflict pitted the Maoist People's Liberation Army (PLA, with an estimated 13,000 fighters), first against the Nepali police and armed police force, and from 2001, the Nepali Army.¹² What began with small-scale attacks on police outposts and raids on banks, soon engulfed most of rural Nepal. The insurgency built on an effective combination of military guerrilla tactics and broad grassroots mobilisation based on a Maoist ideology that promised profound social, political and economic transformation by means of overthrowing the royalist government and establishing a “People's Republic”. Throughout the conflict, state control was effectively confined to the main urban centres, and the insurgency set up sophisticated parallel governance structures, including for example “people's courts” to administer justice, which were perceived by many rural Nepalis as dealing with immediate day-to-day challenges that the state was not able to address. The insurgency, and the government's military response, caused profound suffering and trauma especially among Nepal's rural population, and resulted in at least 13,000 deaths, most of them civilian. It was also accompanied by widespread human rights abuses and “disappearances” carried out by both sides, which remain unresolved and unaccounted for to this day.¹³

* In January 2009, the Communist Party of Nepal (Maoist) (CPN-M) and the Communist Party of Nepal (Unity Center-Masal) merged to create the newly named Unified Communist Party of Nepal (Maoist) (UCPN(M)). This report uses CPN(M) throughout, as the analysis focuses on the time when the party went by this name.

2.1.2 Peace efforts

First efforts at political dialogue were made in 2001, but talks and a ceasefire collapsed in the same year. Escalating violence and deadlock over parliamentary elections led the then-King Gyanendra to dissolve parliament in 2002 and later sack the Cabinet, to instate a government picked by himself, and suspend the planned elections. Further attempts at peace talks collapsed again in August 2003.¹⁴ On 1st February 2005, the King finally dismissed a coalition government and a new council of ministers was formed under his direct control. A large-scale protest movement by political parties, civil society activists and trade unions in April 2006 (*Jana Andolan II*) eventually forced the King and royalist forces to back down, leading to the reinstatement of the House of Representatives and formation of a “Seven Party Alliance” (SPA) government.¹⁵ These developments reinvigorated talks between the coalition government and the CPN(M), culminating in the signing of a Comprehensive Peace Agreement (CPA) between the SPA and the Maoists in November 2006.

The CPA marked the beginning of a highly fragile political process towards a new constitution and permanent peace. The two sides broadly agreed on the following roadmap: (i) containment of Maoist troops in camps and separation of their arms, and confinement of Nepal Army personnel and weapons in barracks, except for essential security duties; (ii) an interim constitution, agreed on 18th December 2006 and promulgated on 15th January 2007; (iii) formation of an interim parliament – completed on 15th January, following which the CPN(M) leadership announced the dissolution of its parallel governance structures in the countryside – and a coalition government (including CPN(M) participation) to assume power soon thereafter; (iv) Constituent Assembly elections by mid-June 2007 (this subsequently slipped to 10th April 2008); and (v) eventually a new permanent government under a new constitution. A UN political mission was agreed by the Security Council in January 2007 to provide technical support to this peace process, principally in the areas of cease-fire and arms monitoring, and electoral assistance to the Nepali Election Commission.¹⁶

Though marred by some violence and coercion by political parties at the district level, elections to the Constituent Assembly (CA) held in April 2008 were overall regarded as a success. To the surprise and shock of many, they led to a landmark victory for the CPN(M), which came out as the single largest party in the CA, holding one-third of the 601 seats based on a combined first-past-the-post and proportional representation system. The elections marginalised the traditional political elites represented by the Nepali Congress (NC) (at a distant second place) and the Communist Party Nepal (Unified Marxist-Leninist) – CPN(UML) (coming in third). They also established newer, regional-based parties like the Madhesi Jana Adhikar Forum (MJF) and the Terai-Madhes Democratic Party (TMDP) as political actors in the mainstream. This has been in the context of a rise in regional-based politics, discussed further below. The CA is praised for its broad ethnic, regional, caste and gender representativeness. However, many question the capacity of many CA members, picked to stand for their identity groups, to participate effectively; and criticise the fact that the main contentious issues, such as appointments to political positions, still get settled between the main political parties, behind closed doors.¹⁷

Nepal’s centuries-old monarchy came to an end when it was formally abolished by the CA during its first session, and replaced by the Federal Democratic Republic of Nepal, though the exact meaning and shape of “federal” in Nepal’s context remains to be negotiated in the course of the Constitution-drafting process. This has been delayed at length due to party politics blocking progress in the CA, and was yet to begin at the time of writing (some of the economic aspects of federalism are discussed in Section 4.1. below). The immediate post-election period saw lengthy political party wrangling over the establishment of a “unity government,” eventually resolved when CPN(M) leader Pushpa Kamal Dahal was voted in as Prime Minister by the CA in August 2008, to lead a coalition government including CPN(UML) and MJF ministers, but excluding the NC and other smaller parties, now in the opposition.

Violence continues to mar the post-agreement period, in a combination of political party-manipulated youth unrest; ethnic-based armed splinter groups, many of them active in the central and eastern Terai region in the south; and increasing criminal violence for economic gain (see also next section). In this context, understanding evolving dynamics between different groups and actors, and their potential to support, or in turn spoil, peace efforts, is key (see Box 2, and Annex 1).

2 Actor mapping: Identifying needs, interests, positions and capacities in support of inclusive economic recovery and peace

People are central to conflict resolution and peacebuilding. “Actors” within a conflict context may include individuals, groups and institutions contributing to conflict or being affected by it. Understanding these actors’ motivations and capacities is essential in building a picture of who may hinder, and who can be engaged to help, a potential peace process.

In general, an actor mapping aims to understand the interests, goals, positions and capacities of each actor to affect the context, as well as the ways in which these actors relate to each other (i.e. positively or negatively). The purpose of an actor mapping is the identification of those individuals or institutions that may act as “spoilers”, i.e. specific groups with an interest in maintaining an environment of insecurity, as well as the identification of existing institutional capacities for peace, and therefore entry points to address the root causes of violent conflict.¹⁸

Needs

These are the most basic and essential requirements actors must have or safeguard in a given situation and vis-à-vis others.

- What needs do the actors have in relation to inclusive economic recovery, and the wider peace process?

Interests

What actors want to achieve in a given situation, vis-à-vis others, and their motivations.

- What interests do the actors have towards inclusive economic recovery and peace i.e. what are the underlying motivations for engaging positively or negatively?

Positions

These are the demands, or solutions to an issue, presented by actors publicly.

- What are the official or stated positions or demands of the actors in relation to economic recovery/growth and peace or conflict agendas?

Capacities and alliances

- What capacities do the actors have or lack to influence inclusive economic recovery and peace – either to support or otherwise affect it?
- What are the relationships between the various actors, including power relations, conflicting interests, support etc.?
- What facilitates, or hinders, alliance-building? How can blockages be overcome, and by whom?

Analysis along these lines of several actors is included throughout the report (Section 4 looks at the business community; Section 5 looks at donors and government). There is, of course, a myriad of other actors playing a role in post-conflict economic recovery, as well as divisions within groups, that are not covered in detail. A sample actor mapping is included in Annex 1.

2.2. Current peace and conflict trends and dynamics

Regular monitoring of emerging political, security and economic dynamics over shorter time

periods is also key for day-to-day conflict-sensitive implementation and adjustment of projects to the context. This enables an understanding of unfolding trends and scenarios that will support planning processes for recovery and peacebuilding. An example is given in Box 3 below; the issues raised here are dealt with in more detail in subsequent sections.

2.2.1. New challenges: Escalating insecurity in the Terai

Most striking perhaps in recent months have been the “agitations” by ethnic and cultural identity groups previously excluded from political processes now demanding “self-determination” in the form of a secessionist or federal state. These agitations have involved clashes of newly emergent armed groups with state security services, but also between groups. While the media, the Kathmandu political discourse and international attention have tended to focus on these issues in the Terai region in the South in particular, identity groups across Nepal have been raising demands, with various levels of success. Given the multiplicity and heterogeneity of these groups, their demands, and negotiations with them, need to be managed with great care. Otherwise these tensions risk dividing the country further along ethnic and religious lines and threatening the viability of component federal regions that may emerge under a new constitution.

Alongside the opportunistic mobilisation and manipulation of political sentiment in the region, incidents of murder, abduction and robbery have spiraled. A report in November 2007 by a judicial commission formed to investigate the Terai agitation recorded 21 deaths in the Terai in the seven months since mid February 2007 and nearly 2,000 (including 230 security personnel) injured. Property worth NRs.136.3 million, including personal, governmental and non-governmental, were destroyed (see also Box 3).¹⁹

3 Recent political, security and economic dynamics, and potential conflict implications

Political dynamics

The resilience of the Nepali-owned and -led peace process over the past two-and-a-half years is quite an achievement, and post-elections, the sense of optimism in Nepal is testament to the significant faith people have put in the Maoists to stand up to their promises. The question remains, however, whether the Nepali public has the patience to wait for change and the Maoists have the political skill and leadership to keep unity in their own ranks between those that are more moderate and those remaining committed to more revolutionary methods for social transformation. Maintaining fragile political coalitions will continue to be a challenge, as is navigating the country to peace, via implementation of the various agreements signed over the last two years with different interest groups. The new government will also need to demonstrate an ability to contain the growing number of ethnic splinter groups, and increasing criminalisation of armed groups, especially in the Terai region. They will also need to convince domestic and foreign investors that they have an economic vision and investor-friendly plan for the country.

Cracks in the initial optimism in Nepal soon formed, following the post-election “honeymoon” period. Just three-quarters of a year after the election, many believe that the peace process is only holding together because the political elite in Kathmandu have a common interest in holding on to power, rather than supporting people or peace. Despite some significant progress (e.g. 33 percent of women in parliament and a population increasingly aware of their rights), exclusion across all sectors of society remains Nepal’s main signature, and the key challenge to sustainable peace.

Security dynamics

The impact of the explosion in identity-based violence in the Terai in 2007 continues post-election. Many previously excluded groups, including Madhesi and ethnic-based groups, are now demanding “self-determination” in the form of a secessionist or federal state. If not managed appropriately, this risks dividing the country further along ethnic, and even religious, lines. The co-option of youth for criminal and political means is also a growing issue of concern. Gang-fights, theft, trafficking (in the south) and rape are some of the most commonly reported crimes, with the reporting of gender-based

violence seeing a big increase. Militia and criminal groups continue to take advantage of the current insecurity in the Terai and cases of extortion and violence are increasing.

A key issue in regard to security dynamics is the stalling of the political process around the integration of more than 19,000 members of the Maoist People's Liberation Army (PLA) into the Nepali Army.²⁰ The Army Integration Special Committee (AISC) has been tasked with addressing this contentious issue. However, formation of the committee itself has been delayed by wrangling about party representation and as yet, it has made little progress in its task. While critical, this faltering, national-level process is holding up any wider discussions and provisions for public security amongst the wider public most affected by its impact, including their ability to go about their daily economic and business activities.

Economic dynamics

Price-hikes are seen by many Nepalis as one of the major problems facing the country currently, together with unemployment and poverty.²¹ In a context where public uprisings and revolts have been organised effectively to protest other issues in the past, this is a likely future scenario in response to current price rises caused by global phenomena like the food and oil price rises experienced during 2008, and the unfolding global economic recession. Increasing prices and accompanying shortages multiplying competition for already scarce resources, will remain a potential trigger for violence, particularly amongst the landless and urban poor, who have perhaps the highest expectations of the current government, and who stand to lose most from a global economic downturn.

Nepal's overall GDP, local economies, and a large sector of the rural population heavily depend on **remittances** from overseas. Given the global economic recession, existing social and economic insecurity is likely to be further exacerbated by the anticipated drastic decline in remittances beginning in the latter half of 2008 and into 2009. In November 2008, Nepal Rastra Bank estimated declines by 40 percent compared to the previous month.²² A contraction of the job market in migration destination countries such as Malaysia and Qatar that have previously attracted an estimated 1.24 million Nepalis as migrant labourers (not including those in India) will likely have severe livelihoods repercussions. Remittances sent by these workers contribute 17.4 percent of Nepal's GDP.²³ This may result in thousands of disillusioned young men (mostly) returning to towns and villages in Nepal to compete for an ever-dwindling pool of opportunities and resources.

3. Economic challenges for recovery and peacebuilding

This section outlines some of the persisting socio-economic challenges in the post-agreement period that are both continuing causes, as well as legacies, of the conflict. Nepal's development history and political economy have received ample academic attention; especially the economic causes and drivers of Nepal's ten-year Maoist insurgency.²⁴ The following paragraphs only give a condensed overview for an audience not familiar with Nepal, referencing more in-depth studies where relevant.

3.1. Poverty and inequality

After a decade of war, Nepal today remains the poorest country in Asia,²⁵ and one of the poorest in the world. There was some growth during the conflict period and an attendant reduction of poverty, principally due to remittances and labour migration that pushed up wages for workers who stayed behind. However, growth slowed from an average of 5 percent during the 1990s to 2-3 percent in the last three years,²⁶ leaving 31 percent of the population living below the absolute poverty line.

These aggregate figures mask significant regional and group disparities in poverty and poverty

reduction: according to the Central Bureau of Statistics Nepal, the poverty rate in Kathmandu was 3.3 percent in 2003–04, as compared to 37.4 percent in the Western hill areas, 42.9 percent in the Eastern hill areas, 38.1 percent in the Western Terai, and 24.9 percent in the Eastern Terai.²⁷ Incomes grew most for the richest 20 percent of the population (by 6.4 percent), and least for the poorest 20 percent (where incomes grew only by 2.5 percent).²⁸

This growing poverty gap has distinct social dimensions, with strong horizontal inequalities between social groups: in fact, the incidence of poverty among Brahmins and Chhetris stands at 19 percent, compared to 47, 44 and 41 percent among Dalit, Hill Janajatis and Muslims, respectively (NLSS II). Gender-disaggregated data is more difficult to come by. In the 2001 census, only 11 percent of households reported any land in female ownership, 72 percent of women worked in agriculture and only 6 percent worked in the formal non-agricultural or “modern” occupational sector. This is compared to 48 and 21 percent of men employed in these sectors, indicating that female income levels likely remain at the bottom of the growing income gap.²⁹

As a result of these trends, an already inequitable society has grown to become the most unequal country on the continent, according to the Asian Development Bank.³⁰ This is a problem, both from a conflict perspective and a development one, with implications for peace and economic recovery: In Nepal, so-called “horizontal inequalities” between groups that have fuelled resentments and grievances in the past will continue to do so. Economic poverty and inequality are also further compounded by other forms of social exclusion along caste, ethnic and gender lines. At the same time, high levels of inequality have hampered economic growth in Nepal as economic benefits have not “trickled down” sufficiently. This reflects international experience where the only countries that have been successful in fostering sustainable growth are those that have managed inclusive distribution of resources and benefits.³¹

3.2. Undiversified economy

Although in recent years, services have overtaken agriculture as the largest contributor to GDP (48.9 percent in 2007 according to the World Bank),³² agriculture remains the most important economic sector for most Nepalis, providing livelihoods for a vast majority. However, productivity in the sector is weak, and its performance is hampered by land ownership problems, difficult weather conditions and terrain, insufficient transport infrastructure and market access, and insufficient irrigation and technology. With almost 80 percent of the population dependent on agriculture for their livelihoods, it is seen as “poor man’s work” and has in the past suffered from a lack of government investment due to cultural bias against the sector.

Landlessness affects a large part of those who work the land; however, simply redistributing land according to the “land to the tiller” doctrine advocated by the Maoists prior to entering government, will not do much to change low productivity and lack of competitiveness of the sector; in fact it has been described as a means to simply “redistribute poverty”.³³

Agricultural produce, mostly grown in the Terai region bordering India, includes rice, corn, wheat, sugarcane, root crops, milk, poultry and water buffalo meat. Fruit, vegetables, medicinal herbs and non-timber forest products are also grown and harvested, particularly in the more mountainous areas. Nevertheless, approximately 50 percent of food is imported from India. Costs of production are high and quality control and certification mechanisms that would enable producers to market goods internationally are weak. Nepal’s producers cannot compete with the globally emerging exporters (e.g. in China, India, Mexico and Argentina), nor with Indian agricultural subsidies (\$60 billion annually). At the same time though, the country’s location between the two economic giants China and India is also seen as an economic opportunity to access and cater to their enormous markets.³⁴

Until the 1980s, modern industries were pretty much negligible in Nepal. Today, the private industrial and manufacturing sectors are still in their infancy, involving mainly agricultural processing e.g. of jute, tobacco, sugarcane, tea, coffee and grains.³⁵ Some sectors and industries managed to do well in the early 1990s, such as handicraft, carpet and garment exports. Lack of adequate quality standards and controls, however, meant that these gains could not be maintained.³⁶ The construction sector will likely continue to grow in the near future, with increasing government contracts, also at the local level, for infrastructure development. As a result, demand for cement and other construction materials has gone up. However, overall, industry and manufacturing are severely limited by a difficult business environment (described further below). Today, Nepal's main exports are garments, carpets and vegetable oils, but overall its industries remain uncompetitive, with imports far outweighing exports.³⁷

While tourism dipped significantly during the conflict years, Nepal's natural endowments, especially it being home to eight of the ten highest mountains in the world, have always made it an attractive tourist destination. Much hope is now being placed in an expansion of this sector, and the tenfold increase of visitors immediately post-*Jana Andolan II* confirms that the international tourism market is ready to expand. However a more steady and reliable increase in the future will depend on expanding tourism infrastructure and accessibility of tourism destinations in the country. A critical question will then be how the benefits of a renascent tourism industry will be spread, given that much of the tourism industry is concentrated in few hands.

3.3. Unemployment and youth disaffection

According to the Nepal Living Standard Survey 2003–04 (the most recent available source of data), complete unemployment at that time was 3.8 percent,³⁸ although informal estimates vary wildly, some putting it at up to 44 percent.³⁹ Disaggregated unemployment figures too diverge a great deal; unemployment rates among youth between the ages of 15 to 29 for example are at least twice that of adults.⁴⁰ Meanwhile 80–90 percent of the workforce is employed on an informal basis.⁴¹ This was in fact one of the main criticisms raised by the Maoists against the private sector. Among their various demands to Nepali businesses was the issuing of official appointment letters to all industrial workers.

The ILO summarises Nepal's key labour market concerns as, 'underemployment, poor quality jobs and the inadequate growth of wage employment in the formal non-agricultural sector'.⁴² To compound the shortage in demand, Nepal's workforce of approximately 10 million suffers from a low level of employment-relevant skills. In 2003–4, 44 per cent of children had never attended school. While literacy rates have shown a significant improvement over the past 20 years, the gender, caste and ethnic disparities remain stark.⁴³

At the district level, unemployment, underemployment, and the ways people can access jobs continue to be seen as a key concern, especially when it comes to employment practices that inadvertently feed social divisions and exclusion. In Parsa and Morang Districts, for example, 78 percent of businesspeople interviewed for the Alert IDA survey said they recruited on the basis of social contacts (i.e., those likely already part of one's own networks and circles). Efforts purely focused on improving "employability" of excluded groups are therefore not sufficient. Initiatives to improve women's access to gainful employment are, for example, often focused on the supply-side, i.e. improving their skills through training, improved finance through microcredit and so on. However, this overlooks the serious obstacles to women's employment on the demand-side, made up of cultural barriers by potential employees (see Box 4).

Meanwhile, youth between the ages of 15–29 years represent more than 25 percent of the total population.⁴⁴ Lack of education and opportunities have left a whole generation frustrated and disconnected from society's mainstream. As a result, some believe that '90 percent of youth

are in the People’s Liberation Army, the armed forces, or outside Nepal’.⁴⁵ Out-migration over the past five years has helped relieve some of the youth unemployment in particular and contributed to 13.9 percent of Nepal’s GDP via remittances in the year 2006–07.⁴⁶ This has had positive impacts especially on households in rural areas. At the same time, however, district-level views on economic out-migration are rather mixed. Though a majority of 65 percent of business respondents to the IDA and Alert survey in Parsa and Morang Districts felt that it has an overall positive impact (including improvements of the living conditions of the family staying behind; easing unemployment in the district; and stimulating economic activity in the districts); of those who viewed out-migration negatively, 69 percent felt it reduced the availability of local, skilled workers; 66 percent complained that it had decreased economic activity due to the non-availability of young people; 25 percent felt that it had forced local industry to hire foreign workers; and finally 23 percent were worried that it could make ‘young people grow up without proper guidance’.

4 Perceptions of unemployment and access to jobs at the district-level

Most in-depth interview respondents to the IDA and Alert survey identified unemployment as a major problem. 29 percent of business survey respondents thought that unemployment had been one of the main factors fuelling the insurgency (37 percent in fact among big business; 31 percent among small business respondents; but only 15 percent among informal business and street vendors). They believed that if the state could create adequate job opportunities, young people would equip themselves with skills rather than engage in unproductive activities. Some of the respondents felt that large businesses were not willing to hire younger people due to perceived associations with various political party unions and ensuing problems to their businesses. Respondents also felt that large business owners were still reluctant to give all due benefits to the workers.

Despite negativity towards the politicisation of youths, there was a perception among non-business respondents that most employers preferred hiring young people, particularly bigger industries and factories. They also felt that females would face more challenges than males in acquiring jobs or starting a business, as women have limited access to economic resources and education. Also, women face a huge share of domestic responsibilities, and early marriage keeps them occupied at home.

Most of the respondents felt that a person’s religion does not affect their getting a job or doing business. In general, all of the respondents felt that skills and education were more important attributes of a person for getting employment or doing business.

In-depth interview respondents were not united behind the idea of giving priority to certain castes and ethnicities such as Janajatis, Dalits and Madhesi while hiring; instead many felt that job hiring should be on a merit basis, and not on the basis of reservations or priorities. However, some were also of the view that priority should be given to females and the poor. Other respondents viewed giving such priority to caste and ethnicity as very important to bring ahead people of certain groups. Some respondents knew of some offices that practice such kinds of reservations, but mostly in their district they knew of businesses and offices hiring employees through personal references. They pointed out that this was done to avoid the chances of dispute among workers and owners and to reduce the cost of hiring.

In addition, respondents believed in (and had actual experiences of) political affiliation of a person leading to job placement. They felt that the trend of using political pressure to find jobs is common practice in Nepal, and it is still happening after the political change. Everyone felt that such political pressure needed to be ignored by employers, which would be the only way to change the trend.

Source: International Alert and Interdisciplinary Analysts (2009, report forthcoming).

4. What role for the business community?

4.1. A business community in recovery

Businesses both small and large suffered immensely during conflict, and found different ways of coping with the impacts, ranging from direct negotiations with armed actors to avoid being targeted or extorted; paying extortion to remain operative; contracting operations, or lay-offs (see Box 5 below).

Some businesses even made attempts to proactively address conflict causes and dynamics through lobbying and networking for peace or employment creation.⁴⁷ The business community's potential to contribute to economic recovery varies widely however, given different sectors' and types of businesses' differing needs, capacities and willingness to engage positively.

5 District perceptions of conflict impacts on the business community

Among key informants interviewed for the perceptions survey in Parsa and Morang Districts in 2008, almost all respondents (including businesspeople and others) agreed that industrialists, businesspeople, labourers and daily wage earners were affected during conflict. They stated that businesspeople suffered because they had to accept forced donation and extortion, while simultaneously having to bear huge losses in their business due to strikes and closures. Similarly, daily wage earners like street vendors and labourers found it difficult to sustain themselves during times of severe financial crisis.

Some felt that farmers living in rural settings suffered the most. A 23-year-old female Brahmin NGO worker from Morang said, 'Labourers, farmers, businesspeople and industrialists suffered most economically during conflict: labourers lost their income because of downsizing or closing of factories and industries, food and animals of farmers were looted by armed groups, and businesspeople and industrialists were threatened with donations and extortions'. Likewise a 27-year-old Sunar businessperson from Parsa said, 'Because of conflict, businessmen suffered most in urban settings and farmers suffered most in rural areas. In cities, closures, strikes, and extortion by Maoists troubled businessmen. In villages, Maoists captured land, food, grains and animals of people and lived in their houses'.

Indeed, 93 percent out of 600 businesspeople interviewed in the two districts said they had suffered negative impacts due to the conflict; of those, 72 percent said their business had been disrupted; 40 said they had lost customers; 24 percent mentioned transport disruptions; 23 percent experienced difficulties in accessing supplies; 19 percent suffered dire damage to or loss of property, while 16 percent said they lost investments; finally 18 percent said their business was targeted by strikes. Extortion meanwhile seemed to have affected mostly big industry and large-scale businesses (mentioned by 19 percent); and small-scale business (11 percent); while micro- and informal businesses were less affected.

Source: International Alert and Interdisciplinary Analysts (2009, report forthcoming).

4.2. Divisions in the business sector

Nepal's private sector mirrors the socio-economic divisions that exist in wider society, based on ethnic, caste, political and geographic lines: a few business houses, mostly residing in the Kathmandu valley, control much of the larger industry, many of them owned by people belonging to a few elite groups, defined by caste and ethnicity. Traditionally, especially large business houses are seen to be closely aligned with the former monarchy and royal business interests. As a result, factories and large businesses were frequently targeted as "class enemies" by the Maoists during the conflict, pressed for extortion, or subject to labour strikes.⁴⁸ Indian

subsidiaries based in the Terai region, such as Surya Nepal or Dabur Nepal, depicted in earlier Maoist ideology as “agents of foreign imperialism”, likewise suffered from targeted Maoist attacks during the conflict years. Ongoing insecurity in the post-agreement period has meant that some of these companies have shut down and moved their business elsewhere.⁴⁹ A reputation for alignment with elite power centres, both past and present, still lingers over the Kathmandu-based business community, making the wider public relatively mistrustful of business agendas.⁵⁰

There is an institutional infrastructure representing business interests, in the form of a variety of sectoral and umbrella business apex bodies, with varying degrees of presence in districts across Nepal. This includes, for example, the Federation of Nepali Chambers of Commerce (FNCCI), the Nepali Chamber of Commerce (NCC), and the Confederation of Nepali Industry (CNI). However, these organisations can suffer from competition and in-fighting, and display political divisions and dynamics similar to Nepali party politics. Nevertheless, in the recent transition period, the business community has made great strides in bridging political divides to begin forming more common platforms for dialogue and exchange on inclusive growth (see Box 6 below).

6 Private-sector participation in the peace process – Constituent Assembly members from the business community

The Interim Constitution decreed that 26 seats in the Constituent Assembly should be reserved for individuals who made significant contributions to Nepali society, to be nominated through inter-party consensus by the Cabinet.⁵¹ Across the political spectrum, political parties used their quota of these seats to nominate business representatives, some from the largest Nepali business houses (to the dismay of some in civil society).

In a recent roundtable discussion with several business CA members, as well as other businesspeople in Kathmandu on how to strengthen the peace potential of constitution-making, there was some consensus on key issues and areas for prioritisation:

- There was a unanimous view that the peace process needed to revive Nepal’s economy, generating new jobs and employment opportunities. However, they felt that the constitution needed to set the parameters for how an economy conducive to job creation and growth was to be achieved, which risked a delay in delivering this objective.
- Concern was raised over the impact of a federal structure on how business is conducted across the country. It was felt that this question needed to be answered and clarified in the constitution.
- The need to ensure the inclusive character of Nepal’s new economy was stressed and, in particular, that it should be extended to parts of society that had been neglected to date, such as indigenous groups.

This type of inclusion of entrepreneurs in the political process can be viewed as testimony that political parties realise the extent to which economic and business knowledge need to be reflected in the discussions on the future state and its shape. It also illustrates their willingness to reach out to businesspeople, even across ideological boundaries. Others are more cynical, and rumours circulate about the motivations of political parties for engaging big business in the constitution-drafting process.⁵² Whether this is the case or not, the fact that this perception exists is telling of the limited faith there is among the Nepali public about the possibility of corruption-free politics and business. As a result, business CA members will have to work hard to (a) build consensus amongst themselves regarding their priorities for peace and (b) to demonstrate that their contributions to the debate are framed with social equity and broad inclusion in mind.

Source: Garcia, E. (2008). Consolidating peace. *Nepali constitution-making: A Filipino peace practitioner’s perspective*. London, UK: International Alert.

4.3. Illicit economic activity

The phenomenon much discussed as “war economies” in many other conflict contexts, which has highlighted the role of war profiteering and illicit activity in perpetuating violence, does not end with the signing of a peace agreement.

Business conduct itself can be problematic, particularly in relation to sinister connections between licit and illicit business, corruption and violence in Nepal. This includes the building of monopolies and syndicates, and irregularities around tendering processes at the district level (see Box 7 below). Today, the latter is having increasingly violent ramifications with, for example, some district-level construction companies colluding with political party youth wings, armed groups or criminal gangs to physically prevent competitors from submitting their bidding documents. In some instances, this has led to violence between opposing groups around bidding processes.⁵³ With more development funds flowing for district-level projects, these tensions will likely increase unless business conduct and security provisions are improved. In order to refrain from fuelling tensions and to minimise negative impacts, the business community needs to steer clear of illicit practices, show a commitment to doing so, and collaborate with others in support of eradicating them where possible.

While the overall picture that emerged from the Alert and IDA survey does not suggest that any one licit sector in the surveyed region benefits enough from an unstable environment to purposefully drive instability in future, this will likely be different for smuggling and black marketeering, which by definition will have an interest in lax law enforcement and collusion from law enforcement officials. Though this survey did not explore these linkages, the question will be how to ensure that illicit and criminal activity does not do harm to regular business, and how it can be controlled through effective law and order in the future.

7 Business monopolies and syndicates in Kailali District

The economy of Kailali District in Nepal’s Far West region still relies heavily on agriculture. During an Alert visit there in June 2008, discussions with a diverse range of respondents revealed concern over the increased presence of price-fixing monopolies and syndicates and their impact upon this sector. Government “failure” to ensure fair market prices for seeds, agricultural supplies, and fertiliser for example, was cited as a particular issue by many. Moreover, a major problem at the time was the syndicate system put in place by the Seti-Mahakali Truck Operators’ Association, an organisation representing the owners of goods-vehicles.

The syndicate system aims to ensure that the process of hiring trucks is “fair”, it therefore dictates that all vehicles queue for use. This means that those needing a truck of a particular size, including farmers wanting to transport grain or fruit to Kathmandu, for example, have to wait until that truck becomes available in the queue. It also means the syndicate is able to “fix” the price per kilo for transporting goods, resulting in a significant increase in costs for those wishing to transport their goods to markets elsewhere in the country. The syndicate also does not allow businesses or farmers to hire trucks from outside of the district. Those that attempt to do so face significant risk of their vehicle being vandalised by syndicate supporters.

The price of transporting a load of rice has increased threefold since the syndicate was put in place. Businesses and other organisations have attempted to bring in cheaper vehicles from elsewhere, but were stopped by a road block put in place by Maoist Trade Union members, claiming to be working in the interest of the truck workers. It is unclear as to whether the syndicate has political backing.

The Kailali Chamber of Commerce and Industry, together with FNCCI, initiated a protest against the syndicate system (including a 13-day strike in the Western Region in 2008), filing petitions with

the Supreme Court, which backed them with a decree to scrap the system; however businesspeople complain that it still persists.⁵⁴

Source: Alert consultations, 2007–2008.

4.4. A challenging business environment

Nepali businesses have to deal with a range of constraints in the overall business environment. A recent study on Nepal’s business environment identifies several overall “investment climate constraints”, resulting from a fragmented and inconsistent legal framework and weak institutional capacity to implement existing policies. These include policies regarding labour regulations; trade facilitation; taxation and incentives; licensing and inspections; barriers to exit; and lack of an overall investment promotion strategy, among others.⁵⁵ As a result, some Nepali businesspeople estimate that they spend 40 percent of their time dealing with a myriad of rules, regulations and procedures.⁵⁶ Partly as a result of such a prohibitive environment, a majority of businesses remain in the informal sector, effectively shutting them out of access to formal services and opportunities to grow and expand their businesses. This is likely to hit micro- and small enterprises harder than larger ones.

In addition, lack of basic infrastructure such as roads, telecommunications, airports, and electricity as well as insufficient supply of fuel continue to be the biggest physical barriers for both production and service sectors in Nepal. This was further exacerbated by the decade-long war, when Maoists systematically targeted public physical infrastructure including bridges, telecommunications, airports, police posts, Village Development Committee (VDC) offices, and other government buildings across rural Nepal, with Far- and Mid-Western hills and mountains being worst affected.⁵⁷ Importantly, the majority of such attacks were directed at police and army posts, leaving much of rural Nepal effectively without any public security provisions, well into the post-agreement period.⁵⁸

As a consequence, Nepal is now facing a dual, Herculean task: firstly, repairing war-damaged and destroyed infrastructure, for which an estimated budget of NRs. 5.11 billion (about USD 74 million) is needed according to the Ministry of Peace and Reconstruction.⁵⁹ Secondly, there is an acute need to further increase physical and social infrastructure to address the ever-growing needs to stimulate post-conflict economic recovery and growth. Currently, only 43 percent of Nepal’s population have access to all-weather roads; and more than 60 percent of the road network is concentrated in the Terai region, the flatland bordering India to the South.⁶⁰

Difficult transport coupled with fuel shortages and oil price hikes translate into rising prices of goods and services especially in remote areas of the country.⁶¹ A further challenge for sponsors of large-scale infrastructure projects is to ensure tangible benefits for local communities, both in terms of livelihoods through participation in the construction process, and subsequent use of roads to improve access to markets and social services; while maintaining accountability and mitigating conflict risks.⁶²

Irregular supply of electricity in particular also hits businesses and industries hard: at the time of writing this report, a 16-hour load-shedding schedule was announced by the Nepal Electricity Authority (NEA), and trends are likely to increase in the course of 2009. This challenge was confirmed by business survey respondents from Parsa and Morang, though there were significant differences in terms of impact between different sizes of businesses. Here, while 50 percent of big business respondents felt electricity shortages were one of the major problems, only 23 percent of small businesses and 11 percent of street vendors felt the same.⁶³

Attracting foreign investors into the hydropower sector is one strategy the government hopes

will help address chronic electricity shortages (also discussed further in Section 5). Box 9 below provides an example of an infrastructure project that aims to address both power shortage and livelihood issues, while highlights some of the conflict risks large projects of this kind can pose for sustainable recovery.

8 Foreign investment in infrastructure: Example of West Seti

The West Seti project is a 750 MW private hydropower project, due to be located in Balia VDC in Kailali District, situated on the eastern and southern edges of the Far-Western Region of Nepal. The USD 1.6 billion project will be undertaken by the Snowy Mountain Engineering Corporation (SMEC), one of Australia's largest Engineering Consultancy Firms, and funded by Asian Development Bank (ADB) together with private investors. When it comes online in 2014, 90 percent of the electricity generated by the dam will go to India, more electricity than Nepal currently consumes each year.⁶⁴ Locals expect the project to create more than 5,000 jobs directly and up to 15,000 indirectly, however SMEC estimates this more modestly at 3,400 jobs, including at least 200 permanent jobs and an extensive training programme for Nepali employees.⁶⁵ According to local accounts, the project will displace 10,000 people, who will be rehabilitated and offered alternative land by SMEC. SMEC itself estimates the number of displaced at 1,580 families, who will each receive "generous" compensation payments and infrastructure reimbursements.⁶⁶

Source: International Alert consultations in Kailali, 2008.

9 Foreign investment in infrastructure: Potential conflict risks

While bilateral and multilateral project financiers and donors have in recent years begun to press for environmental and social impact assessments and due diligence by companies receiving funds, this usually does not include a "conflict lens", i.e. considering the unanticipated conflict impacts a large-scale project may have. From experience elsewhere, conflicts with communities, interest groups and government can emerge over resettlement and inadequate compensation; social investment by the company that does not take into account real community needs and creates further divisions over unequal access to resources; corruption in contracting procedures; limited stakeholder engagement and high expectations by communities for benefits and jobs that go unfulfilled; and negative impacts on local communities by company security arrangements, such as private-security contractors.

Work by International Alert over the last few years on understanding multinational company behaviour in conflict contexts suggests several gaps and needs:

- Foreign companies usually analyse conflict only as a risk to their own operations, through macro-level political risk analysis that is a one-time exercise at the beginning of an investment. There is often no awareness of the mutually reinforcing impacts that company investment and a conflict context can have – i.e., a conflict context may pose risks to an investment, but company conduct itself can further fuel conflict at community and national levels, directly (e.g. through the way it interacts with communities), and indirectly (e.g. through its relations with policy-makers, non-transparent revenue flows to the government etc.).
- Traditional environmental and social impact assessments carried out especially by extractive industry projects do look at the risks of micro-level impacts of company investment and suggest mitigating steps; however they are not designed to look at conflict impacts.
- Understanding conflict impacts requires a dynamic, ongoing process that only works with commitment from the company, and by building company capacity and networks around this issue.

Some companies have engaged in innovative pilots to begin integrating such "conflict-sensitive approaches" in conflict-affected countries, for example in Nigeria and Colombia.⁶⁷ Companies in

Colombia have found that the improved analysis has allowed them to identify possible conflict risks early on and develop risk management plans; it has also allowed them to build more trusting and constructive relationships with civil society organisations and NGOs.

Getting companies to adopt such behaviour requires sensitisation, through advocacy and awareness-raising for example by civil society organisations; it also requires the government to foster an enabling environment that ensures company due diligence – including regulations and incentives, e.g. through Public-Private Partnerships (see also Colombia case study in this series). Both will ensure that foreign investment can meaningfully contribute to the consolidation of peace and development in Nepal, rather than undermining both.

Source: International Alert (2005). *Conflict-sensitive business practice: Guidance for extractive industries*. London, UK: International Alert.

4.5. Insecurity and weak law and order

The ten-year long conflict between the state and the Maoists saw state presence in over 75 percent of the country confined to urban areas. The security and justice sectors in Nepal remain weakened following the conflict and are unaccountable and ill-equipped to respond to the particular and diverse needs of local populations. This has left many communities without recourse to state security or justice forums and has fuelled the emergence of armed and violent groups offering alternative forms of security and justice provision.

For business and industry, this has meant an increasing vulnerability to extortion and abduction for ransom, with little recourse to state mechanisms for the provision of security and justice. Where businesspeople used to be extorted by the Maoists during the conflict, they now increasingly face extortion and threats from armed groups as well as criminal gangs, especially those operating in the Terai.⁶⁸ Larger businesses and their owners are increasingly turning to private-security firms after several high-profile cases of violence and abduction in which the police failed to intervene. Improvement in law and order and public security are among the most urgent priorities for the business community.

Meanwhile, the post-agreement period saw a significant increase in grievances being expressed by multiplying political and identity-based groups (armed and unarmed) through escalating numbers of *bandhas* (shut downs) and chakkajams (road blocks). While this is a phenomenon that mostly affects the Southern plains and urban centres, it does have impacts on transport networks and delivery of goods and services country-wide. According to one report, there were 104 *bandhas* between the April 2006 uprising and November 2007;⁶⁹ and between October to December 2008, eastern Nepal alone had witnessed 55 days of strikes.

Bandhas, or general enforced shutdown of offices, educational institutions, businesses and vehicular movements,⁷⁰ have been a feature of civil disobedience and protest in South Asian politics for years.⁷¹ Nationwide *bandhas*, such as the successful 19-day general strike during *Jana Andolan II* and the dramatic political changes it brought, have demonstrated the effectiveness of such street protests in forcing social change and have served to provide a “role model” that is increasingly being adopted by various groups for a variety of reasons.⁷² While a potentially positive form of organised, non-violent, political/ideological protest that can strengthen the demand side of governance relations, their current proliferation for all sorts of reasons reflects an increasing frustration with and challenge to government in the post-agreement context (see also Box 10).⁷³

10 Effects of *bandhas* on economic activity – Perceptions from Parsa and Morang Districts

Most of the key informant interview respondents complained that their daily affairs had been seriously affected by closures and strikes. Business survey respondents estimated an average of 74 working days lost to *bandhas* in the past year; and 68 percent of business respondents cited *bandhas* as the main obstacle to doing business. A day-long *bandha* can disrupt access to raw materials and markets, in a way that takes businesses several days to recover from.

Businessmen and service providers said such activities hampered their work and caused huge losses. Similarly, they mentioned that such closures and strikes affect daily wage earners even more. They were also concerned about disturbances created in schools and colleges. Price hikes, scarcity of basic commodity goods and loss of jobs were common outcomes of the *bandhas*. They also felt that such day-to-day strikes and closures would have long-term effects on the country's economy. A 40-year-old male businessman from Morang said: In the course of one year, I think I had to close down my shop for about four months as sometimes *bandhas* were extended for 15 days. I had to bear a big loss.

Source: International Alert and Interdisciplinary Analysts (2009, report forthcoming).

Past attempts by Chambers of Commerce in districts such as Jhapa and Chitwan, to declare the area a “*bandha*-free zone” were not successful. Indeed in a vicious cycle, economic actors themselves feel forced to engage in the same types of protests in order to raise grievances.⁷⁴ Clearly, any one actor will not be able to address these thorny issues. Consensus therefore needs to be found at the centre and within districts to ensure that legitimate political and economic grievances can be raised and addressed without paralysing economic activity through proliferating strikes and road blocks.

The Government has made some efforts in the past year to address insecurity challenges for businesses. In industrial and urban hubs such as Biratnagar, Birganj, Pokhara and Kathmandu, the police have responded to security threats against business and industry by installing Control Room Vehicle (CRV) systems, which allows the police to respond immediately to emergency calls from within urban areas and along major highways and industrial corridors. This system is having some positive impact, according to police sources in Morang.⁷⁵ There have also been discussions in the capital regarding the need to establish a more formalised “Industrial Security Force” to ensure safety and security in industrial corridors. This is a positive step from the point of view of improving the security situation for private-sector actors, however, care needs to be taken to ensure that basic standards for recruitment, due diligence and training are met.⁷⁶

4.6. Poor labour relations

Businesses complain that labour rules and regulations are prohibitive and do not incentivise them to create formal-sector jobs. For example, retrenchment of workers requires prior government approval, providing an opportunity for corruption by government officials, according to some.⁷⁷ At the same time, actual implementation of labour laws appears weak: managers responding to a recent ILO enterprise survey admitted that only 42 percent of their workers had permanent status at all; this seems to indicate that companies do find ways around stringent labour laws.⁷⁸ Businesses are also cautious of trade union activity in their premises, which are seen as hugely politicised and increasingly militant under rising Maoist influence over the last two years through the All Nepal Federation of Trade Unions (ANFTU).⁷⁹

Meanwhile, trade unions and civil society activists criticise, among other things, the poor working conditions prevailing in many companies, non-payment of minimum wages (40 to 50 percent of

formal enterprises are estimated to not pay the minimum wage)⁸⁰ and lack of social security for workers. The outsourcing of work to labourers from India is a major factor fuelling labour unrest in much of the Terai region. Whilst employers argue that the skilled labour they need is simply not available in Nepal, trade union leaders argue that employing non-Nepali nationals is a way for businesses to avoid paying the minimum wage. Although there is probably truth in both arguments, it is clear that businesses in much of this region must be seen to make a more concerted effort to train and employ local labour if community-business relations are to improve. For the moment, this “blame game” persists.

There are efforts, for instance by the ILO, to facilitate tripartite social dialogue between policy-makers, employers and employee representatives to address what are effectively shared problems. However, the required leadership and consensus-based policy-making, as well as the ability to overcome divisions among and between all three sides, appears to be lacking currently. For example, in late 2008, the government unilaterally fixed the minimum wage of unskilled workers at Rs. 4,600, semi-skilled at Rs. 4,650, skilled at Rs. 4,760 and highly-skilled at Rs. 4,950 per month, to great applause from unions. The business community protested this move, with the FNCCI warning that it would not be able to implement this wage increase ‘in a unilateral, and unscientific manner without considering the situation of industries’.⁸¹

At the time of writing, at least 500 industries based in the Sunsari-Morang Industrial Corridor were forced to shut down due to supply constraints resulting from transport strikes and blockades imposed by labourers protesting the lack of implementation of the new minimum wage. According to one businessman, this has left only 2 percent of factories operational, and cut production by 90 percent.⁸² Effectively, a situation has emerged over the last 2 years where strikes have become ‘the first, not the last option’ for trade unions, leading one commentator to opine that ‘it might, therefore, be no exaggeration to suggest that, since 2006, Nepal has moved from an armed conflict to a political conflict with a significant industrial relations component’.⁸³

Development of effective multi-stakeholder partnerships in the management of labour relations is essential to achieving sustainable economic recovery and addressing wider conflict dynamics. This will require genuine “give and take” on both sides: businesses will need to show their commitment to ensuring labour rights; while trade unions need to come to the conclusion that to serve their members well, they need to be less politicised. These types of discussions will require able and technically qualified facilitation by a third party that is acceptable to all sides.

5 Government and donor responses

Past and current policies and plans in Kathmandu, both relating to the peace process and economic development, reflect differing emphases on the links between economic recovery and peacebuilding. This section reviews both the way economic issues are dealt with in several political agreements; and vice-versa, how far economic development plans address potential conflict risks. Perceptions from the district-level on some of these issues are included in both.

5.1 Economic challenges for the peace process

Despite the centrality of socio-economic issues to the Maoist agenda, and strong rhetoric around them, they received relatively little attention during the peace process and were mostly sidelined by political issues.⁸⁴ In the Comprehensive Peace Agreement, they are only raised in the most generic terms, including:

- Efforts to ‘end all forms of feudalism’ (Art. 3.6) and a process of ‘scientific land reform’ (Art.

- 3.7)
- The promotion and protection of ‘national industries and resources’ (Art. 3.8), coupled with ‘support to investment in industries, trade and export promotion in order to increase opportunities for income generation by ensuring professional rights of the laborers’ (Art. 3.13)
 - A rights-based approach to citizens’ health, education, housing, employment and food security, and provision of ‘land and other economic protection to landless squatters, Kamaiya, Halia, Harwa, Charwa and economically backward sections’ (Art. 3.10)
 - Strict punitive measures against individuals who have been ‘amassing properties by means of corruption while remaining in government posts’ (Art. 3.11)
 - A shared development plan and vision that can ‘make the country developed and economically prosperous, at the earliest’ (Art. 3.12)

Relegating substantive discussions on economic issues to “second place” after political ones during the negotiations was seen both as a way of pre-empting any fundamental disagreements between the parties over contentious issues to avoid failure of the negotiations; as well as a way of ensuring that no rifts would emerge within the Maoist movement over the degree of economic realism required in, for example, strengthening the domestic private sector, previously viewed as the “class enemy”.⁸⁵

5.1.1 Immediate post-conflict priorities

The subsequent Interim Constitution of January 2008, and the “Common Minimum Programme” (CMP) agreed to by the governing UML, CPN(M) and MJF parties in August 2008, reflect similar priorities to the CPA. The CMP further mentions reconstruction of war-damaged infrastructure as an immediate priority; the control of price hikes; and waiving loan repayment for conflict- or disaster-affected people as well as small-scale farmers and cottage industry entrepreneurs, among other socio-economic points. The CMP also for the first time explicitly raises the issue of working with the private sector: ‘financial and development-related activities, in partnership and with the participation of the private sector, [shall be] implemented based on the principle of people-oriented welfare and a nationally independent economy...the state, cooperative and private sector shall all play a coordinated role’, even mentioning foreign investment in strategies sectors like hydropower.⁸⁶

5.1.2 Sectoral priorities

Sectorally, the CMP refers to ‘the development of agriculture, hydropower, tourism, human resources and physical infrastructure...[and] the industrial, banking, financial, transport and communication sectors shall all undergo extensive and simultaneous reform’. “Industries in crisis”, small-scale and cottage industries, as well as investment in marginalised regions and communities are also mentioned as priority areas for investment, also with a view to balancing out disparities between rural and urban areas and different development regions.

5.1.3 State restructuring

Discussion of these economic issues in the near future will be framed, and to some extent overshadowed, by another central aspect of the peace process, namely “progressive restructuring of the state” that is envisioned both in the CPA (Preamble, and Art. 8.4), and the Interim Constitution (Art. 138). Following public consultations, the final form of the state is to be decided by the Constituent Assembly and implemented by the Ministry of Culture and State Restructuring. The existence of different bodies with multiple objectives to address these issues in both the executive and legislature is, however, only stalling the process as parties fight over control of the mandate.

Demands to restructure the state along federal lines are rooted in historical marginalisation of different regions and their ethnically-defined populations.⁸⁷ Critics of ethnic-based federalism argue that it will strengthen demands for secession, entrench divisions rather than ensure more rights for previously marginalised groups, and create ‘minorities within minorities’, as Nepal’s

regions, though some dominated by some ethnic groups, are ethnically diverse.⁸⁸ Promises of ethnic and regional autonomy to address past injustices were central to Maoist mobilisation and ideology, including past proposals of 9 regional autonomous states based on “ethnic majorities” in those regions.⁸⁹

While political discussions on the extent of self-rule (ranging from limited autonomy to complete self-determination), and precise geographic organisation and numbers of federal entities remain highly polarised, what is clear is that federal restructuring will have a huge bearing on economic activities within, and between, those entities. There are several economic issues with implications for post-conflict economic recovery, and peacebuilding.⁹⁰ These include:

- Ensuring a degree of social equity and inclusion in economic opportunities *within* federal sub-units;
- Ensuring that stark economic inequalities and imbalances *between* federal units do not get further exacerbated and are in fact balanced out; strengthening integration, rather than further fragmentation, of regional markets and economic exchange;
- Ensuring economic and fiscal viability of each sub-unit; and
- Managing balanced revenue collection and sharing between sub-units.

According to one study,⁹¹ 81 percent of government revenues in 2004–05 came from four districts alone (Kathmandu: 42 percent, and the three Terai districts of Parsa (24), Morang (8) and Rupandehi (7)); 94 percent of revenues was provided by a total of 12 districts; and the remaining 63 districts provided only 6 percent of total government revenue. The creation of federal units, finally, does not imply that local government will automatically become more representative and responsive to local needs; the elite hold on power may simply shift from the centre to the local level.⁹² At the district level, while there are anxieties about the implications of federalism for each locality, there appears to be little informed debate (see Box 10).

11 Potential economic impacts of federal restructuring – District-level perceptions

Interviews with business representatives in Morang and Parsa suggested that there is little clarity on the economic and political benefits or challenges of federalism, let alone informed discussion to influence central debates. When asked about the economic impacts that federal restructuring would likely have, business survey respondents were divided in their opinion: 46 percent felt the impact would be positive, whereas 48 percent feared federal restructuring would have negative impacts. Educational levels had a clear bearing on how respondents felt: the proportion of people who felt that impacts would be positive was highest among educated people (for example, 53 percent of those with a bachelor’s degree, as compared to, 35 percent among illiterate respondents). Clearly, the jury is still out on these issues and they will require much future debate at the district level. Answers may also suggest though that there is not much information to shape or guide opinion-making among the business community as part of such a debate.

Other, non-business interviewees too were divided on issues of increased regional autonomy. Those who said increased regional autonomy was justified felt increased regional autonomy would give every region of Nepal equal opportunity to develop. Such autonomy would end the system of being dependant on the centre, make government services easier and bring progress in a shorter period. A 35-year-old female NGO worker from Morang said, ‘I think that demand for increased regional autonomy is justified because at present people have to travel Kathmandu from different districts for everything. This needs to be changed’. Similarly, a 57-year-old retired male from Morang said, ‘I think increased regional autonomy will improve government service delivery. For example, people pay for water supply in the branch office here and all of the collected money goes to the head office in Kathmandu. If money is needed for any type of maintenance, the branch here will have to request to Kathmandu and disbursement takes a long time. People suffer directly from such delay. This will change with increased autonomy, with every branch being responsible for itself’.

Those who opposed increased regional autonomy argued that it would bring regional divisions in the country. They felt that such autonomy could lead to misuse of local resources, create ethnic conflict, and allow a few politically active groups to take advantage of the situation. A 50-year-old female NGO worker from Morang said, 'I think it will bring ethnic strife in the country. I also think it may lead to misuse of local resources. And there will be a chance of division when disagreement arises with the centre'.

Almost all of the respondents had heard about the proposed federal structure and could differentiate the positive and negative aspects of federal state structure. Decentralisation of power, efficiency in government work, increase in employment at local level, autonomy in development plans, and use of local resources for local economy were some of the positive aspects identified by respondents. Some of them also said that such a type of structure would give autonomy to local political leaders who could play a constructive role in development in the districts.

An increased economic burden was viewed as the major drawback of the system. Ruling the country through smaller units would increase the administrative costs further and this could worsen the economic crisis the country is currently undergoing.

Source: International Alert and Interdisciplinary Analysts (2009, report forthcoming).

5.1.4 Army integration and reintegration of former combatants

Another central question of the peace process that will stand and fall with successful economic recovery and growth with job creation is the future of PLA combatants who are still awaiting a final decision on their fate, mostly housed in cantonments around the country, over two years after the signing of the peace agreement. Recognition of their role in fighting the insurgency and contributing to the overthrowing of the old system, and expectations for reward are high among this group. The Maoist leadership is therefore torn between intense political fighting at the centre over the full integration of PLA fighters into the Nepal Army; and the need to cater to the needs of their fighting cadres and improve their condition, and soon. Regardless of what an eventual multi-party Army Integration Special Committee (AISC) manages to decide at the political level, the reality for many of these combatants is that they have few skills, and in all likelihood many may not want to continue a fighting life but return to civilian status. However stigma may follow them in pursuing alternative economic options. Similar challenges and stigma will likely be faced by other young men currently filling the growing ranks of youth wings of political parties and armed groups. While support will be required on the “supply side”, i.e. up-skilling through training for available jobs; “demand” for their labour needs to be carefully assessed.

Experience from elsewhere shows that businesspeople are cautious about giving already scarce jobs to former fighters, either because they feel they do not possess the right skills and work ethics; or because they see them as potential security threats. In some instances, policy incentives have worked in bringing businesspeople on board for employing former combatants, for example in Colombia or Afghanistan. In other cases, simple family or kinship ties have made it easier for businesspeople to recruit former gunmen to civilian jobs, for instance in Eastern DRC or Somalia. It is therefore important to understand businesspeople's attitudes towards different types of ex-combatants, their willingness to hire them, and what needs and risks they feel they would face in doing so. Likewise, community perceptions and acceptance of initiatives that promote employment for these groups need to be gauged (see Box 12).

12 Business and community perceptions of reintegration of former combatants

207 corporate business respondents to the IDA/Alert survey were asked whether they would “consider employing the following types of people” – with greatly varying responses: 45.4 percent said they would hire former members of the Nepal Army; and 38.6 percent and 37.2 percent, respectively, expressed willingness to give jobs to former members of the Nepali police or Internally Displaced Persons (IDPs). Respondents expressed a great deal less enthusiasm at the prospect of recruiting former members of armed groups, or youth wings of political parties: ex-PLA (15.9); former members of Young Communist League (YCL) (9.2); previous Youth Force members (9.7); Raksha Bahini (11.1); Tarun Dal (9.7). Former members of local armed groups, according to respondents, would find it most difficult to be hired by businesspeople: only 5.8 percent said they would be willing to employ them. Very few respondents meanwhile admitted to knowing of cases of businesspeople having been pressured to hiring any of these groups; the most significant figure here was 4.8 percent who said they had heard of cases of pressure to recruit YCL members.

In-depth interview respondents meanwhile again were divided on the issue of giving priority to employing former members of the Nepali army, police, People’s Liberation Army (PLA), YCL, and local armed groups. Those who felt such priorities should not be given believed that all people should have equal rights to employment and employees should be selected on the basis of skills and qualifications. They felt that giving such priority would mean incompetent people would get jobs. They also stated that giving priority to PLA and YCL would encourage other such kinds of armed groups to demand reservations. A 52-year-old male, Muslim farmer from Parsa said, ‘I don’t think priority should be given to employing certain groups in society whether it’s YCL or Raksha Bahini. There should be fair competition among all and those who have skills and qualifications should be hired. Politically mobilised people should not be given space in the army or police because these two institutions are the most important security institutions of the State’. However, others were of the view that such former members should be given priority while hiring, especially from rebel groups. They stated it would help re-socialise those people. Most of the respondents thought returned Internally Displaced People (IDP) should be given priority while hiring, as this would help in their resettlement.

Source: International Alert and Interdisciplinary Analysts (2009, report forthcoming).

5.2 Peacebuilding challenges for economic development planning

Just as different aspects of the peace process will continue to shape and affect economic recovery; likewise economic development plans in transition periods need to clearly target conflict legacies and future potentials. This requires both backward-looking and forward-looking conflict-sensitive analysis; planning and scenario-building. In this light, this section gives an overview of the current discussions and plans going on at Kathmandu-level; and contrasts them with conflict risks and realities at the district level. Given the fast pace of policy and political developments in Kathmandu, the section can only give a “snapshot” of what is a very fluid context.

5.2.1 Government planning

The Government’s development strategy for the transitional period – the Interim Development Plan 2007-2010 – received Cabinet approval in late 2007. It defines the main challenge at present as building confidence in the state and regenerating a sense of national unity, emphasising economic restructuring and generating growth. Its overall goal is formulated around social and economic transformations that can support the building of a “Prosperous, Modern and Just Nepal”. Reduction of poverty and unemployment, as well as “establishing sustainable peace”, are among the objectives. To achieve these, the Interim Plan strategies are:

- Special emphasis on relief, reconstruction and reintegration;
- Create and expand employment opportunities;

- Increase pro-poor and broad-based growth;
- Promote good governance and effective service delivery;
- Increase investment in physical infrastructure;
- Adopt an inclusive development process; and
- Carry out targeted programmes.

Budgeting

Flowing from these are an ambitious number of policy areas to be implemented during this period; 40 “main policies” alone. Experience from past planning processes and country development plans suggests that the real challenge will lie with allocating the required resources, and implementing the plans through relevant line ministries.⁹³ Indeed the current budget (2008–09), delivered by Finance Minister Baburam Bhattarai to the Interim Legislature Parliament in September 2008, has already generated controversy. At just over NRs. 236 billion (with just over 47 percent allocated to general administration and just under 53 percent to development programmes), it is 45 percent larger than the last budget, with a current net budget deficit of 17.4 percent.

The budget has been variously applauded and derided by different quarters, and received labels ranging from “over-ambitious and over-programming in nature”, “populist”, to “quite bold”.⁹⁴ The absence of elected and accountable leadership to local government structures is a key concern as it leaves these mechanisms unequipped to spend large sums in a manner that is effective and transparent. Another concern is that the government will not manage to attract the required assistance to fill holes in the budget; and that overspending may result in inflation.

Private-sector development

The budget is consistent with many of the economic recovery priority areas identified in the Interim Plan. The government here sees its own role as that of “facilitator” for developing the private sector and the cooperative sector, the “two legs” of the current “transitional economy”. The budget confirms the remarkable transition that the Maoists have made from depicting the private sector as the “class enemy” during the insurgency; to becoming enthusiastic proponents, at least in rhetoric, of industrial capitalism as a pathway to ultimate socialism.⁹⁵

In order to support the development of the private sector, the budget sets ambitious targets of reviewing a series of policies dating back to the early 1990s, including the industrial policy, foreign investment policy, trade policy, tourism policy and passing the current draft Act for Special Economic Zones (SEZ). NRs. 600 million has been allocated in this budget to establish SEZ in Jhapa, Dhanusha, Birganj, Panchkhal, Jumala and Dhangadi. Sectors to be supported include tourism, cement processing, mineral exploration, hydro-electricity, herbal production and processing, information technology and medicines.

Success of these plans, and the likelihood that they will contribute to the consolidation of peace, will critically depend on inclusive approaches to private-sector development. This ranges from reaching out to micro-, small- and medium-sized businesses located outside of the Kathmandu valley; to ensuring that large-scale projects such as SEZ can benefit different types and sizes of enterprises.

Public-Private Partnerships

Public-Private Partnerships (PPP) are presented as the “cornerstone” for accelerating economic growth by which to attract both domestic and foreign private sectors to invest in priority sectors, especially for large-scale infrastructure and hydroelectricity projects. These are: transformation of the agricultural sector; development of water resources; expansion of tourism; expansion and improvement of physical infrastructure; human resources development; and national industrialisation (especially in the mineral- agro- and forestry-based sectors).⁹⁶ (See Box 7 above as one example of a large-scale infrastructure project implemented by a foreign contractor.)

If well-managed, PPPs can be a vehicle both for addressing socio-economic needs of communities, creating profits for companies, and improving company conduct with the right policy guidance from governments (see also the Colombia report in this series; and Box 13 below). However at present, the prevailing mistrust between public sector, private sector and civil society actors will be a hurdle which can only be overcome with careful facilitation of dialogue and discussion between all three.

Foreign investors that do start to invest in the country’s promising sectors, like hydro-electricity, need to be made aware of the country’s complicated social, political and economic conflict history – not so as to scare them off, but to inform their own political risk analysis, and to encourage them to take mitigating steps to avoid “doing harm” in such a fragile context. Outside investment in a conflict-affected country is never neutral; large sums of money, uneven benefits and burdens, and significant changes in people’s lives through “large footprint” investments will inevitably fuel resentment unless good relationships are built between foreign companies and local stakeholders. Effective multi-stakeholder partnerships also need to be built on a clear understanding of different actor needs, strengths and weaknesses, which will determine the likelihood of success, or potential for conflict between partners.

13 Potentials for Public-Private Partnerships: District perceptions

Most of the in-depth interview respondents from civil society groups and general households stated that they were not aware whether or not the government consulted people from the business sector while planning development projects in their district. Indeed, of the 600 business survey respondents, only 13 percent had experience of any development projects (slightly more, 18 percent, among big business respondents). While 71 percent of the 77 businesses that did have development project experience felt the most useful thing development projects could bring was infrastructure, 36 percent thought they did not help them in any way. A worrying 68 percent felt money coming from central government was not spent transparently or accountably at the local level.

When asked about their opinion on who they thought could deliver on investment needs in their community, 71 percent of business respondents turned to central government; only 27 percent mentioned local government, and only 14 mentioned the private sector. There are few expectations it seems from foreign investors (13 percent); local investors (13 percent); or international donor agencies (11 percent).

Respondents representing government offices remarked that the government consulted people from business sectors in seminars and workshops related to development projects. They however agreed that such consultations were not effective. Some respondents also pointed out that only big investors were called in during such consultations.

Respondents suggested that neither the business community nor government or development agencies could bring prosperity to the economy while working in isolation; they believed that all three needed to be cooperative, collaborative and transparent to each other and be accountable to the public to bring changes in the economy of the districts.

Sources: International Alert and Interdisciplinary Analysts (2009, report forthcoming).

14 Public-Private Partnerships in post-conflict

PPPs in post-conflict contexts can take various forms. DCED (2008) identifies different partnership models, and differing modalities:

- Host governments (in this case, Nepal), partnering with host country companies;
- Host governments partnering with multinational companies based in a donor country;
- Donors partnering with a multinational company from the same country of origin (e.g. a German aid agency partnering with a German company for investment in a third country); and
- Donors partnering with host country countries (in this case, the Nepali private sector).

Funding modalities can include:

- Public finance for a private contract;
- Private finance for a public contract; and
- Public risk insurance for private investments.

In several countries, the private sector has also partnered with governments as well as third parties (often civil society organisations or NGOs) in “multi-stakeholder partnerships” to address urgent social or conflict issues, for example providing jobs to ex-combatants. In such cases, the private sector has agreed to take on former combatants into their workforce when the state has provided incentives and a policy environment ensuring good company conduct; and NGOs have provided assistance to the ex-combatants to transition successfully into a civilian working life, for example, through life-skills, psycho-social support and so on. Such tripartite partnerships have played to each actor’s mandate and core strengths (see for example, the Colombia case study in this series).

Donor Committee for Enterprise Development (DCED) (2008). *Private sector development in post-conflict countries: A review of current literature and practice*. Cambridge, UK: DCED.

5.2.2 Donor responses

In the present political context, the prevailing view among donors is that there is no acceptable alternative to working through the state and that improving communications between the government and citizens is a critical first step in strengthening state-citizen relations.⁹⁷ The current donor approach, therefore, aims to help build confidence in the state and in the peace process. In a context of rising expectations, militancy and willingness to use force, with a high potential for increasing instability, donors want to accelerate the delivery of tangible benefits in the short term to ensure that peace improves the quality of people’s lives. Donor-supported activities will, as far as possible, be positioned under the government’s Interim Plan, set within government systems and led by government structures. All non-governmental development actors will have to operate by these principles whereby the government must be seen to be in the driving seat on development and security provision.

At the individual agency level, strategies are currently being revised or updated in light of the political transition and ongoing peace process, at various levels. Broadly, they fall under three headings: (a) Support to the implementation of the CPA and other agreements (both through diplomatic pressure to honour outstanding commitments, and financial and technical support to implementation); as well as support to the CA process; (b) support to “state-building”, including improved service delivery, governance and accountability mechanisms; and (c) increased aid commitments for socio-economic development, in support of the government’s Interim Plan.

Peacebuilding and addressing persisting root causes of conflict are now very much at the core of most agencies’ strategies; the purpose of DfID’s interim strategy for example is ‘to help establish peace in Nepal and lay the foundations for inclusive development’. When it comes to economic development, there is broad agreement that past trends of growth which increased inequality need to be avoided at all costs. The focus therefore is on ways of strengthening “inclusive

growth” through concerted donor support, though with differing emphases and programming priorities.⁹⁸

For this purpose, a DfID-led Task Force on Economic Growth has been set up to coordinate,⁹⁹ including donors but also relevant government ministries, like the National Planning Commission, and reaching out to entrepreneurs from key sectors. To date, the Task Force work has mainly consisted of planning future work and establishing lines of communication with relevant Nepali stakeholders. Among Task force plans is the establishment of a Centre for Inclusive Growth, with the objectives of providing analytical support to inform government decisions; support to a government communications strategy to raise awareness about the need for reforms; and supporting national, multi-stakeholder dialogue on an inclusive growth strategy.

Putting plans into action will require continued commitment to conflict-sensitivity, building on the extensive institutional experience and lessons learnt by development agencies during the years of conflict (see Box 15 below). How far these will shape and be reflected in actual operations remains to be seen.

13 Operationalising conflict-sensitivity – Building on the experience gained during the conflict

According to publicly available documentation, donors significantly changed their aid strategies in response to the evolution of the civil war. In 2001, most donors understood the insurgency as a minor anomaly in a remote part of the country. In many cases by 2003, and in most by 2004, donors understood the serious implications of the war, spoke about the complicity of development assistance in exacerbating the war, and were exploring opportunities to use the assistance they provided to Nepal for mitigating conflict. Members of the “Utstein++” donor group were leaders in this regard.¹⁰⁰

The country assistance plans and strategies of almost all donors, especially those plans and strategies formulated after 2000, include an effort to respond to the conflict. As most of the donor agencies have understood the insurgency as a socio-economic issue, they have tried to address it through their development programming, and in most cases this involves attempting to address the “root causes” of the conflict (seen as poverty, social exclusion and weak governance).

In addition to individual strategies, some groups of donors also developed collective, common strategies. The Basic Operating Guidelines (BOGs) signed by 10 bilateral agencies in 2003, for example, outline a code of conduct signatories commit to following while implementing their programmes, including transparency, fairness in hiring, and rejection of violence or manipulation of assistance for military or political purposes.¹⁰¹ The BOGs were formulated to define the principles and parameters of aid delivery in conflict contexts, including what beneficiaries, but also agencies, can expect. They have been used both to inform operations on the ground; as well as a collective awareness raising and advocacy tool in situations where the “development space” was threatened by conflict or encroachment by conflict parties. These principles were re-acknowledged in 2007 by signatory donor agencies to guide development work even in the post-agreement period, and were also adopted by UN agencies and INGOs. New organisational structures were also set up to deal with conflict challenges: GTZ and DfID jointly established a risk management office (RMO) in 2002 with an overall goal that ‘development continues in conflict areas’ and with the purpose to ‘manage and reduce risk to DfID and GTZ staff and programmes/projects’.¹⁰² Canada and SNV established a similar office in 2005.

Increasingly, over the course of the conflict, donors also met with unprecedented frequency in a number of “coordination” groups and committees. The UN has played a major role in coordination in this regard, including UN Working Groups on key peace process issues. INGOs and NGOs have also worked to strengthen their development coordination, including working together on how to develop coping strategies for building space for development and peacebuilding (e.g., through the Association for International NGOs in Nepal—AIN, and the NGO Federation). Though many meetings

take place, real shared analysis and coordination remains a problem for all sectors.

As the conflict escalated, bilateral donors and the larger INGOs increasingly hired conflict advisors. These advisors typically provided analytical support, managed or oversaw conflict-related projects, and most commonly, provided expert advice on “conflict-sensitising” their respective agency’s development programming. While the function and efficacy of each advisor varied by agency, the recruitment of full-time conflict advisors demonstrated each agency’s increasing awareness of the potential impact of conflict on their development programming. In some cases, it also demonstrated an awareness of the potential of development assistance to contribute to the mitigation of conflict. The analysis and lessons gathered during this time by different agencies on working “in”, “on”, and “around” conflict, today make up a significant body of work.¹⁰³

Often with the assistance of conflict advisors, agencies supported training initiatives on Peace and Conflict Impact Assessments, Do No Harm and interest-based negotiations. As development space shrank, particularly between 2001 and 2003, donors and their implementing partners worked to tailor their programming to ‘respond to the needs of communities’ through “community-driven development” approaches. The rationale expressed at the time was that the more communities that supported the development projects in question, the more they were willing to advocate for the projects with skeptical Maoists.

Source: L. Acharya, and A. Barbolet (2007, unpublished). *From economic growth to conflict mitigation: Lessons from 50 years of donor aid to Nepal*. London: International Alert.

While risks from violence to development programmes and operations will likely become progressively less in the mid-term; the potential for development assistance to “do harm” and fuel divisions and competition, at the centre as well as in districts, remains real and will not diminish. Programming in the post-agreement phase therefore has to reflect this, and consciously build a conflict perspective into each level of design, implementation and monitoring of programmes.¹⁰⁴

In post-agreement contexts, donors should be careful not to revert to “development as usual”, but to maintain institutional, financial and staffing emphasis on conflict-sensitivity and addressing root causes of conflict for as long as it takes to consolidate peace and reduce the risk of a return to violence – from experience elsewhere, this can take up to a decade.¹⁰⁵

Political pressures to “reward” the peace process and disburse large sums of money to send positive signals to the newly established government will pose a further challenge. Donors’ decision to rapidly increase funding following the signing of a peace agreement is consistent with the international experience in post-conflict environments. Numerous reports have highlighted the problems created when donors – pressured to show results in potentially promising environments – increase funding to governments that lack the absorptive capacity to manage the funds and deliver results.¹⁰⁶

In a context like Nepal, where political competition is closely linked to competition over government resources, at the centre as well as in districts, rapidly increased development funding can further fuel this, at times even violent, competition.¹⁰⁷ Additionally, research from other contexts shows that as a country begins to develop its absorptive capacity in the fifth year following the signing of the peace agreement, funding tends to taper off just as a country can make best use of it.¹⁰⁸

6. Conclusions and key lessons

Nepal’s war-to-peace transition illustrates the complex political and economic causes, as well as legacies, of conflict that significantly shape chances of success, both for economic recovery and peacebuilding. Within this context, effective and functioning partnerships need to be

forged between different actors, including business, government, development agencies and civil society. There is now an emerging international consensus that the private sector in particular needs to be brought in to play a central role in economic recovery after war that can support the consolidation of peace, given often weak government capacity, and limited development agency time frames.

This report has reviewed the potentials and obstacles for such collaboration, drawing on opinions and perceptions at the district level, as well as plans being developed in Kathmandu. It explored the combined peacebuilding and economic recovery challenges partners will need to address, situated within the wider context of the ongoing peace process. Throughout the report, conflict-sensitive approaches and lessons were highlighted that can help analysis and planning by economic and private-sector development practitioners, as well as peacebuilders.

6.1. Opportunities for collaboration

The table in Annex 1 summarises the needs, interests, positions, alliances and capacities of key actors to support processes for inclusive economic recovery and peace in Nepal. Many opportunities for collaboration and initiative from these stakeholders have emerged from which lessons can be drawn for planning in Nepal and internationally. These include the following:

Business

- Building on and further strengthening the growing political and public support for business to act as drivers of economic recovery.
- Ensuring that business voices from outside Kathmandu valley are heard in central-level planning and policy-making.
- Supporting business to expand its commitment, knowledge and capacity to develop socially responsible and conflict-sensitive business practices.
- Strengthening the potential of national business federations and networks across 75 districts to build regional trade and cooperation across and between regions.
- Supporting the development of national forums for business to engage with each other and government on economic reform and the peace process.

Non-state actors

- Enhancing civil society understanding of the economic dimensions of peacebuilding, and encouraging and strengthening their participation in relevant debates.
- Supporting opportunities to bring the private sector and civil society together to work for a common agenda of inclusive economic recovery, and to strengthen public access to information on these issues.
- Harnessing positive capacities for tripartite dialogue between trade unions, the private sector and policy-makers through third-party facilitation.

Government

- Generating awareness of the implications for the decentralisation of government for balanced and inclusive regional development.
- Equipping business and non-business members in the CA to play a principled leadership role in formulating the economy-related aspects of the constitution, to ensure that they are in line with peacebuilding needs.
- Strengthening government capacity to undertake conflict assessments to identify implications of all reforms for peace.
- Supporting commitments to build alliances for peace and development between different ministries, the business sector, and other relevant actors.

Donors

- Promoting sector-based, joined-up approaches that promote collaboration between divided groups for inclusive recovery.
- Remembering and applying lessons in conflict-sensitivity from the last five years prior to the peace agreement.
- Supporting a balanced approach to aid delivery to avoid risks of too rapidly channeling all aid via the state without sufficient local government capacity and mechanisms to manage resources.

6.2. Key lessons

Several key lessons emerge from Nepal that can prove instructive for economic recovery policy and programming elsewhere:

- **Contextualise economic development planning within past and present peace process dynamics.** The way socio-economic issues are dealt with during a peace process have a significant impact on “post-conflict” economic recovery. In Nepal, socio-economic issues were at the heart of the conflict. The way they have been addressed during the peace process and transition was determined, not by economic rationale alone, but primarily by the ups and downs of a complex political process and ongoing power struggles at the centre. Economic plans and policy-making will continue to be determined by a country’s post-conflict politics; economic recovery plans and policies therefore require a degree of realism, and indicators for success that reflect this.
- **As strong understanding of economic causes, drivers and impacts of conflict is crucial for prioritising interventions in support of equitable recovery and peace.** Therefore the political economy of conflict and attendant power dynamics must inform post-conflict economic recovery analysis and programming. As is painfully evident, especially in Nepal’s South, “post-conflict” does not mean an end of violence or its causes. Conflict causes and impacts are likely to linger long after the signing of an agreement, with the potential to reignite if left unaddressed. In Nepal, some donors’ strategies reflect this, combining both support to the peace process itself, as well as plans to support priority sectors for inclusive growth.

In addition, as policy-makers and planners begin to grapple with business environment challenges, they need to bear in mind that many factors that present an obstacle to doing business have their roots precisely in the country’s conflict, be that the political conflict at the centre, or the actual decade-long violent insurgency. Political and ideological contestation will continue to form the backdrop to these policy debates, and is likely to come to the fore to block advancement in these areas if ignored. Rushing business reforms, as is suggested by some who see a “window of opportunity” in these post-conflict situations, can therefore result either in new rules and regulations not being applied; or further fuelling political tensions and instability during a transition period.¹⁰⁹

- **Identify and draw on economic development and peacebuilding synergies:** International evidence shows that strongly diversified economies are better equipped to withstand conflict risks than those that rely on a few sectors and are controlled by a few dominant players. This puts Nepal in the high-risk category in terms of its likelihood of returning to conflict. Nurturing small and medium enterprises in support of a diversified economy that is independent of the risks of elite capture is not only an economic development imperative, it can also contribute to peacebuilding – if it is done in a conflict-sensitive way. Economic development policy and planning at the centre therefore needs to be mindful of and reflect smaller actors’ needs, especially those in more remote regions.
- **Building and sustaining constructive relationships should be central to all economic recovery and**

peacebuilding interventions. A multitude of actors, including political, economic and security actors, have a role to play in the complex, post-agreement phase. Government policy-makers, donors and development partners, the private sector, workers, and civil society need to work together effectively to tackle urgent economic and peacebuilding priorities. Nepal illustrates how years of conflict can undermine trust between these groups, both at the centre, and in districts. Therefore effective, multi-stakeholder, public-private partnerships need to be fostered between them, taking into account past dynamics and mutual perceptions often wound up in the wider conflict; their different positions, interests and needs; and their capacities as well as restrictions faced in contributing to equitable economic recovery. In Nepal, burgeoning relationships between the private sector, government, and donors are being developed, however, these need to reach beyond the capital to represent local and regional-level priorities and perspectives.

- **Building bridges within the business community is key.** The “business community” is highly diverse, with different needs and priorities: In Nepal, like many post-conflict contexts that have undiversified economies and young democracies, it is often larger business and economic actors that have access to and can influence government policy. While potentially positive, this group does not necessarily represent the wider private sector, particularly if the image of big business is bound up in conflict-related grievances. In addition, for the private sector to play a concerted role in post-agreement economic recovery, divisions within the business community itself will first of all have to be overcome. Supporting broader and more diverse business networks that can reach out to smaller enterprises outside capital cities and make the linkages between large and smaller businesses between regions will also strengthen this approach. Sectoral analyses can be undertaken to help identify “champions” for recovery and options for engaging them.¹¹⁰
- **A degree of realism is required in expectations of business contributions to economic recovery and peacebuilding.** This is particularly the case in Nepal given how despondent business respondents to the IDA/IA survey were about the future (e.g. 65 percent of business respondents across Parsa and Morang Districts would not want their children to take up their own business). Planners need to be mindful of business perceptions of present and future risk and reflect realism in forecasts when planning for economic recovery and investment. Where companies have grown accustomed to look cautiously towards the future and shield themselves against risk, it is likely that they will remain cautious in their forecasts for a while. As a result, expanding their business or venturing into new sectors is likely to be limited in the short term, a requirement for both recovery and job creation.
- **Support business to recognise their interest and role in promoting social equity and inclusive growth.** While policy debates and plans at the centre reflect the need to reduce horizontal inequalities in Nepal,¹¹¹ business operations and investment decisions are not necessarily guided by this perspective. There is much less awareness among businesspeople in districts of the economic causes and drivers of conflict, for example. Likewise there is little understanding of the ways in which some business practices themselves, like discriminatory hiring, or engaging in illicit or corrupt behaviour, can fuel tensions and conflict. There is a need to illustrate to businesses why it is in their long-term interest to avoid insensitive, exclusionary or illicit practice, and help them tackle attendant risks to themselves and their operations, including through collaborating with others. Likewise awareness-raising is required among the district-level business community and civil society of development and peacebuilding efforts and debates at the centre to stimulate understanding of linkages between private-sector practice, recovery, conflict and peace, and to encourage their participation in efforts at the local level.
- **Conflict-sensitivity is a bottom-line for peaceful recovery:** This requires focused analysis, purposeful design, and explicit steps to reduce conflict risks and identify peacebuilding opportunities in all aspects of economic policy and programming. Donors in Nepal have made great strides in this regard over the past five years, while the government and business sector have also shown commitment to engender such approaches in their work. However,

there are signs of fatigue and even disregard for such approaches now that Nepal is “post-conflict”. What lessons have been learned risk being missed in efforts to stimulate rapid growth and private sector-led economic recovery. Conflict-sensitive approaches, analysis and indicators need to be adapted for this purpose so that Nepal may continue to be a lead country in this regard.

Endnotes

- 1 UNDP (2008).
- 2 Collier (2008).
- 3 This includes for example DFID, USAID, and GTZ.
- 4 See for example Hatlebakk (2008).
- 5 One research planning workshop was held in July 2008; and two research validation workshops were convened, one with civil society and business, and one with donor agency representatives, in November 2008.
- 6 A separate report with detailed survey findings will be published by International Alert and Interdisciplinary Analysts in 2009. Please visit <http://www.international-alert.org/nepal/>
- 7 There are several recent reports that provide a comprehensive picture of conflict impacts and economic development needs across different districts of Nepal. See for example World Bank (2006); and OCHA/WFP (2007).
- 8 Collinson (2002).
- 9 See for example Geiser (2005) on social exclusion of women, Dalits and ethnic groups; and Murshed and Gates (2005) on “spatial-horizontal inequalities” and their influence over the regional distribution and intensity of the armed insurgency.
- 10 For about a century, until 1951, the monarchy was effectively turned into a figurehead, and real executive power lay in the hands of a series of hereditary Prime Ministers from one family (the Ranas). Rana rule ended in 1951, though members of the Rana family continue to be influential in politics, business and the military.
- 11 For analysis of Maoist aims and structure during the insurgency, see Crisis Group (2005).
- 12 Bray, Lunde and Murshed (2003) give a detailed account of economic drivers of the Maoist insurgency, including their various sources of income during the war.
- 13 For an overview of human rights issues relating to the Nepali peace process, see for example OHCHR (2007).
- 14 For a detailed account of the dynamics and different phases of the political peace process, with particular focus on outsiders’ support, see Whitfield (2008).
- 15 The SPA brought together the seven main parliamentary parties: (i) the centrist Nepali Congress (NC); (ii) the breakaway Nepali Congress Democratic (NC-D) – which has meanwhile merged again with the Nepali Congress; (iii) the Terai-based Nepal Sadbhawana Party (Anandi Devi faction); (iv) the left-of-center Communist Party of Nepal–United Marxist Leninist (CPN-UML); (v) the Nepal Workers and Peasants Party; (vi) Jana Morcha Nepal; and (vii) Left Front Nepal. The Rashtriya Prajatantra Party (RPP) and the breakaway Rashtriya Janashakti Party—both previously labeled as “royalist” before the King’s takeover—were not formally part of the SPA, although both parties remained critical of the takeover.
- 16 See Security Council Resolution 1740 of 23rd January 2007. While different sides of the conflict appeared to be broadly in agreement of the important role played by the mission in supporting these aspects of the peace process, it has also been subject to criticism from different camps in the course of its tenancy, some of it due to political point-scoring between parties, some due to more serious concerns about the scale and nature of its operations. The mission had scaled down significantly from its maximum of over 800 staff during the elections, down to 300 at the end of 2008, and its mandate extended three times is due to expire in July 2009.

- 17 For views and analysis by different groups of stakeholders of the current Constituent Assembly and peacebuilding process, see Garcia (2008).
- 18 Adapted from Africa Peace Forum, Center for Conflict Resolution, Consortium of Humanitarian Agencies, Forum on Early Warning and Early Response, International Alert, Saferworld (2004) *Conflict-sensitive approaches to development, humanitarian assistance and peacebuilding: A resource pack*.
- 19 Initially, the judicial panel was asked to probe into repercussions of the agitation in Bara, Parsa, Rautahat, Morang, Sarlahi, Dhanusha, Mahottari, Siraha, Saptari and Sunsari Districts. However, the government extended its mandate to investigate the violent incidents in districts such as Nawalparasi, Rupandehi, Kapilvastu and Banke in February.
- 20 There are 32,250 Maoist cadres registered in 28 cantonments. Of these only 19,692 are eligible to be treated as combatants, according to UNMIN's verification. South Asia Analysis Group, available at <http://www.southasiaanalysis.org/%5Cnotes5%5Cnote478.html>
- 21 In a recent survey, 34 percent of respondents cited price hikes as a major problem facing Nepal, while 29 percent mentioned unemployment and 41 percent cited poverty. Saferworld and Interdisciplinary Analysts (2008).
- 22 "Global meltdown affects Nepali remittance", 16th December 2008, *NepalNews*. Accessed 16th December 2008.
- 23 Chalise, K. "Malaysia not hiring, Qatar bent on firing", 16th December 2008. *The Himalayan Times*.
- 24 See for instance Deraniyagala, S. (2005); and Kishort, S. (2006).
- 25 DfID, Nepal country profile.
- 26 FIAS and SEDF (2007).
- 27 Nepal Central Bureau of Statistics (CBS) (2005).
- 28 Hatlebakk, M. (2008). *Inclusive growth in Nepal*. Bergen, Norway: Chr. Michelsen Institute.
- 29 Bennett (2006). Social reform agendas, led by the Maoists and the development sector, have had some significant impact on social attitudes around caste, ethnicity and race, not least in raising a political awareness that has stimulated an uprising of excluded voices in the aftermath of *Jana Andolan II*. Increased numbers of girls in school, a quota of 33 percent women in parliament, and a reported reduction in domestic abuse in Maoist-controlled areas are a few examples of the practical implications for girls/women. Many of these shifts have been a result, however, of force by the Maoists, or imposition by the development sector. However important, these shifts have not translated into broad and visible changes in gender or other social power relations. Despite changed gender roles due to the conflict and migration, amongst the poorer and more marginalised, little has changed and gender differentials have only widened.
- 30 ADB (2007).
- 31 The recent Commission for Growth and Development (2008) states: 'The Commission strongly believes that growth strategies cannot succeed without a commitment to equality of opportunity, giving everyone a fair chance to enjoy the fruits of growth. But equal opportunities are no guarantee of equal outcomes. Indeed, in the early stages of growth, there is a natural tendency for income gaps to widen. Governments should seek to contain this inequality, the Commission believes, at the bottom and top ends of the income spectrum. Otherwise, the economy's progress may be jeopardised by divisive politics, protest, and even violent conflict. Again, if the ethical case does not persuade, the pragmatic one should'.
- 32 World Bank (2008).
- 33 Alert consultations, Kathmandu, August 2007.

- 34 See for instance FNCCI (not dated).
- 35 According to the World Bank, manufacturing grew from constituting 6.2 percent of the economy in 1987, to 7.7 percent in 2007; and industry’s percentage of GDP grew from 15.7 to 17.2 percent.
- 36 Shakya, S. (2002).
- 37 FIAS and SEDF (2007).
- 38 NLSS (2003).
- 39 GEFONT, cited by IFC. Op.cit.
- 40 Based on the last Nepal Labour Force Survey, carried out in 1998–99, the Asian Development Bank identified that unemployment was highest among rural urban youth at that time, and stood at 12 percent. At the time of writing, a new Labour Force Survey was being planned by the Central Bureau of Statistics.
- 41 IFC. Op. cit.
- 42 Kyaloh (2008).
- 43 Literacy rates for children aged six and above have increased from 23 to 54 percent between 1981 and 2001 (Bennett, 2006).
- 44 According to the National Census of 2001 (the last figures available), the total population of youths within the 15–29 year-old age bracket constitutes 25.9 percent, in the 15–34 year-old age bracket, 31.3 percent, and in the 15–39 year-old age bracket, 38 percent. Most independent youth organisations define “youths” as persons between the ages of 15–29 years; the National Census, however, defines youths as persons between the ages of 15–39 years.
- 45 Alert interview, businessperson, Chitwan, August 2007.
- 46 Nepal Rastra Bank, Economic Report 2006–07. Available at http://red.nrb.org.np/publications/economic_reports/Economic_Reports--2006-07-NEW.pdf
- 47 The National Business Initiative is an umbrella initiative bringing together 14 national business organisations with the purpose of mobilising the business community for peacebuilding. While the NBI has achieved a significant profile, broad buy-in from the business community remains rather weak. See www.nbinepal.org.np. See also Joras (2008) for more of an analysis of the NBI and recommendations for strengthening it.
- 48 Conflict impacts on the private sector are discussed in more detail in Dhakal and Subedi (2006).
- 49 A senior member of CNI, for example, claims that many of these businesses have moved to places like Sikkim, India, which offers incentives in terms of tax breaks for new investors.
- 50 Joras (2008).
- 51 See Crisis Group (2008).
- 52 See, for example, “Business and Politics”, 5th July 2008, *Kathmandu Post*.
- 53 In November 2008, one young MPRF cadre was reported to have been killed, and two injured, in a clash with another Biratnagar-based armed group over a tender opened by Morang District Development Committee. Subsequent MPRF demonstrations over the death led to clashes with local businessmen. “MPRF men enforce Biratnagar shutdown”, 3rd November 2008, *eKantipur*.
- 54 “PM to direct Home Minister to scrap syndicate system”, 1st September 2009, *eKantipur*.
- 55 FIAS and SEDF (2007).
- 56 Ibid.
- 57 A recent joint assessment of conflict impacts across Nepal by the UN Office for the Coordination of Humanitarian Affairs (OCHA) and the World Food Programme (WFP) found over a thousand cases of infrastructural damage across 37 districts (OCHA/WFP, 2007).

- 58 Watson and Crozier (2009).
- 59 Source: Ministry of Peace and Reconstruction, 15th May, 2007. Available at http://www.monstersandcritics.com/news/business/news/article_1304579.php/Nepals_infrastructure_repairs_to_cost_billions_of_rupees.
- 60 With concerted supported from donors such as DfID and the World Bank, the road network has in fact been expanding by an average of 5 percent per year over the last decade; yet the need remains huge, especially in areas difficult to access. World Bank (2008).
- 61 WFP and NDRI (2008).
- 62 The World Bank-funded RAIDP is just one example of an infrastructure project with a community development component. See Bell (2008). For more information on the project, see also www.worldbank.org.np.
- 63 Nepal's electricity supply is largely dependent on hydropower, but there is not enough capacity to ensure a steady supply of electricity, especially during the dry season: the current peak hour demand for electricity is 770 MW whereas the NEA is able to supply only 336 MW. The deficit is managed by enforcing a "load-shedding" system, whereby electricity is only provided at different times of day in different parts of the country according to a pre-determined schedule. As a result, factories and industries are able to operate only 12 hours a day, translating for many into a reduction of their production by half. See Nepal Electricity Authority, http://www.nea.org.np/committee_report/index.php
- 64 *Work to begin on West Seti project*, 7th August 2008, available at http://www.wsh.com.np/press_releases.php
- 65 Ibid.
- 66 Ibid.
- 67 See, for example, www.international-alert.org/latin_america/
- 68 "Businessmen face donation terror", 29th October 2008, *eKantipur*.
- 69 "104 *bandhas* since April uprising!" 16th November 2007, *Kathmandu Post*.
- 70 Though *bandhas* are supposed to be of a voluntary nature, in many instances, they are imposed through the threat of violence. Taxis or cars seen on the road can, for example, be stoned or set alight. Some *bandhas* can be of a volatile and violent nature, with tire-burning and physical confrontations among rival groups and also with the security forces.
- 71 *Bandhas* (or *bandhs* in India) were very effective in India and Pakistan's independence movement in the early 20th century and are still employed today – though with different dimensions and outcomes. They were employed as part of the
- democracy movement in Nepal that led to the 1990 elections and have been a part of the everyday political and economic landscape in urban areas ever since.
- 72 These can include: voicing political claims or grievances; strengthening a particular group's visibility and legitimacy in the public eye (the larger the *bandha*, the more powerful the group calling it will be perceived); smaller road-blocks and shut-downs are meanwhile called for criminal reasons, or to draw public attention on a personal grievance (even domestic arguments have been "taken to the street" in this way); or to claim services from the government.
- 73 One newspaper comments that strikes are enforced for the most "hilarious causes": A couple of weeks ago, kin of a Tharu girl obstructed the Duhabi-Inaruwa section of the East-West Highway in Sunsari District for the whole day after the girl eloped with a boy from a "lower caste". Vehicular movement resumed finally after the local administration pledged to find the girl and hand her over to the family, "In east, strikes go like clockwork", 2nd January 2009, *eKantipur*.
- 74 Ibid. The FNCCI, too, has called general strikes in the past in protest at the

government’s inability to ensure security for businesspeople, protection from extortion, resolution of labour disputes and restructuring of loan repayments. “Over half a dozen injured in Pokhara; *Bandh* affects normal life”. 17th October 2006, *NepalNews*.

75 Alert consultations, July 2008.

76 In the establishment of a potential Industrial Security Force, care should be taken over who gets recruited and their previous record. A clear code of conduct and accountability mechanisms should be established, so that small-scale economic actors and communities do not fall through the “security crack”, or worse, feel threatened or harassed by such a force. The Voluntary Principles on Security and Human Rights, formulated for private- and public-security provision to extractive industry operations, can provide useful lessons here for Nepal. They have been adopted by a number of international companies, and are currently being field-tested in conflict-affected countries such as Colombia.

77 Kyloh (2008), p.46.

78 *Ibid.*, p.45.

79 A detailed account of the rise of the Maoist ANFTU since 2006 and resulting impacts on industrial relations is given in Kyloh (2008). The ANFTU became a formal trade union registered with the Central Labour Advisory Committee in early 2007. The other main Nepali trade union federations are the General Federation of Nepalese Trade Unions (GEFONT), affiliated with the United-Marxist Leninist (UML) party; and the Nepal Trade Union Congress (NTUC), Nepali Congress (NC)-affiliated.

80 Estimates according to civil servants in the Labour Ministry.

81 “FNCCI demands minimum wage revision”, 31st October 2008, *Kantipur Online*. Available at <http://www.kantipuronline.com/kolnews.php?&nid=165139>

82 “500 factories in Sunsari halt operations”, 8th January 2009, *NepalNews*. Available at <http://www.nepalnews.com/archive/2009/jan/jan09/news04.php>

83 Kyloh (2008). *Op.cit.*, p.80.

84 See Wennman (forthcoming 2009).

85 *Ibid.*

86 *Gorkhapatra Daily* (2008).

87 The Nepal Federation of Indigenous Nationalities identifies 61 *Janajati*, or ethnic “nationalities”. More information is available at www.nefin.org.np.

88 A. Regmi, “Hard facts about federalism”, 6th January 2008, *eKantipur*.

89 The proposed autonomous regions were Seti-Mahakali, Bheri-Karnali, Tharuwan, Magarant, Tamuwan, Tamang Saling, Newar, Kirant and Madhesh. See ICG (2005) and Aalen and Hatlebakk (2008b).

90 See also C. Mishra (2008), “Imagining economic federalism”, 19th September 2008, *Gorkhapatra*, English summary of Nepali article, for CMI website.

91 Aalen and Hatlebakk (2008b).

92 *Ibid.*

93 Ref. Shakya in Dixit and Ramachandran (2002).

94 Various commentators cited in Pathak and Horning (2008).

95 Pathak and Horning (2008).

96 Bhattarai (2008).

97 This work is already underway through the Action Plan for a Peace Dividend and the National Portfolio Performance Review Process, though it still has to be finalised and brought to a conclusion. The impact of this work on service delivery however still has to be quantified, and then communicated.

98 Donor programming priorities include: labour market reform (e.g. ILO), rural infrastructure development (e.g. World Bank, ADB, SNV, DfID, JICA, USAID), agriculture development (e.g. DfID, ADB, WB), hydropower (e.g. DfID, JICA and

- WB), tourism development (e.g. SNV), vocational training (e.g. SDC, USAID, ADB), financial sector development (DfID, WB), private sector development (e.g. GTZ, IFC and SNV), business environment reform (e.g. participatory policy reform – DfID and USAID), social protection (e.g. UNICEF), access to finance (e.g. WB and UN), and micro-enterprise development (e.g. UNDP, GTZ, ILO and DFID).
- 99 The main attendees of the Task Force include the ADB, IMF, GTZ, ILO and the National Planning Commission with wider donor membership among WB, IFC, ILO, EC, UNDP, CCO, SDC, SNV, and the Danish, Finnish, Japanese, Norwegian and US Embassies.
- 100 This group included SDC, DfID, CCO, GTZ, SNV, Denmark, Finland and Norway.
- 101 The full text of the BOG is available at <http://www.un.org.np/resources/index.php>.
- 102 DfID and GTZ (n.d.). DfID/GTZ risk management office project document. Retrieved 16th January, 2007, from <http://dfidweb.dfid.gov.uk/prismdocs/ARCHIVE/NEPAL/570005P1.DOC>.
- 103 Examples include Paffenholz (2006) and DfID (2007).
- 104 One example of such transition programming is GTZ's Inclusive Development of the Economy (INCLUDE) programme (2008–10), which builds on previous experience of economic development during conflict (through its Private Sector Promotion Programme, PSP), and includes both peace and economy-related objectives explicitly.
- 105 Collier (2008).
- 106 See, for example, L. Chauvet & P. Collier (2004); M. McGillivray (2005).
- 107 The budget for fiscal year 2008–9 has allocated a minimum of between NRs. 1.5 to NRs. 3 million for Village Development Committees (VDCs) to spend on local development priorities. This is an unprecedented amount of funding, at a critical time when VDCs have been without elected representatives for the past nine years, and most of the VDC secretaries from Terai have been displaced due to threats and insecurity. Therefore, at present, the Ministry of Local Development (MoLD) is preparing guidelines to spend the budget for VDCs; in the meantime, however, public accountability will likely suffer, and there are reports that in recent times, the youth wings of political parties – YCL, Tarun Dal, Youth Force, Rakshabahini – have been using their power to access and utilise the funds for their own purposes.
- 108 The World Bank Group (2007).
- 109 Channell (2008).
- 110 Joras (2008) presents a detailed analysis of the Nepali finance sector and its potential to contribute to peacebuilding.
- 111 See for instance Khetan, R. (2007) "Inclusion in the Realm of Economy", in Aditya, A. (Ed.). *The inclusive state*. Kathmandu: SAP-Nepal.

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Annex 1 – Sample actor mapping: Positions, interests, needs and capacities in support of inclusive economic recovery and peace

1. Business

This includes major national and international business in Kathmandu and local business outside of urban areas, as well chambers of commerce.

Sample positions:

'Parties remain as indifferent towards promoting the private sector as in the past. Industries have not been able to operate smoothly, mainly due to political interference,' (Kush Kumar Joshi, President, FNCCI, ANI, December 2008)

'Politics is responsible for the deceleration of industries. The problems are created by unions linked to political parties' (Padma Jyoti, Chair, Jyoti Group, *Nepali Times*, April 2008)

'Competition in business is one thing but if there is no unity the private sector can't move forward'.- (Radhesh Pant, CEO, Bank of Kathmandu, *Nepali Times*, April 2008)

| Needs | Interests and alliances | Capacities for inclusive economic recovery and peace |
|--|---|---|
| <ul style="list-style-type: none"> • Secure business environment, freedom from <i>bandhas</i>, financial and physical threats • Transparent and effective regulatory environment (for business registration, access to credit, competition control and prices etc.) as a priority to encourage domestic investors as the “first movers” to stimulate recovery • Increased domestic consumer demand (hit by loss of remittances from global economic downturn) • Ability to compete in international market through balanced terms of trade • Judicial recourse against uncompetitive, corrupt or illicit business practices | <ul style="list-style-type: none"> • Big business traditionally aligned with the monarchy and viewed as “class enemies” by the Maoists. • Today, cooperation between big business and Maoists exists as the latter hold most control over stability • Big business interests lie to some extent in addressing exclusion as pressure from the Maoists and “the People” to do so increases • Though big business interests remain politically divided, common cross-party business interests are growing • Small businesses seem less concerned with macro-level labour and fiscal reforms and more in basic security and access to supply and markets | <ul style="list-style-type: none"> • Increased business capacity to support recovery due to evidence of business growth since the signing of the CPA, though predominantly among bigger businesses • Small and informal business engagement in recovery processes still hindered by instability and lack of basic infrastructure • Growing political and public support for larger businesses to act as drivers of economic recovery strengthens their confidence and capacity to act • Growing commitment, knowledge and capacity among businesses to develop socially responsible and conflict-sensitive business practices |

Business cont

| Needs | Interests and alliances | Capacities for inclusive economic recovery and peace |
|--|--|---|
| <ul style="list-style-type: none"> • More favourable business image in relation to role in society • Basic infrastructure and services that enable production, access to supply and markets • Better educated, motivated and skilled workforce • Labour reform that enables competition • Independent and apolitical mechanisms for managing labour and other disputes • Clear and inclusive decision-making process for economic policy within government • Greater cooperation between business and with government on economic reform policy | <ul style="list-style-type: none"> • Business as a whole has an interest in strengthening regional interlinkages (potentially at risk from certain federalism models) • Limited though growing interest among business and Chambers of Commerce to form national common interest platforms • Chambers of Commerce interested in leading the business drive for recovery, while remaining politically independent • Relations being built by the Maoists with international business (formerly “agents of foreign imperialism”) to encourage investment • Stability in Nepal is the key interest among business in the neighbourhood | <ul style="list-style-type: none"> • Capacity to grow the economy is still hindered by centralised and limited regional interlinkages between businesses • Existence of national business federations and networks across 75 districts an opportunity for building regional business trade and cooperation • Development of national forums an opportunity for business to engage with each other and government on economic reform and the peace process • Business membership in the CA provides a direct channel to participate in constitution-drafting and state-building discussions • Indian and Chinese business capacities to invest hindered by poor investment climate • Opportunities for development of South Asia business networks growing |

2. Non-state actors

This includes all actors outside the state such as civil society (including NGOs, trade unions, media, religious groups and so on).

Sample positions:

'We call for the proper recognition of the root causes of conflict that are embedded in the social, political, economic and cultural fabric of the Nepali society and hence, urge for the formulation and implementation of long- and short-term periodic plans that address these root causes in order to help achieve a lasting democratic peace in the country'. (NGO Federation, *Civil Society Forum on Peace, Development and Aid: Civil Society Concerns*, Kathmandu Declaration, February 2008).

'Still feudal production relations are dominant in our society. Thus, the character of Nepali society is a semi-feudal. Sustainable peace, Stability and Class- based inclusive-participatory democracy are three major aspects that GEFONT wants in Nepal. For the prosperous life of working class socialism is must'. (General Federation of Nepalese Trade Unions (GEFONT), Vision Statement).

| Needs | Interests and alliances | Capacities for inclusive recovery and peace |
|---|--|--|
| <p>Civil Society</p> <ul style="list-style-type: none"> • Basic infrastructure and service delivery by government • Secure and safe environment to deliver services and voice demands • Apolitical space to play constructive role in economic reform process | <ul style="list-style-type: none"> • Urban interests largely human rights or service-delivery based • Interests are less clear on other issues. No clear “peace voice” • Despite efforts at coordination, pursuing goals according to specific interest areas, often small-scale rather than bigger picture. • Seeking participation and influence at the political level • INGO interests predominantly development-focused, with increasing focus on “peace projects” | <ul style="list-style-type: none"> • Civil society understanding and ownership of the economic aspects of peacebuilding is not fully matured • Loss of common civil society vision (post-People’s Revolution), fragmentation and lack of collective voice the biggest obstacle to civil society’s capacity to influence economic recovery • Urban elites perceived to have vested interest in “power politics” and not economic policies that affect the lives of communities at large. • Perceived gap and distinction between the private sector and civil society • Opportunities exist to bring the private sector and civil society together to work for a common agenda of inclusive economic recovery and to strengthen public access to information on these issues |
| <p>Trade Unions</p> <ul style="list-style-type: none"> • Clear positions from government on vision for economic reform and social protection • Clearer labour and regulatory environment | <ul style="list-style-type: none"> • The protection of worker’s rights • Individual trade union interests are closely affiliated with those of political parties • Connections do exist with the business community, primarily through labour-related issues and forums, though these are contentious and often hostile | <ul style="list-style-type: none"> • Trade unions have power and capacities to produce good and bad impacts on business, local and national economy. • Mistrusted by business and others as their main interests are perceived to be in staking out access to power • Opportunities for harnessing positive capacities through third-party facilitation and political leadership taking stance on de-politicising their role |

| Identity-based groups | | |
|--|--|---|
| <ul style="list-style-type: none"> Greater control over basic resources and power in geographical area (e.g. the Terai) and nationally (e.g., in government). | <ul style="list-style-type: none"> Expression of identity through access to power and basic resources Moderates have an interest in dialogue with government for access to power through mainstream politics Radical identity-based groups have an interest in keeping their issues on the central agenda, if necessary by violent means and continuing instability Alliances built between some business people, criminal and armed groups as they profit from economies of war | <ul style="list-style-type: none"> Significant capacity for identity-based groups to do harm and/or good for inclusive economic recovery, as without their inclusion, sustainable recovery will be impossible These capacities can be best addressed through generating broad consensus among political players to design a commonly agreed plan of action, involving all the key stakeholder, civil-society and private-sector actors Opportunities exist to encourage business to de-link from any connections with illicit practices that sustain war economies |

3. Government

Includes the executive, legislative and judicial arms of the state.

Sample positions:

'Investments will be increased to accelerate the pace of development through the inclusion of excluded groups, areas and gender in all mechanisms, spheres and processes of development.' (Interim Plan, July 2007, Ch5 p29)

'We are transitioning from a feudal era to an industrial-capitalist era. Our policy is focused on doing away with all the remnants of feudalism in the political, economic and cultural spheres'. (Baburam Bhattarai, interview, *Kantipur online*, 12 January 2009)

| Needs | Interests and alliances | Capacities for inclusive recovery and peace |
|--|--|--|
| <ul style="list-style-type: none"> Local authorities with the legitimacy and capacity to implement decentralised economic policy A unified and joined-up government that can support the conditions for inclusive economic recovery Knowledge of local needs and power dynamics Principled, consensus-based policies for economic reform | <ul style="list-style-type: none"> Maoist political leadership interest to show they can combine leading the country with driving the social, economic and political transformation promised to their cadres and the people | <ul style="list-style-type: none"> Maoists motivated to lead inclusive reform, backed by public support Alliance between Maoists and business strengthens capacities of each to act Decentralisation of government both a potential capacity for more inclusive development, and for greater exclusion and conflict |

| Needs | Interests and alliances | Capacities for inclusive recovery and peace |
|--|--|---|
| <ul style="list-style-type: none"> • Means of prioritising and sequencing economic reform policy and managing public expectations • A legislative that is able to hold government to account and legitimise their policies • Local and national mechanisms for accountability to enable citizens to inform and monitor state policy and practice • Local mechanisms to manage disputes over economic resources • A diverse and robust civil society that can constructively articulate socio-economic needs based on needs and not political affiliation • A robust business sector that can support public-private partnerships • Political parties that can constructively contest and monitor economic reform • Coherent and transparent international engagement | <ul style="list-style-type: none"> • The political opposition has most to lose politically from successful economic recovery under a Maoist government; parties like NC may therefore have an interest in blocking it where possible • The Maoists support capitalist approaches to growth as one step to challenging feudalism • Government priorities include local development, business environment reform, industrial protection, employment and income generation. • Interest among the leadership in increased foreign aid and investment to meet high expectations and a huge national budget • Alliances built between business and the Maoist leadership based on a common interest in inclusive growth • Fragmented interest among 601 CA members due to localization of economic interest and voter base | <ul style="list-style-type: none"> • Government (and business) capacity limited by lack of clarity on common positions and approaches for economic reform • Limited government capacity to deliver conflict-sensitive economic reform • Limited interlinkages in policy between economic recovery and the peace process • CA has some capacity to inform and monitor recovery via committees to address key economic reform issues • Opportunities to strengthen government and civil society capacity to undertake conflict assessments to identify implications of reform for peace via the Ministry of Peace and Reconstruction and peace focal points across ministries – this requires ministerial support • Opportunities to build on commitments to build alliances for peace and development between different ministries and business sector |

4. Bilateral and multilateral donors

Sample positions:

'To sustain poverty reduction, Nepal faces the dual challenges of accelerating domestic growth and sharing this growth more broadly across the population' (World Bank ISN, 2007 p8)

'Nepal’s macroeconomic outlook for the medium term rests heavily on the prospects for sustained peace and political stability'. (World Bank ISN, 2007, p10)

'The current political process in Nepal is full of opportunity, yet very fragile'. (UK DfID, Interim Country Assistance Plan, 2007-2009)

| Needs | Interests and alliances | Capacities for inclusive recovery and peace |
|--|---|---|
| <ul style="list-style-type: none"> • Capital-based macro-economic growth through a democratically elected government • Viable and legitimate government to deliver basic services, social and physical protection • Holding together of the democratically elected political alliance in government • Good record of transparency and human rights protection among government and civil society actors they support • Continued constructive cooperation and engagement with national and local government • Freedom from threats from armed and criminal groups at project implementation level • Robust civil society to hold donors and government to account | <ul style="list-style-type: none"> • Inclusive economic growth, poverty reduction (MDGs), peace and liberal democracy. • The Inclusive Growth Task Force, chaired by DfID, coordinates the work of donors in cooperation with key government and business representatives. • Individual donors have different programming priorities. • Until the finalization of the three-year plan, the priorities of the Inclusive Growth Task Force include: <ol style="list-style-type: none"> 1) Economic policy reform – helping the private sector identify priorities and become an effective constituency for change; 2) Labour market reform and social protection; 3) Migration and remittances. • Widespread support among bi- and multi-laterals to the peace process (e.g. via the Peace Trust Fund, technical support to government and the UN Mission) | <ul style="list-style-type: none"> • With the national development budget largely relying on foreign assistance, aid continues to be crucial to Nepal’s peace and recovery prospects (for good and bad) • Aid commitments have increased post-elections and look strong for the future. • Commitment and technical capacity to support inclusive and conflict-sensitive development is strong. • Sector-based, joined-up approaches that promote collaboration between divided groups offer huge potential for inclusive recovery • Lessons from the last five years should not be forgotten as Nepal remains fragile • Risks also remain with donors too rapidly channeling all aid via the state without sufficient local state mechanisms to manage resources, risking fuelling political destabilisation and violence |

Annex 2 – Survey methodology and sample

1. Methodology

Questionnaire Formulation

A pre-coded structured questionnaire was formulated after consulting a wide range of experts (including inputs from various staff at International Alert and Interdisciplinary Analysts (IDA)). A consultative workshop was organised in Kathmandu to share the research methodology and get feedback so as to improve both the methodology and the questionnaire. The questionnaire was first formulated in English, and then translated into Nepali to be administered in the field.

Another open-ended questionnaire was formulated to conduct key informant interviews with individuals and representatives of civil society, government and other community members who have specific insights or experience in business issues. A pre-test of the questionnaire was carried out on September 13th 2008 in Kathmandu and Lalitpur Districts. Based on the feedback gained during pre-testing, the questionnaire was further fine-tuned.

1.2 Sampling Design

Purposive sampling technique was employed in this survey covering two districts of Morang and Parsa. In selecting the respondents who were from the business community in the two districts, the primary focus was on the municipality area and the adjoining VDCs. Thus, though the sample was purposefully selected, the respondents were geographically dispersed throughout the municipality and in the adjoining VDCs.

Various types of business people were included in the sample by employing the quota sampling technique. Out of the total of 600 business people, 205 were from big industry/business, 248 were from small business and 147 were street vendors. All the informants who were interviewed were owners of the business and not employees.

1.3 Fieldwork Management

Field supervisors and interviewers with sufficient experience in survey methods were employed for the fieldwork. Altogether 2 field supervisors (all male) and 10 interviewers (6 male and 4 female) conducted the fieldwork. The fieldwork was conducted between September 18th and September 30th, 2008.

In the selection of field supervisors and interviewers, local people who were well conversant in the local language and culture were given preference. The interviewers were supervised by field supervisors. Training on survey research methods and ethical aspects of research were carried out for all researchers by IDA.

1.4 Database Processing

Data was processed and analysed using the software programmes Visual Basic, SPSS and MS Excel. A data entry programme was created using the Visual Basic software. Legal codes, authorised range check, skip pattern, consistency check and extreme case check systems was developed in the data entry programme.

2. Sample Characteristics

Since the type of business (which is closely related to the scale of the business) has emerged as a main variable in the study, the demographic characteristics are further disaggregated on the basis of these three business groupings. Table 2.11 shows the types of businesses that are included in each of the three broad groupings.

Table 2.1

| Type of business | Frequency | Percent |
|-----------------------|-----------|---------|
| Big industry/business | 205 | 34.2 |
| Small business | 248 | 41.3 |
| Street Vendor | 147 | 24.5 |
| Total | 600 | 100.0 |

Table 2.2

| Legal status | Frequency | Percent |
|--|-----------|---------|
| Publicly listed company | 7 | 1.2 |
| Privately held limited liability company | 52 | 8.7 |
| Partnership | 25 | 4.2 |
| Sole Proprietorship | 301 | 50.2 |
| Co-operative | 3 | 0.5 |
| No legal status | 212 | 35.3 |
| Total | 600 | 100.0 |

Table 2.3

| VDC/Municipality | District | Frequency | Percent |
|-------------------------|----------|-----------|---------|
| Biratnagar Municipality | Morang | 268 | 44.7 |
| Urlabari VDC | Morang | 3 | 0.5 |
| Katari VDC | Morang | 25 | 4.2 |
| Birgunj Municipality | Parsa | 301 | 50.2 |
| Ramgaduwa VDC | Parsa | 3 | 0.5 |
| Total | | 600 | 100.0 |

Table 2.4

| District | All | Big industry/ business | Small business | Street Vendor |
|----------|-------|------------------------|----------------|---------------|
| Morang | 49.3 | 51.2 | 48.8 | 47.6 |
| Parsa | 50.7 | 48.8 | 51.2 | 52.4 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 |

Table 2.5

| Residence | All | Big industry/ business | Small business | Street Vendor |
|-----------|-------|------------------------|----------------|---------------|
| Rural | 9.2 | 19.5 | 2.0 | 6.8 |
| Urban | 90.8 | 80.5 | 98.0 | 93.2 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 |

Table 2.6

| Sex | All | Big industry/ business | Small business | Street Vendor |
|--------|-------|------------------------|----------------|---------------|
| Female | 8.7 | 0.5 | 13.3 | 12.2 |
| Male | 91.3 | 99.5 | 86.7 | 87.8 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 |

Table 2.7

| Age group | All | Big industry/ business | Small business | Street Vendor |
|-----------|-------|------------------------|----------------|---------------|
| 18-25 | 19.0 | 10.2 | 23.8 | 23.1 |
| 26-35 | 36.5 | 32.2 | 41.1 | 34.7 |
| 36-45 | 27.2 | 34.1 | 22.2 | 25.9 |
| Above 45 | 17.3 | 23.4 | 12.9 | 16.3 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 |

Table 2.8

| Education | All | Big industry/ business | Small business | Street Vendor |
|------------|-------|------------------------|----------------|---------------|
| Illiterate | 8.5 | 0.0 | 3.6 | 28.6 |
| Literate | 14.0 | 2.9 | 10.9 | 34.7 |
| Primary | 10.7 | 4.4 | 11.7 | 17.7 |
| Lower sec. | 10.5 | 6.8 | 11.3 | 14.3 |
| Sec. | 2.0 | 2.9 | 1.6 | 1.4 |
| SLC | 17.3 | 18.0 | 26.2 | 1.4 |
| Inter. | 18.5 | 28.3 | 20.6 | 1.4 |
| Bachelor | 18.5 | 36.6 | 14.1 | 0.7 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 |

Table 2.9

| Ethnicity | All | Big industry/ business | Small business | Street Vendor |
|----------------|-------|------------------------|----------------|---------------|
| Hill Caste | 18.7 | 25.4 | 22.2 | 3.4 |
| Hill Ethnic | 2.7 | 2.9 | 2.8 | 2.0 |
| Hill Dalit | 0.8 | 0.5 | 0.8 | 1.4 |
| Newar | 5.8 | 8.3 | 6.9 | 0.7 |
| Madhesi Caste | 53.0 | 49.8 | 55.2 | 53.7 |
| Madhesi Ethnic | 7.5 | 6.3 | 4.0 | 15.0 |
| Madhesi Dalit | 5.3 | 3.4 | 0.8 | 15.6 |
| Muslim | 6.2 | 3.4 | 7.3 | 8.2 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 |

Table 2.10

| Ethnicity by origin | All | Big industry/ business | Small business | Street Vendor |
|---------------------|-------|------------------------|----------------|---------------|
| Non-Madhesi | 28.0 | 37.1 | 32.7 | 7.5 |
| Madhesi | 72.0 | 62.9 | 67.3 | 92.5 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 |

Table 2.11

| Big industry/business (205) | Small business (248) | Street vendor (147) |
|------------------------------------|-----------------------------|---------------------------------|
| Hotel and lodge | Medicine Shop | Cloth Seller |
| Departmental store | Grocery Shop | Shoe Maker |
| Co-operative | Cosmetic Shop | Watch Shop |
| Manpower Office | Hardware Shop | Tea Shop |
| Transport | Electric Shop | Goods Seller on Cart |
| Travel agency | Pan-Bidi Shop | Chatpate Seller |
| Factory | Stationery Shop | Stove Maintenance |
| Mill | Bhatti | Corn, Peanuts, Cigarette seller |
| Press | Fruit & Vegetable Shop | Poster seller |
| Solar Company | Sweet Shop | Food seller |
| Hardware Supply | Tailor | Vegetable seller |
| Auto Parts Supply | Cloth Shop | Herbal Medicine seller |
| Dairy | Ice Cream Parlor | Key seller |
| Grill Industry | Bakery Café | |
| Jewellery Shop | Cyber/PCO | |
| Tent House | Pool & Snooker House | |
| Recording Studio | Gift Shop | |
| Motor Workshop | Meat Shop | |
| Insurance Company | Barber's Shop | |
| FM Company | Fancy Shop | |
| Finance Company | Restaurant | |
| Medicine Wholesaler | Shoe Shop | |
| Boarding School | Beauty Parlour | |
| Nursery Firm | | |
| Nursing Home | | |
| Distillery | | |

