

**Donor Approaches to Risk
in Fragile and Conflict Affected States**

Case Study: Nepal

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Introduction

This case study on Nepal will feed into an OECD/INCAF report on Donor Approaches to Risk in Fragile and Conflict Affected States. The study aims to provide country level evidence on the approaches used by donors in risk assessment and management. Research for this case study was conducted by Adam Burke of The Policy Practice. It was funded by DFID. The opinions and time offered by all those interviewed in Nepal as well as the support from INCAF and DFID are deeply appreciated.

The study is based on extensive background reading, interviews carried out in Kathmandu during the week of 18 March 2013, and subsequent discussions by email and telephone. The interviews were mainly directed at multilateral and bilateral donor agencies, but also included discussions with NGOs. With many aid agencies operating over a long period of time, Nepal offers a wealth of experience on development in conflict-affected areas and on peacebuilding. Many reviews have been carried out of specific initiatives and of the wider context.

The main risks that are identified reflect the current post-conflict context, characterised by unstable politics and low-level unrest rather than overt war. Management of ongoing security risks is still necessary, although the wider challenges encountered when trying to support the ongoing peace process through development work emerged through interviews as a still greater concern.

This case study is divided into two parts. The first part discusses broad donor responses to risk in Nepal. This includes a profile of main types of risk confronting donors in Nepal, analysis of how these risks are reflected in donor programming, and explanations of these responses to risk. The second and more substantial part discusses practical approaches to risk management observed in Nepal. Four approaches are highlighted in this case study including: (1) grounding strategy in an improved understanding of contextual risks, (2) conflict sensitive programming, (3) use of specialised services for risk management, and (4) use of country systems.

Part 1 – Donor Responses to risk

1.1 Risk Profile

Nepal is undergoing a protracted post-conflict period characterised by political instability and some continued violence, although at a vastly reduced level when compared with the decade of conflict leading to the Comprehensive Peace Agreement of 2006. International bodies have played an important supporting role in the gradual transition to peace.

The years of intense conflict caused serious loss of life, injury, and displacement. They led to widespread human rights abuses and hindered economic opportunities across the country. They also led to a new national political system and raised the prominence of the plight of many excluded groups within Nepal's diverse population. The conflict was not as devastating as some other civil wars - many institutions survived and Nepal's economy grew a little faster than the rate of population growth even during the conflict years.

In the post-conflict period, identity-based tensions gained in prominence. Protracted political stasis has meant that the country is following an interim constitution. Political parties and other sources of authority (the civil service, the army) are often dominated by a small number of individuals, who do not represent a cross-section of society and who consolidate their power around informal networks that stretch to the grassroots. Continued political instability seems likely in the near future. Most informed observers are optimistic that a return to full conflict now appears relatively unlikely, although smaller-scale problems including possible outbreaks of factional or political violence and rural lawlessness are likely to persist.

Using the categories of the Copenhagen Circles the following table identifies and comments on the key risks faced by donors operating in Nepal.

Contextual risks	
Political risks	Donors risk placing too much confidence in post-conflict transition. Post-conflict agreements and enthusiasm over a transition mask entrenched challenges of building a legitimate and inclusive state that require longer-term perspectives. There are considerable risks accompanying the inclusion agenda that some donors have promoted in response to continued inequalities and their link to violent conflict.
Conflict risks	Risk of ethnic / identity tensions escalating further. Risk of a violent backlash against social reforms promoted by donors. Tackling background causes of conflict including inequality and social exclusion is extremely challenging. Donor promotion of social inclusion has led to a sharp response from some interest groups.
Risk of failure to accelerate development	Despite continued economic growth, major developmental needs remain. Efforts by donors to reduce poverty face a range of challenges including fiduciary risks and a lack of authority and legitimacy within a still-fragile government. Donors have been frustrated by low disbursement rates. There is a risk that efforts to accelerate disbursement will cause aid agencies to

	overlook conflict sensitivity measures and not to tackle persistent root causes of conflict.
Programmatic risks	
Risk of programmes not achieving objectives	Donors have tended to prioritise poverty reduction, which can support broader peacebuilding aims, but there are some inconsistencies. A poverty reduction focus may cause donors to neglect regions, sectors and ways of working that are most valuable from a peacebuilding perspective.
Risk of doing harm	Donor attention to conflict sensitivity may decline as the immediate threat of conflict recedes. There is a risk that donors will ignore underlying tensions.
Institutional risks	
Security risks	Donors are not operating in a context of acute, ongoing violence. Security incidents are low and access good, with few recent attacks on aid personnel. However, security problems remain a constant threat in the post conflict era. ¹
Fiduciary risks	Fiduciary risks are judged to be high when working with national partners, both state and non-state actors, at local and national levels. Many programmes experience harassment and extraction of unofficial payments.
Reputational risks	Reputational risks include the high international profile of corruption and of human rights issues in Nepal. Within Nepal, reputational risks have been generated through perceptions that donors are importing inappropriate models, undermining existing elites and high-status groups, and fomenting unrest by pushing social reforms to tackle inequality.

1.2 Observations of donor responses to risk

Foreign aid agencies have a long history of involvement in Nepal, and play a substantial economic and political role. In recent years foreign aid has provided around 5% of GDP, equivalent to 20-25% of government expenditure, and more than half of government capital expenditure. Just over half of aid is allocated to the social sectors (health and education), but there is also significant aid spending on economic infrastructure and productive sectors (see DAC statistics in annex 1). Funds are often provided through both international and national NGOs. However, a notable feature of Nepal is the relatively high use of country systems when compared with other conflict-affected countries. According to the 2010 Paris Declaration Monitoring Survey 62% of aid uses national public financial management systems (indicator 5a) and 35% uses national procurement systems (indicator 5b). These are the highest ratios for any of the case study countries. However, use of country systems in Nepal has fallen somewhat since 2007 when the respective ratios for indicators 5a and 5b were 68% and 56% respectively. Donors have made significant progress in promoting coordination through common donor

¹ The Insecurity Insight SiND database records only one incident of kidnapping and five incidents of threats to aid agencies in 2009. www.insecurityinsight.org. The Aid Worker Security Database records no security incidents in Nepal between 2009 and 2013 <https://aidworkersecurity.org>. Prior to 2008 security incidents were more serious and common.

forums, as well as pooled funds including sector-wide approaches in education and joint programming on public financial management.

One problem with aid delivery in Nepal has been the experience of low disbursement rates. This has particularly affected multilateral lenders who provide resources directly to government.² This problem is partly explained by political instability, resulting delays to government planning and budget cycles, and concerns about accountability and transparency.

Many donors have taken a relatively forthright stance in supporting domestic promotion of social inclusion and social change in Nepal, which some commentators regard as risk taking strategy. This approach has proven risky for some donors who have faced an elite backlash against their role in promoting social reforms (see box 2). Regional and ethnic unrest has also raised awareness of the sensitivity of these issues. Donors have faced local reputational risks, including accusations of external interference and fomenting tensions and vision in Nepali society. Consequently, donors have somewhat modified their approach. Some agencies continue to promote the inclusion agenda, but in a more sensitive and low profile manner. Others are moving towards a more conventional development approach, with some modifications in response to concerns over conflict sensitivity.

1.3 Explanations of donor response to risk

Donors' stance towards risk is shaped by historical factors, and their long engagement in Nepal. Before the conflict Nepal was not regarded as a fragile state and the aid architecture and programming developed around arrangements commonly observed in more stable countries. The existence of a moderate level of government capacity enabled the use of country systems for aid management. Throughout the conflict period, donor governments gradually shifted, accompanying what remained a broadly pro-government position with pressure over human rights and concern over security.³

After the Comprehensive Peace Agreement was signed in 2006, donors and the UN provided assistance for the peace process. It became possible to back a domestically agreed agenda in support of inclusion and tackling inequalities, limiting the risks associated with this progressive approach to addressing some of the root causes of conflict. However, over time, gaps between the donor perspective and Nepal's political reality have become apparent. Promotion of human rights has probably limited contraventions through domestic monitoring and international attention, but the main steps associated with the Peace Agreement, the establishment of commissions to investigate disappearances and to promote truth and reconciliation, have not made progress. Donors were able to support initiatives promoting inclusion, however, through non-governmental and governmental channels.

² Prem Kamal, *Nepal needs strong institutions to tackle corruption*. Republica, Kathmandu, 21 March 2013. http://www.myrepublica.com/portal/index.php?action=news_details&news_id=51846

³ See for example Call and Cougel (2012:41)

Donors were able to take on challenging issues in Nepal. They were able to support domestic agendas in alignment with aspects of a domestically agreed peace process. Many donors and the UN maintained some political influence given their level of financing and 'like-mindedness' on issues including social inclusion and human rights. It is also important to note the longstanding, but increasing role of non-traditional donors in Nepal, including India and China. China, for example, has announced major commitments to Nepal in excess of most OECD donors for hydroelectricity and other schemes.⁴ India remains significant across many fields. .

There are several explanations for many donors' promotion of social inclusion and empowerment in Nepal. First, this relates to a reassessment of donor engagement prior to the conflict. For example, a strategic conflict assessment carried out by DFID in 2002 suggested that donors were inadvertently channelling aid in ways that enhanced elite bias and deepened social exclusion, thereby contributing to the continuation of conflict.⁵ Second, the 2006 Comprehensive Peace Agreement included a strong emphasis on promoting principles of inclusion following Maoist demands. While some donors had already begun to shift towards a more inclusionary focus prior to 2006, the Peace Agreement provided strong political backing for a changed approach. This limited the risks to donors because they were in effect responding to national demand and a broadly endorsed framework for peace.

However, with time the risks have become more apparent as elite groups have sought to resist social reforms. There are risks that the inclusion agenda will become diluted as a result of this pressure and the perceptions that conflict threats are receding (even though in reality there is ongoing instability). Pressure to increase disbursement may also encourage donors to adopt approaches that give less attention to conflict sensitivity.

More positively, donors have responded to the protracted nature of the post-conflict 'transition' period characterised by decreasing overall levels of violence alongside continued high levels of instability, little progress towards a permanent constitution, inability to find common ground on critical issues including federal arrangements, and political tensions. Donors universally recognise the risks of failing to support long-term institutional strengthening and transformation. Most of the examples provided in this study are either joint initiatives or jointly financed. This reflects the interests of INCAF in exploring common approaches.

Part 2 – Practical approaches to risk management

⁴ Reuters, 2 April 2012: 'Nepal clears China plan for \$1.6 bn hydroelectric dam'.

⁵ Segal, M (2002) Nepal Strategic Conflict Assessment, DFID

Contextual risk

2.1 Grounding strategy in an improved understanding of contextual risks

Donors have invested significant resources in political and contextual analysis in Nepal. Their analyses tend to follow an unusually politically and socially grounded line, recognising the root causes of conflict in injustice and inequality, as well as weak rule of law and poor security.⁶ Donor analyses have covered both local and national issues. Their studies have proven to be influential. For example, the joint Nepal Peace and Development Strategy draws heavily on studies commissioned by donors.

Donors interviewed for this study emphasised the need for a careful understanding of Nepal's complex and highly personalised politics. Although there are gaps in knowledge, donors display relatively strong understanding of Nepal's diverse, hierarchical and often unequal social structures, more so than in many other case study countries. Their analyses demonstrate considerable understanding of the roots of conflict and its links with wider social and political challenges. They emphasise underlying inequalities along lines of caste, ethnicity, gender, class and geography, and the links with entrenched discrimination that have long limited access to power or economic opportunity.

Donor analyses demonstrate awareness of the personalised and patrimonial character of party politics, and the extent to which political networks have worked their way into all aspects of Nepalese life. The instability and factionalism of Nepalese politics and the growth of identity-based political groups are also addressed, with donors repeating concerns over the fragility of progress to date and the risks of further conflict. Donor analyses have covered both the needs and context of the more marginalised groups, as well as the concerns and potential influence of more privileged groups – higher castes, dominant ethnic groups, and specific institutions including the civil service, the media, and the military.

Donor investment in political and contextual analysis has enabled them to contribute effectively to the peace process. They have effectively supported the Comprehensive Peace Agreement in 2006 diplomatically and with funding, and have contributed substantially to promoting the peace agreement commitments on human rights, democracy, economic development, and inclusiveness. Donors have consistently emphasised the direct links between peacebuilding, political representation, and access to development. In addition to backing specific elements of the peace process, donors have supported the empowerment of traditionally marginalised groups through backing local representative structures and networks, channelling development assistance to them, or working to support more inclusive government structures.

However, as has been the case in many countries, the post-conflict transition in Nepal has been slower and more complicated than expected. While levels of overt conflict have declined, political progress has been slow. Politicians have failed to agree on a constitution and have

⁶ See for example Peace-to-development section at start of the multi-donor strategy, also UN Country analysis 2011 p.17)

postponed elections. Political deadlock has led to the collapse of a series of government coalitions, and led to the perception that self-interest and patronage dominate decision-making in place of the more noble aims of the 2006 agreement. Debate on options for federalism has stoked regional and identity-based tension, feeding into irregular political action including strikes and protests. Ethnic, caste and regional tensions emerged rapidly after 2006, especially in the Terai, further complicating efforts to move the peace process forward. Given the lack of progress on defining new political arrangements, donors have not been able to support decentralised structures as they had previously intended.

Against this background, donors have been criticised for excessive optimism in the period immediately after the peace agreement. There was a tendency to adopt unrealistic programming expectations and to misread the strength of government commitment to reform. However, strong contextual and political analysis enabled donors to adapt their approach quite rapidly, to understand the complexity of transition, and to grasp the reality of continued fragility and uncertainty. Greater realism has followed and most donors have shifted to an extended transition strategy. The UN has been particularly explicit in recognising the extended nature of transition, and has established a UN Country Team Transition Support Strategy (TSS) described in box 1. Most donors have adjusted their approaches, and some general tendencies can be observed. First, donors have maintained a strong focus on security and conflict issues. They have identified emerging threats, including violence in the Terai region, and are looking to address these through programmatic support. Secondly, donors have recognised the threats of confrontational identity-based politics, and have become more cautious in supporting organisations with a strong political agenda (see box 2). Thirdly donors have acted to strengthen monitoring of disbursement through government channels, and have stepped up their support for improved public financial management within specific initiatives, such as the Nepal Peace Trust Fund. Finally, they have also learned the need for better communication of their approach, anticipating reactions from elites and the civil service, increasing public consultation on development projects, and maintaining a lower public profile on issues of particular political sensitivity. Strong contextual analysis has been essential to enable donors to adapt their approach in these ways.

Arguably, donors could have been quicker to recognize the complexity of transition. Although their overall analysis and response has been reasonably strong, there is always scope for improved reading of the country context. With the benefit of hindsight donors might have been able to predict the emergence of problems in the Terai and identity-based politics. One interviewee stated that a closer understanding of local level perceptions and the identity-based appeal of Maoists (for instance in some eastern districts) would have given them a clearer idea of future scenarios. Lessons could also have been learned from the experience of protracted peace processes in other countries where there has been a tendency for conflict to re-emerge in different forms. One interviewee with long-term experience of aid provision in Nepal felt that aid agency managers and advisers have an incentive to accept rather than question government commitments because they can then justify proposed aid interventions. With short job postings of three or four years, donor staff look for short-term initiatives rather than longer, low-profile work that might in the long run be more effective.

Box 1 - The UN Transition Support Strategy in Nepal

The UN system has often been criticised for weak coordination during post-conflict transitions. The UN itself and its member states alike agree there is a need for clearer systems, and a sound conceptual framework linking UN agencies during transition periods. However, while there has been much progress at the policy level,⁷ it has proven challenging to develop appropriate institutional and financing instruments.

In response to these challenges, the UN System in Nepal developed a 'UNCT Transition Support Strategy' (TSS) as a test-case for an improved UN coordination in transition contexts. The TSS identified a set of important services that the UN should maintain for a bridging period and the (mainly human) resources needed to deliver such services. As a result, an integrated Resident and Humanitarian Coordinator's Office (RCHCO) was established in August 2010. The RCHCO comprises four small field coordination offices (FCOs) in strategic locations each staffed with an international field coordinator, a national humanitarian coordination analyst, a national development coordination analyst and some support staff. These provide several functions including: (1) a minimum humanitarian coordination capacity that can be scaled up fast if a crisis strikes (and that is shifting focus from disaster response to preparedness); (2) a peace-building unit that provides coordination support to the peace-building efforts of the UN and beyond; (3) an information management and mapping unit; and (4) a development coordination unit that provides enhanced support to the UNCT's inter-agency planning processes, as well as support to the wider development partner community on coordination and planning. The establishment of Field Coordination Offices has improved the flow of information between Kathmandu and the field.

Box 2 – Donors' role in promoting social change and managing the backlash

⁷ See for example the ['Report of the Secretary-General on peacebuilding in the immediate aftermath of conflict'](#) (June 2009)

In support of the Comprehensive Peace Agreement, donors have played an active role in promoting social inclusion. This has included programmes to strengthen the capacity and voice of marginalized groups, including: training for Dalits, indigenous groups, women and Madhesis, backing local representative structures and networks, support for identity based NGOs, research, monitoring and evaluation on social exclusion, and promoting political dialogue.⁸

Over time the risks of this strategy have become increasingly apparent. Different groups within society have become increasingly vocal and the ambitions of leaders have been translated into the political arena. With proposals for federalism raising the ferocity of debate, regular strikes and protest, national political deadlock, and local level tensions in various parts of the country have been commonplace in recent years. In this context donors have faced increasing criticism that their promotion of social inclusion and democracy is causing continued instability. Donors with vocal positions on social inclusion have been particularly prone to public criticism within Nepal, especially North European bilateral agencies. For some individuals, often members of more privileged groups within Nepal that include influential figures within the media and civil service, donor promotion of social inclusion – and by extension of democracy – is seen as a cause of continued instability.

The example of DFID's support for NEFIN - Nepal Federation of Indigenous Nationalities, an umbrella organisation for many minority organisations – is frequently referred to. In 2011, DFID ceased supporting NEFIN in response to their involvement in enforced general strikes (*bandha*).⁹ From DFID's perspective, the organisation was further destabilising Nepal by engaging in political protests enforced by the threat of violence. From NEFIN's perspective, they were empowering a popular movement of oppressed people by entering the political arena - in the process adopting the same tactics as other parties.

The NEFIN case was widely publicised. It furthered an impression in some quarters that foreign aid agencies were partial in their support, as well as unintentionally contributing to political instability. Other donors have encountered challenges over addressing inequalities. The UN had to engage in long negotiation with the Government in order to secure approval for the wording of its Development Assistance Framework programme document (UNDAF). Discussion of discrimination or intolerance was particularly controversial.

In response to these challenges, donors have modified their approaches to promoting social inclusion. Although donors continue to promote the issue, they have adopted a quieter, behind-the-scenes approach. Donors have become more cautious in supporting organisations with an overtly political and identity based agenda. Donors have also recognised the need to anticipate and manage opposition to social change, as well as provide long-term support to improve government institutions. Most of the criticism of donor policy has been levelled by elite groups, including influential figures in the media and civil service. This may indicate a certain amount of

⁸ Elgin-Cossart, M., Jones, B. and Esberg, J. (2012) Pathways to change: Baseline study to identify theories of change on political settlements and confidence building

⁹ See for example Kathmandu Post (2011) *Supporting bandas costs Nefin dear*. 12 May. <http://www.ekantipur.com/the-kathmandu-post/2011/05/11/top-story/supporting-bandas-costs-nefin-dear/221581.html>

success in challenging the exclusionary practices of elites, and donors recognise the power of these groups to obstruct change, and the need to understand their position. While adopting a lower profile position, donors have also sought to engage in more proactive communication to manage their reputation, dispel myths and build support for inclusive approaches to governance. Generally, they have become more concerned with promoting social change over the long term and cognisant of short term risks to social stability. One interviewee commented:

“We have learned that in addition to social inclusion approach, we need to pay due attention to the needs of restructuring Nepalese oneness or centripetal force to keep this country united.”¹⁰

Programmatic risk

2.2 Conflict Sensitive Programming

Since the signing of the Comprehensive Peace Agreement in 2006, donors in Nepal have sought to promote social inclusion and to build peace across their programmes. This has included direct peacebuilding through a range of inputs including security, access to justice, reintegration, victim support, training for political leaders, and support for local democracy. In addition, donors have established a range of mechanisms to mainstream conflict-sensitive approaches across their programmes:

- The World Bank and the Asian Development Bank apply peace ‘filters’ to all their new projects (Box 3). These link with existing governance tools and the standard social and indigenous safeguards employed across their projects globally. ADB also conducted a fragility analysis for its country programme review.
- The World Bank has merged its Peace Filter with its governance appraisal process. This may encourage a more strategic approach to conflict analysis.
- JICA conducts quarterly Peace-building and Needs and impact Assessments. UNDP works to promote conflict sensitivity in its programme design.
- Some agencies undertake specific steps to monitor outcomes for marginalised groups. Swiss aid projects, for example, have to report on the background of beneficiaries in order to check that they are not unintentionally supporting existing exclusionary practices.

¹⁰ Lessons from elsewhere suggest that supporting advocacy where there are weak institutional response mechanisms can contribute to an escalation of tensions. Indirect approaches may in this context be more successful, supporting inclusion within broader structures that does not unintentionally foster identity-based politics. The case of donor involvement in Sri Lanka shows how domestic opinion can be manipulated against donors for domestic (and often chauvinist) political gain. Aid funding for national NGOs was a particular source of resentment. Aid agencies need to ensure that they avoid falling into a similar trap in Nepal and indeed elsewhere.

- Various donor agencies including the Swiss Government and UNDP promote staff diversity in order to improve their programmes, considering gender, ethnicity, geographical background, religion and caste in recruitment.
- Donor and government social statistics are commonly disaggregated along these variables.
- The UN has developed a detailed checklist of steps to ensure conflict sensitivity within programmes under its Nepal Peace Fund.
- Donors have signed up a set of Basic Operating Guidelines (BOGs) that provide an overall framework for conflict-sensitive practice (See Box 4). These guidelines cover staff security, corruption risks and conflict sensitive programming. There are clear links between these areas. For example, approaches that do not consult key local leaders or deny certain local groups access to project benefits may generate local tensions and place staff at risk. Lack of transparent project management can also encourage tendencies to extort or divert funds.

Box 3 – The Nepal Peace Filter

The experience of the World Bank in Nepal demonstrates some of the challenges

encountered when aiming to mainstream conflict sensitive programming. The World Bank developed a tool referred to as the Peace Filter in 2010 designed to ensure that new projects were conflict sensitive. This took the form of a three-stage process of information gathering (including fieldwork in some cases), analysis, and identification of conflict implications. The filter was designed as a process rather than a checklist.

However, some staff reported that they found little added value in the process given their existing levels of knowledge. The process proved time consuming and conflicted with concerns over low disbursement rates in Nepal. This, combined with the World Bank's global drive to streamline procedures, created pressures to accelerate project preparation and to avoid complicating relationships with the Nepalese government. These led to a decision to merge the Peace Filter with the World Bank's wider governance assessment tools, an approach that could enable more strategic conflict analysis, but may also lead to a dilution of the initial aims of the Peace Filter.

The lessons from Nepal appear to be similar to those found over decades of experience attempting to mainstream gender equality into aid programming. Tools, such as checklists and filters, may add value, but will only work when supported by institutional culture and values. Other agencies, including SDC and the UN Peace Fund stress the importance of adopt more structural measures to promote conflict sensitivity, such as staff diversity policies, the use of disaggregated statistics and prioritising conflict as a high level policy issue.

Box 4 - The Basic Operating Guidelines (BOGs)

Operational Space: The BOGs were introduced in Nepal in 2003.¹¹ Initiated by some proactive officials in bilateral agencies working informally, with the Risk Management office (See Box 4) playing a significant role, there were initially ten signatories to the BOGs.¹² The United Nations in Nepal, the Association of International NGOs in Nepal (AIN) and some other donors initially followed their own codes of conduct. From 2007 one unified set of BOGs has been followed. Seen as a success, they have been used as the inspiration for similar guidance elsewhere. When introduced in Nepal, the armed conflict was limiting operational space for development organisations. The BOGs were developed as a way of keeping operational space open and ensuring the security of staff. They allowed development work to continue by clearly explaining the operating principles to all actors concerned in a clear and comprehensible way. The common guidelines:

- apply strict security principles and Do No Harm criteria
- maintain added-value and best practices of endeavours and efforts
- demonstrate tangible results that justify the presence of development agencies
- adjust methods of working to minimise exposure and risk, e.g. prevent unnecessary mobility
- maintain impartial communication contacts and work through local communities and local Non-Governmental Organisations (NGOs)
- ensure that the positive effects of agencies' presence are highly visible and that agencies are accountable to all stakeholders.

Wider risk mitigation: The BOGs are not only about mitigating security risks. Beyond that, they have become the reference point to explain to all stakeholders the purpose of their development assistance in Nepal. When the BOGs are violated by anyone, including local groups looking to disrupt development activities or capture resources, the signatories have used its principles to develop a common response, which ranged from BOGs advocacy to temporary suspension of development activities.

A coordinating forum: The BOGs also provide a forum for the exchange of opinion, peer reviews, enhanced context analysis and rapid reaction to conflict incidents. Although there appears to be some overlap with the work of other bodies including the UN Resident and Humanitarian Coordinator's Office, duplication is avoided through strong yet informal coordination.

'Town Hall' meetings: In 2013, continued disruption to projects led the small office supporting BOGs to promote improved public participation and transparency. In one case, careful discussion and open negotiation was needed over a poorly communicated and executed decision to place a landfill site on the location of a cemetery, leading to local protests. Public meetings at the local level to explain project interventions and how funds are spent have also helped reduce demands for irregular funding from influential local groups.

¹¹ The guidelines can be found at http://www.deza.ch/ressources/resource_en_24777.pdf or

http://www.eeas.europa.eu/delegations/nepal/documents/eu_nepal/basic_operating_guidelines_en.pdf

¹² The European Commission, Danish International Development Assistance (Danida), Swiss Agency for Development and Cooperation (SDC), Canadian International Development Agency (CIDA), the Norwegian Embassy, the Department for International Development of the United Kingdom (DFID), Japan International Cooperation Agency (JICA), Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), the Embassy of Finland and Netherlands Development Organisation (SNV). The United Nations, Association of International NGOs in Nepal and Australian Government Overseas Aid Program (AusAID) became signatories in 2009, bringing the total number of signatories to 13.

Agencies still need their own risk management: BOGs can only go so far. The BOGs office can support aid agency risk management but concerted engagement requires full-time dedicated staff within each agency who can promote better project planning rather than responding after incidents occur.

Strong principles, unclear practice: BOGs do not explain how to address security risks and have been criticised for sounding too self-righteous, especially in the Nepali language version. The UN Resident and Humanitarian Coordinator's Office has promoted short (3-page) common voluntary guidelines on how to turn BOGs into practice in line with INCAF guidance on risks, although there has been little interest from donors.

Quietly slipping out of sight? As a set of good practice statements, BOGs retain their relevance in Nepal's complex and challenging operational environment. However, various donors stated that they no longer applied them or considered them in their work. There may be a risk that, as the main conflict recedes over time and donors are encouraged to disburse funds fast, some elements of good field practice slip and conflict sensitivity becomes a hollow policy statement.

Requirements for conflict sensitive programming. Donor agencies interviewed for this study identified a number of important principles that are essential for the successful mainstreaming of conflict sensitive programming:

- Conflict sensitivity should inform the overall direction of the country portfolio and sectoral strategies, as well as the design of individual programmes.
- Conflict sensitivity needs to be built into programme design from the outset. Efforts to retro-fit conflict-sensitivity into existing programmes are typically less successful.
- Dedicated staff and budget lines may be required for promoting inclusion and public participation. Otherwise difficult issues tend to fall between the cracks.¹³
- Conflict sensitivity requires donors to engage at both the level of central government and at the field level, in order to build synergies and to maximise the scope to take advantage of arising opportunities in a rapidly changing context.¹⁴
- Flexibility is also seen as important in order to be able to respond to opportunities that develop as politics evolve, both within programmes and at portfolio level
- Donor officials in Nepal emphasised the importance of decentralised operations. This involved shifting authority to Nepal from abroad and to the field from Kathmandu. Aid agencies including GIZ (and DFID through the Risk Management Office), the UN Resident and Humanitarian Coordinator's Office, UNDP, and UNICEF stress the

¹³ Interview with Peter Barwick, UNDP Peacebuilding and Recovery Unit, and others. Similar comments are made elsewhere about gender mainstreaming as well as conflict sensitivity.

¹⁴ This point was emphasized by both GIZ and SDC.

importance of maintaining field offices outside the capital city. Several donors emphasised the need for Headquarters staff to conduct regular and intensive field visits.

- Careful monitoring at the field level is essential to track programme impacts and take corrective actions. Swiss-funded projects include a tool to track spending down to the community level in order to identify recipients. UNDP, UNICEF and GIZ maintain field offices in several rural locations in order to monitor effectively.
- Donors need to recognise the added costs of working in a conflict or post-conflict setting: These include funding extended project design and analytical work, employing Nepali and international staff with the time and skills to understand the context, monitor changing conditions, and build relationships with counterparts; conducting more intensive monitoring with disaggregated statistics; funding operational risk management officers; and supporting enhanced consultation and participation. The Swiss government aid programme to Nepal is an example of an approach that has stressed the importance of these intellectual and financial inputs, with evaluations finding that they add value to their programmes across the board.

Challenges in peacebuilding and conflict sensitive programming. Nepal provides many good examples of conflict sensitive programming, which provide a model for international good practice. However, there are many challenges encountered in translating good policies into actual practice. Conflict sensitive approaches and INCAF guidelines are not universally applied. Interviewees for this research criticised some large recent projects, such as road construction, for failing to undertake conflict-sensitive procedures and exacerbating local tensions as a consequence.¹⁵ Poorly implemented projects that do not conduct adequate consultation and whose benefits are unequally shared among the local population (or bypass the local population entirely) risk aggravating local tensions, stimulating antagonistic political mobilisation and leading to violence.

Many of the challenges experienced in conflict sensitive programming relate to the difficulty of combining pro-poor approaches with peacebuilding. There is a risk that in pursuing a poverty focused development agenda, donors do not sufficiently tailor their approaches to Nepal's specific post-conflict needs. For example, the areas with the highest levels of conflict in the past five years are often not the areas with the highest levels of poverty (see maps in Annex 4). In particular, donors tend to concentrate in upland Nepal while recent tensions have been more prevalent in the more heavily populated lowlands. In other words, a poverty focus and a peacebuilding focus are not perfectly aligned.

¹⁵ *Duane Clifford-Jones*, Basic Operating Guidelines (BOGs) Adviser, mentioned that such incidents are a regular occurrence as sensitivity guidelines are not translated into field practice.

At the local level, for example, international experience suggests that peacebuilding through community programmes is challenging.¹⁶ This is confirmed by the challenges that aid agencies face in Nepal when aiming to improve local political conditions, as well as reduce poverty. While equality, inclusion and justice are important for the long-term sustainability of peace, in practice aid agencies must also ensure that key conflict protagonists also benefit from development in order to maintain stability. This may involve a different set of objectives and interventions that address the interests of relatively more privileged potential leaders (who can act as spoilers and mobilise wider violent responses), as well as the underprivileged. Viable intervention strategies require a solid understanding of local political dynamics.

Aid is often provided through chains of intermediaries and conflict sensitivity practice can evaporate across the links of the chain. Intermediaries include bilateral donors, international NGOs or contractors, national NGOs, government agencies and community groups. While donors may aim to support sensitive approaches that reduce local tensions or otherwise promote peace, translating this across many institutional layers creates challenges. NGOs in Nepal are often informally politically affiliated to a particular party or network. They also often represent some caste or ethnic groups more than others. Working through recipient government mechanisms presents further challenges.¹⁷

Inflexible donor procedures can also work against the principles of conflict sensitivity. Standardised systems, regulations and targets can stymie appropriate and locally devised responses. The limitations of rigid project planning and tight adherence to quantifiable indicators stated in logical frameworks at the design stage of a project reduce the space for aid agencies to respond to need and to plan according to rapidly changing local circumstances. Rigid regulations also impose constraints. For example, UN employment rules that insist on graduate or postgraduate education for staff have unintentionally limited efforts to promote diversity within UN agencies. Positively, one UN agency successfully applied for a waiver from Head Office in order to be able to appoint staff who had solid practical experience and came from diverse backgrounds.

A drive to ensure 'value for money' within donor agencies can further constrain operational scope to promote peacebuilding and conflict sensitivity.¹⁸ Peacebuilding goals including promoting institutional change are hard to quantify and are unlikely to be achieved within the timeframe of any single project. Peacebuilding objectives require longer timeframes, more flexibility, and a willingness to take risks over investments. Working in an unstable environment also demands larger budget lines for monitoring, analysis, and other steps that add to the overall cost of programmes. While it is of course appropriate that aid agencies maximise the results obtained from public funds, approaches that insist on short term targets can lead to

¹⁶ See for example King, E., C.Samii, and B. Snilstveit (2010), 'Interventions to Promote Social Cohesion in Sub-Saharan Africa', *Synthetic Review No. 2*, July. <http://www.3ieimpact.org/media/filer/2012/05/07/SR002%20Final.pdf>

¹⁷ Local NGOs complain about donor 'fashion'. In order to maintain support to realize long-term objectives such as improved protection for human rights or gender equity, they need to revise their approach on a regular basis to comply with changing donor priorities. Continually changing funding guidelines and priorities may usefully respond to donor government policy formulation but does little to the continuity that local bodies need.

¹⁸ DFID is one agency mentioned in this context by interviewees.

narrowly conceived and conventional programmes that ignore longer term peacebuilding and statebuilding goals.

Programmatic and institutional risk

2.3 Using specialised services for risk management

Several donors in Nepal have funded specialist risk management and security mechanisms. A well-known example is the GIZ/DFID Risk Management Office (box 5). This originally provided security advice, but its functions have developed to support conflict sensitive programming more broadly through advice and training. Similar functions are provided by the UN RCHCO, which gathers information on a regular basis through their field offices. Information is analysed in summary reports made available to the public as well as to aid agencies.

The experience of specialised risk management offices in Nepal has generally been positive. However, donors express caution about overly centralising or out contracting security and risk management functions. Aid agencies with operational programmes need available in-house security guidance, and there is a limit to the extent to which functions can be delegated.

Several respondents stated that operational risk management only works when security advice is provided to a high level, feeding into strategic decisions rather than as an afterthought. The UN RCHCO security advisers and other units (such as the unit within the Swiss Embassy) have high-level access to their respective country heads of office.

Donors in Nepal generally cooperate well on sharing information on risk management and security issues. In Nepal, cooperation has been mostly informal, depending on long-term involvement and on good relations between a small group of risk management specialists. There are regular meetings between The Risk Management Office, the UN, some bilateral donors, and NGOs such as the Carter Center and the International Crisis Group (ICG). These meetings are effective because they are kept informal, and involve a small group of people who know each other. When efforts were made to enlarge the group, its effectiveness declined as the resulting formal mechanisms inhibited open information-sharing. Similarly, some overlap between risk management groups is an inevitable result of institutional structures and cannot be solved through rationalising resources into a central body. So long as informal coordination continues, what looks messy on paper may be the best arrangement in practice.

Box 5 GIZ - DFID Risk Management Office

The Risk Management Office (RMO) was established in 2003, with key individuals in DFID (UK) and GIZ (Germany) agreeing to cooperate on a joint operation. Given major conflict concerns including staff safety, the RMO adopted a security-based approach. It has always operated through providing advisory support in response to demand rather than through laying down regulations.

RMO is perceived by its funders' programme staff as delivering well-researched, reliable and timely information and providing valuable training to staff at regional and local level. Gathering and dissemination of information is valued and improves project effectiveness. 24-hour availability to respond to crisis is also appreciated by field staff.

Following a 2008 review, the RMO opened four small regional offices, co-located with existing projects. This has enabled them to reach across Nepal more effectively. The RMO also switched from direct involvement to training, especially for DFID's implementing partners. Over time, RMO staff have moved from direct security advice to support for "Safe and Effective Development", a more holistic perspective that includes steps to limit extortion, maintain neutrality, and build local support for project activities.

The RMO also conducts situational analysis of security and associated political problems, working closely and sharing findings with other bodies including UN offices, bilateral donors and the Carter Center. It conducts these tasks and maintains its field presence at a relatively low cost of roughly Euro 400,000 annually.

Projects delivered through partners sets up a challenge for the RMO over the extent of their responsibility. Duty of care extends to direct staff, but is inevitably diluted when funding is provided through chains of governmental or non-governmental bodies.

RMO staff work with other donors, cooperating through informal mechanisms and sharing information. The RMO supported the initial establishment of the Basic Operating Guidelines (BOGs – see Figure 5). Reviews of the RMO have repeatedly stressed that this level of coordination is appropriate. Effective risk management requires donors to employ their own staff and cooperate collaboratively rather than contracting these functions out. Spreading the RMO's role across more donors would risk diluting its effectiveness given that staff are already stretched. Establishing a single formal coordinating mechanism would risk limiting flexibility and damaging the RMO, as well as other organisations working with the RMO. Trying to manage dual lines of responsibility between DFID and GIZ already creates a complicated yet manageable administrative burden.

Overall, evaluations conclude that the RMO has worked well. It receives positive reports from field workers and management and has adapted over time to changing circumstances in Nepal. Its proactive, politically aware approach differentiates it from more security-minded risk management. Its relatively informal structure, strong knowledge base (both international and national staff), and reasonable running costs make it a valid model to consider and adapt for other countries.

2.4 Use of country systems

Guidance from INCAF and elsewhere commonly stresses the need to strengthen states and to build their responsiveness as part of statebuilding and peacebuilding efforts. Harmonising aid can support and help transform fragile post-conflict government structures. Many aid agencies prioritise support through government channels where possible. This is especially relevant in Nepal, where conflict has declined and yet the state faces persistent challenges. Partly as a consequence of conflict, local and national levels of government have serious limitations that affect their capacity to provide for basic needs, offer security, legal process, and mitigate conflict. Future political and economic progress demands strengthened local authority across Nepal (whatever form of federalism or alternative system is agreed upon).

As discussed in sections 1.2 and 1.3, donors make relatively high use of country systems in Nepal. However, important challenges have been encountered resulting in a decline in the share of donor resources passing through national PFM and procurement systems over the past few years. Donors have been frustrated by low disbursement rates, weak government institutions and politically entrenched rent-seeking practices. Aid practitioners stated in interviews that parallel structures (e.g. project committees and local peace boards) established by aid agencies and NGOs at the local level risk disempowering government structures.

At the same time, working through government systems also generates risks. First, efforts to promote common working or harmonisation run up against barriers when they counter the interests and incentives of individual aid agencies. For example, donor governments at times seek a high profile by attaching their name to prominent peacebuilding activities. This ‘flag-planting’ leads to competition between donor governments over the provision of support for events such as high-level forums or international mediation. It encourages domestic actors to propose steps that will secure resources but may not lead to any change.

Second, public cynicism over foreign aid in donors’ domestic environments, often crystallised by evidence of corruption, can lead to risk-averse programming. This is a common operational risk in all operating environments, especially in conflict-affected states. Aid agencies have received adverse publicity Nepal over various initiatives, for example their support for the Local Governance and Community Development Programme.¹⁹

The need to ensure full accountability of funding given fiduciary risks (i.e. corruption) encourages donors to operate independent financing mechanisms. Many donors continue to work chiefly with international or domestic NGOs partly out of a concern over fiduciary risks. Concerns over resource capture at the local level given the potentially damaging impact on local conflict dynamics encourages aid agencies to operate through directly accountable channels.

¹⁹ The large Local Governance and Community Development Programme operates with both government and donor funds and has attracted adverse criticism over corruption and lack of monitoring. See for example The Economist (2011) ‘Aid and Corruption in Nepal: Low Road Through the Himalayas.’ 31 May.

In this context, a selective and locally adapted approach is the most viable strategy, along with a willingness to accept some risk. Interviewees highlighted the following points as being important in finding ways to work with country systems.

- Flexibility to select the most appropriate operating modality emerges as important. Aid agencies need to select from a wide range of tools and approaches in order to build over time interventions that work. Several donor representatives emphasised the need to use different modalities, from budget support to direct funding for NGOs. Having a varied portfolio enables risks to be managed to some extent, and allows donors to respond to circumstances rather than following international 'best practice'. Reputational risks can be reduced to an extent by positive management of information and public communication.
- Donors have found ways to support accountable local government mechanisms. DFID, for example, is analysing the viability of support at the local level to strengthen and improve local government structures. This is not easy, and ambitions should be realistic given operational challenges including lack of political agreement on local government arrangements, politicised institutions, weak rule of law, corruption, and elite capture of resources.
- A prominent example where donors have supported government-led programs is the Nepal Peace Trust Fund (NPTF) (see box 6).²⁰ Sector-wide work on health systems is regarded as a relatively successful example of coordination to strengthen service delivery in an unstable post-conflict context. Other examples include the common approaches to improve public financial management and the Local Governance and Community Development Programme (which, like the NPTF, is majority government-funded). Where management and financial systems create financial risk, then donors can in cases provide assistance through monitoring (including impartial external monitoring) and technical assistance..
- Interviewees also emphasised the value of funds that are allocated to specific sectors, but are not fully committed to prescribed activities, enabling donors to respond to emerging opportunities within a constantly changing political context. The Nepal Peace Trust Fund was cited as an example of a pooled resource that has been able to operate flexibly. By contrast, some programmes are seen to replicate a global approach rather than respond to locally defined need.²¹
- Donors can support efforts to reduce fiduciary risk in government-led initiatives. An example is the concerted effort made by aid agencies to improve the accountability and

²⁰ The NPTF also coordinates with other funds including the UN Peace Fund for Nepal, a donor-backed pool that UN agencies bid for.

²¹ One negative example given was of a UN program that replicated a global approach to environmental management rather than responding to local need.

transparency of financial management in the NPTF. After initial problems, increased donor inputs have improved the Fund's ways of working. One lesson is that through concentrated inputs and care over institutional and financial arrangements, donors can establish ways to work more closely with the state, while also aiming to minimise corruption or malpractice.

Box 6 - The Nepal Peace Trust Fund

The NPTF is a joint government-donor initiative that is operated by the Nepal Ministry for Peace and Reconstruction (MoPR) to provide support to the on-going peace process. As such it remains unique among internationally established peace trust funds.

The NPTF was established following the Comprehensive Peace Agreement. By 2012 it had funded over 40 projects and had received around US\$180 million, most of it already spent. The Government of Nepal provides around two-thirds of the funding for the NPTF, with donors giving the rest including technical assistance for its operations.²²

It currently funds projects in four clusters: support for former combatants; assistance to conflict affected persons and communities; promotion of security and transitional justice; support to constituent assembly, elections and peace building initiatives on national and local levels. A fifth cluster operates as a cross-cutting theme in the form of reconstruction of public infrastructure damaged during the conflict.

As a peace instrument and post-conflict funding mechanism, the NPTF is tied to the political process – it emerged in response to it. The NPTF operates flexibly, in the context of a protracted political process. It focuses on projects that are demand-driven from government line agencies and bodies.

Donors have an oversight role through the NPTF's management structure. Over time, and given challenges in ensuring transparency, donors have supported more rigorous financial management systems that have given them greater confidence to continue providing support.

Coordination with other peace funds – the UN Peace Fund for Nepal and the World Bank's own fund – has been carried out informally yet relatively successfully, with few complaints over unclear roles, overlapping programs or clashing agendas.

With a strong government lead, donor influence is circumscribed. For example, their reluctance to support payments for former combatants as part of reintegration measures (on grounds of lack of transparency and failure to recognise international good practice) led to a decision to block the use of their funds for the proposed measures. However the government was able to fund these from other sources instead.

Given the need to maintain government authority across the peace process at the same time assuring donors that their funds are being optimally used, the NPTF is a valuable model that could be applied – with adaptations – to other post-conflict environments.

²² Eight donors are Denmark, European Union, Finland, Germany, Norway, Switzerland, United Kingdom and United States of America.

Annex 1 Politics, poverty and conflict in Nepal

Reductions in entrenched poverty, continued inequalities

Nepal is poor by any global comparison. Its Human Development Index rank is 157 out of 186 countries. Its gross national income per capita is US\$540.²³ However, it has made developmental progress over the past two decades, with poverty rates gradually declining. Reasons for the decline include an improvement in government services and infrastructure as well as greater economic opportunities including a significant increase in migration for work in the Middle East, Malaysia, India, and elsewhere.

At the same time as developmental improvements, inequality as measured by the Gini coefficient has risen. This is not uncommon in developing countries during growth periods although it may be more significant in Nepal than elsewhere given entrenched inequalities that are also associated with the roots of violent conflict.

Diversity and unequal opportunities: In 2011, Nepal's population numbered approximately 30 million, with some 80 percent living in rural areas. The Himalayas form a mountainous northern frontier across the nation, with a hilly central area and the flat, fertile and more populous plains of the Terai along the border with India in the south.

The country's varied geography is matched by its cultural diversity: Nepal's census records over one hundred ethnicities, and 59 ethnic/caste groups are represented in the Constituent Assembly. There are about 125 documented languages, with six major ones. It is a multiethnic and multilingual society with numerous variations in ethnicity, caste, language and religion. About two thirds of the population belong to one of the Hindu caste groups, and the remainder comprise various non-caste ethnic and non-Hindu religious groups.

Social rules, behavioural norms, traditions and convictions affect how distinctions between groups within the Nepali population are maintained and hierarchies perpetuated. The caste system, along with ethnic and minority religious groups, still affects access to political authority, resources and opportunities. For example, upward mobility for Dalits (a collective term used to refer to certain disadvantaged castes, representing about 15 percent of the population) and certain ethnic groups is, in general, limited.

In recent decades, important improvements have been made in women's labour force participation, women's educational status, maternal mortality and equality of pay between men and women. However, gender inequality remains a major challenge, and some groups of women, such as those subject to sexual abuse and exploitation, women of reproductive age, adolescent girls and women from the Mid and Far West, are particularly vulnerable.

²³ Atlas Method. 2011 data. <http://data.worldbank.org/country/nepal>

Progress in reducing poverty in Nepal ²⁴

Indicators	1990	2000	2005	2010	2015 target
Net enrolment rate in primary education (%)	64	81	87	94	100
Ratio of girls and boys in primary education	0.56	0.79	0.90	1.00	1.00
Ratio of literate women to men aged 15–24 years	0.48	n/a	0.73	0.83	1.0
Under-five mortality rate (per 1,000 live births)	162	91	61	50	54
Maternal mortality ratio (per 100,000 live births)	850	415	281	229	213

Indicators	1995/96	2003/04	2008/09
Growth in GDP (%)	5.10	4.30	5.00
Poverty headcount ratio (proportion of population below national poverty line, %)	41.76	30.85	25.39
Gini coefficient (index of inequality in consumption expenditures)	0.34	0.41	0.46

The emergence of recent conflict

In 1951, the Nepali monarch ended the century-old system of rule by hereditary premiers and instituted a cabinet system of government. Campaigns leading to reforms in 1990 established a multiparty democracy within the framework of a constitutional monarchy. The Maoist-led insurgency started in 1996, with a strong government military response leading to a decade of armed conflict.

Conflict between insurgents and government forces continued for a decade, spreading across many lowland and upland areas. Figures are not fully reliable but an estimated 12,000 to 13,000 people died from 1996 to 2006 (over 4,000 killed by Maoists and 8,200 by the government) and an estimated 100,000 to 200,000 people were internally displaced.²⁵ Human rights abuses were liberally perpetrated by both sides, while wider disruption included arson, strikes and restrictions on public movement or trade, extortion and theft. The conflict led to national political crisis, including the dissolution of the cabinet and parliament and assumption of absolute power by the king. Several weeks of mass protests in April 2006 were followed by peace negotiations between Maoists and government officials, culminating in a November 2006 Comprehensive Peace Agreement (CPA) and an interim constitution. The CPA offered a path for the Maoists to down arms and enter mainstream politics and offered a roadmap for state

²⁴ Figures from various sources compiled in UN (2011, updated February 2013) [UN (2011, updated February 2013) *A Country Analysis with a Human Face*. United Nations Country Team in Nepal.

²⁵ Figures from Reuters, IRIN and Internal Displacement Monitoring Centre. Compiled at http://www.bippi.org/bippi/menu_left/conflicts/Nepal/Nepal.htm

restructuring and transitional justice. After a nationwide election in April 2008, the newly formed Constituent Assembly declared Nepal a federal democratic republic and abolished the monarchy at its first meeting the following month. Elections delivered a parliament that, for the first time in Nepal's history mirrored the country's ethnic, caste and age diversity.

New challenges – federalism and identity politics

Expectations that Nepal would undergo a rapid transformation to become a stable and growing democracy were not met. Six years after the Comprehensive Peace Agreement and four years after Nepal became a republic, Nepal's political leaders have continued to struggle to agree a political settlement that delivers stability for the long term. In early 2013, Nepal remained in political limbo due to the failure to agree on a constitution and a roadmap for state restructuring. Other elements of the peace agreement, including commissions to investigate human rights abuses and disappearances, have not been implemented.

One of the key stumbling blocks has been on the proposed federal structures for the country. Ethnic and regional demands were important parts of the Maoist agenda during the civil war; in eastern Nepal, much of their support depended on it. State restructuring became a central component of the 2006 peace deal. After violent protests in the Terai in 2007, federalism was included in the interim constitution as a binding principle for the Constituent Assembly.

Popular support for federalism is most widespread among Madhesis in the central and eastern Terai and members of ethnic groups in the eastern hills. By contrast, many Brahmins and Chhetris, the dominant caste groups, fear they will lose out from the introduction of ethnic quotas and federal restructuring. The result has been political deadlock and no decisions have been reached.

In the Terai, whose population has traditionally been excluded from Nepal's civil service, political leadership and military (which are dominated by higher-caste groups from the central areas), politically motivated violence has mixed with crime, thriving on the lack of clear authority in the aftermath of ten years of civil war. The eastern and central Terai, in particular, faced growing unrest as militant groups pushed their demands for the establishment of an autonomous state and greater rights for Madhesi people, the dominant ethnic population of the Terai. Killings, abductions, death threats, extortion and road blocks by armed men have affected the livelihoods and security of ordinary citizens.

Protests based largely around identity politics became increasingly strident, with different ethnic and caste-based leaders using both peaceful and violent means to both rally support and push for their interests. The rights-based discourse and promotion of equality that underpinned many of the Maoist claims during the uprising have led not to accountable state mechanisms for democratic and inclusive governance but to a cycle of protest without a framework underpinning the various emerging claims. Politically motivated bandha (bans on all public movement unilaterally declared by an interest group and enforced by violence) have been common, especially in certain areas of the country during periods of political tension. Politicians invoking these public strikes include representatives of lower-caste groups as well as ethnic groups.

Violence in the Terai has since gradually lessened, with Madhesi parties forming an umbrella group and gaining some political voice. The overall problems have not been solved, however, given the failure to take forward discussions on federalism or on the constitution more widely.

Wider context: general improvements

With prominent political deadlock and regular high-profile incidents of violence as well as protests affecting the capital city, Kathmandu, the overall context can appear more bleak than it perhaps is in reality. National levels of violence have declined hugely from their levels during the civil war. Both violence and crime in the Terai have also fallen in recent years.

According to research conducted in 2010 most people in the Terai felt that their community was relatively safe. The research also suggested that neither weapons ownership nor crime rates were as high as popularly perceived and, in fact, were surprisingly low (Saferworld et al. 2011). Across the entire country, monitoring by bodies including UN field offices as well as the DFID/GI Risk Management Office demonstrate a relatively low number of incidents over 2012.²⁶

There has also been progress on other issues.. Disputes over the reintegration of former combatants living in cantonments continued after the main conflict between Maoists and the state ended in 2006, with the involvement of the UN not supporting a solution. The problem was addressed subsequently, without the UN. Ex-combatants were offered a choice of a 'retirement' payment (which the vast majority chose), training, or integration into the Nepal Army. Although the process did not follow recommended practice, with little guarantee that a payment will stave off future problems and some risks that breakaway factions will be able to build and arm a support base, there has been little sign of major difficulties to date.

While the wider political scene is still in a state of transition, the interim constitution and legislative reforms nonetheless provide a blueprint for a more inclusive and democratic Nepal. Despite delays over budget allocations and a lack of policy direction, the economy continues to grow gradually (albeit chiefly on the back of remittances and some foreign aid), poverty levels are falling and progress is being made in some key areas of human and social development. Most importantly, there has been no return to major armed conflict.

Politics, poverty and exclusion

Nepal's poverty is partially the product of historically-rooted social, economic, political and geographical exclusion. Poverty cuts across all caste and ethnic groups and regions in Nepal, but women and historically marginalised ethnic and caste groups and those living in remote areas are likely to be poorer, live shorter lives and have lower levels of human development. Poverty is higher in rural areas than in urban areas and the incidence of chronic poverty increases significantly in the Mid- and Far-West, although there are significant variations within districts in all parts of the country.

Poverty and social exclusion are both the products of and drivers of weak governance in Nepal. On the one hand, the Nepalese state historically reinforced caste and ethnic hierarchies and imposed a vision of Nepalese identity that structurally marginalised a majority of Nepal's population. This historical legacy limited access to economic opportunity and economic integration. The state's inability to address social, economic and political exclusion helped to fuel the civil war. The Comprehensive Peace Agreement articulated the core governance challenge for sustainable peace that, without a more inclusive state, more inclusive service delivery and access to services and resources, not only will poverty persist but sustained peace will prove to be elusive.

²⁶ UN data on incidents affecting field operations over 2012 records between one and seven events per month, the vast majority of which were non-violent. The only exception was a spike in restrictions on operations in April 2012 through a general strike.

The prominent and relatively unaccountable role of the civil service in Nepal persisted after the introduction of democracy in the early 1990s. Each of Nepal's 75 districts is headed by a fixed chief district officer responsible for maintaining law and order and coordinating the work of field agencies of the various government ministries. The position is appointed centrally along with many other civil servants, with post-holders rotating regularly.

Appointed officials and elected village leaders typically seek the support of prominent local political leaders in order to make decisions over spending resources. Close links between criminality and politics are common, as well as a culture of impunity and little sanction against the use of threats, strikes or other forms of intimidation. This context creates a high-risk environment for the delivery of development programmes

The patrimonial, factional and uncertain nature of Nepalese politics fundamentally hampers the ability of the country's leaders to deliver large-scale change (e.g. the constitution and state restructuring) or to deliver the reforms needed for increased growth and development. Political power in Nepal has historically been personalised and patrimonial. While traditional hierarchies have been challenged by the conflict and recent social and demographic shifts, Nepal's political culture remains hierarchical, vertically stratified and upwardly accountable. It is still largely who you are connected to that matters for securing access to jobs, goods, services, resources and votes. In this context, those in subordinate positions seek to cultivate relations with those above them, while patrons seek to build a network of loyal clients who can provide a base upon which they can build political and economic power. This puts most women and socially and economically excluded groups, who are not well connected, at a structural disadvantage.

Nepal's political parties and political leaders accrue networks of supporters and clients from a range of sources including the government bureaucracy, the private sector, civil and uncivil society and the citizenry. As a result, political patronage networks have worked their way into all aspects of Nepalese life.

These political networks have become highly factionalized and offer opportunities for personal advancement. Business leaders, gangs and even civil society groups seek out politicians with offers of support and requests for political protection, while politicians and party operatives build links with and provide support to their clients. Competition for state and non-state resources that drive patronage networks can lead to political violence and insecurity – particularly in the lowland Terai (International Crisis Group 2010).

Foreign aid flows 2009-2011²⁷

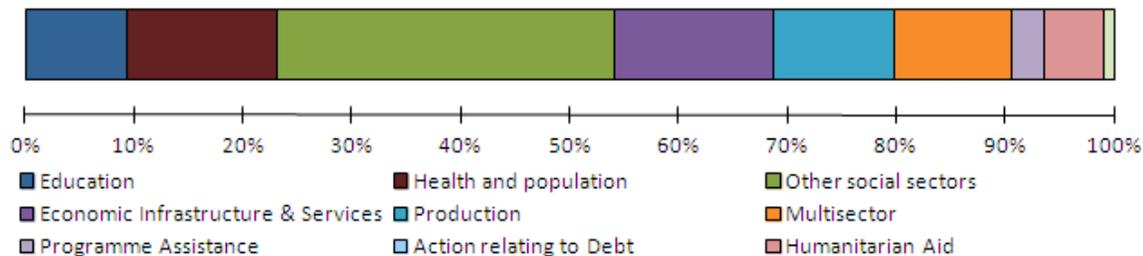
Nepal

Receipts	2009	2010	2011
Net ODA (USD million)	854	818	892
Bilateral share (gross ODA)	53%	52%	49%
Net ODA / GNI	6.5%	5.1%	4.7%
Net Private flows (USD million)	- 7	- 11	- 7

For reference	2009	2010	2011
Population (million)	29.4	30.0	30.5
GNI per capita (Atlas USD)	440	490	540

Top Ten Donors of gross ODA (2010-11 average)		(USD m)
1	IDA	185
2	AsDB Special Funds	160
3	United Kingdom	107
4	Japan	83
5	United States	59
6	Norway	48
7	Germany	43
8	Denmark	40
9	EU Institutions	40
10	Switzerland	34

Bilateral ODA by Sector (2010-11)



Sources: OECD - DAC, World Bank; www.oecd.org/dac/stats

²⁷ <http://www.oecd.org/dac/stats/NPL.gif>

Annex 2 Persons Interviewed and sources consulted

Meetings in Kathmandu (unless stated)

- 18 March Duane Clifford-Jones, Basic Operating Guidelines (BOGs) Adviser
Oliver Sudbrink, Risk Management Adviser, GIZ / DFID Risk Management Office
Ed Bell, DFID Conflict Adviser (both also by phone, 14 March)
Thomas Gass, Chair of NPTF Donor Group and Swiss Ambassador
- 19 March Peter Barwick, UNDP Peacebuilding and Recovery Unit
- 20 March Sharada Jnawali, Peacebuilding Adviser, ADB
Maria Ana Petrera, Deputy Head of Mission, Embassy of Denmark
Hiramani Ghimire, Senior Governance Adviser, World Bank
Sher Bahadur Pun, Deputy Adviser; Bir Kaji Gurung, Operations Manager; Kalpana Sharma, Information Coordinator. All at Risk Management Office
Ben Powis, DFID Social Development Adviser
- 21 March Lex Kassenberg, CARE Head of Office, lead representative of
Nepal International NGO forum
Udo Weber, Counsellor, German Embassy
Christoph Feyen, Programme Manager, Support to *Nepal* Peace Trust Fund, GIZ
- 22 March Caroline Vandenabeele, Head; Lach Fergusson, Peacebuilding Adviser; Prem Awasthi,
Field Coordinator (& colleagues), UN Resident & Humanitarian Coordinator's Office.
Sabita Shrestha and Narendra Kumar Mishra, USAID
- 23 March Sarika Mishra, Advocacy Forum (NGO) (by phone)
Takakiyo Koizumi, JICA (by email)
- 26 March Judy Dunbar, Regional Senior Conflict Adviser, USAID (in Bangkok)

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Annex 4 Maps of security incidents and poverty prevalence

Security incidents map:

<http://un.org.np/maps/nepal-report-security-incident-january-december-2012>

NEPAL - Reports of Security Incidents

1 January - 31 December 2012

Legend

- International Boundaries
- Development Region
- District
- Reports of Abductions
- Reports of Killings
- Reports of Clashes
- Reports of Criminal Acts
- Reports of IED Detonated/Explosions
- Number of Reported Incidents
 - 1 - 17
 - 18 - 34
 - 35 - 70
 - 71 - 140
 - 141 - 280
 - 281 - 560
 - 561 - 1120
 - 1121 - 2240
 - 2241 - 4480
 - 4481 - 8960
 - 8961 - 17920
 - 17921 - 35840
 - 35841 - 71680
 - 71681 - 143360
 - 143361 - 286720
 - 286721 - 573440
 - 573441 - 1146880
 - 1146881 - 2293760
 - 2293761 - 4587520
 - 4587521 - 9175040
 - 9175041 - 18350080
 - 18350081 - 36700160
 - 36700161 - 73400320
 - 73400321 - 146800640
 - 146800641 - 293601280
 - 293601281 - 587202560
 - 587202561 - 1174405120
 - 1174405121 - 2348810240
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 - 4697620481 - 9395240960
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Vulnerability map (composite index, used as proxy for poverty):

<http://un.org.np/maps/nepal-23-most-vulnerable-districts-identified-uns-country-analysis-2011>

