

**Local Business, Local Peace:
the Peacebuilding Potential of the
Domestic Private Sector**

**Case study
Nepal***

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Nepal

The Nepalese private sector: waking up to conflict

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Editors' note: the 2006 'April Revolution' in Nepal saw hundreds of thousands of Nepalese citizens converge on the streets in protest against the autocratic rule of King Gyanendra since his 'royal take-over' in February 2005. After 19 days of largely peaceful protest, the King ended his direct rule and reinstated the parliament dissolved in 2002. A government, including representatives from the Seven Party Alliance (SPA) has been formed, and the parliament has unanimously passed a stricture to hold elections to a Constituent Assembly to draft a new constitution. This will leave the people to decide on the fate of the monarchy in Nepalese politics and society. The Maoists have been invited to join an interim government as part of mainstream politics and have welcomed their participation in peace talks. Meanwhile, a ceasefire has been declared by both sides. The Maoists have already formed a three-member negotiation committee, while the government is yet to do so.

As this book went to print, both the government and the Maoists had formed three-member negotiation teams, and jointly announced a 25-point ceasefire 'code of conduct' as an outcome of the first round of negotiations.

Much has therefore changed on the Nepalese political landscape since research for this report was completed, and the situation remains fluid and unstable. Nevertheless, the analysis and conclusions of this report remain wholly relevant. Though the country is seen to be potentially moving towards a post-conflict scenario, many of the conditions for a sustainable peace are not yet in place. Understanding the role of business in the conflict context over the past five years will be crucial for framing its future role in the peacebuilding process in Nepal.

Landlocked between the Asian giants of China and India, Nepal is a mountainous country with a population of 24 million. It was ruled by the Rana oligarchy for 104 years until 1951 and by an absolute monarchy since 1960, with a brief multiparty experiment from 1990-2002.

Nepal is one of the 48 least developed countries in the world and the poorest in South Asia. With a total GDP of \$5.9 billion, it had a per capita income of \$230 in 2004. Underdevelopment is not limited to the economic arena. Nepal ranks 143 in the UN *Human Development Index* of 175 countries and more than 30 percent of Nepalese live on less than \$1 a day. Only one in two Nepalis can read and write.

The Nepal Communist Party-Maoist (CPN-M) began a violent insurgency in 1996 after the then government turned down a 40-point demand. In 1998, Dr Baburam Bhattarai, the CPN-M's second-in-command, published a booklet called *The Politico-Economic Rationale of People's War in Nepal*, which declared that the party's goal was to usher in self-reliant, independent, balanced and planned economic development through a radical, land-reform programme and national industrialisation.¹ Since then 12,000 Nepalese have lost their lives. The insurgency has seriously impacted on the country's economy and business sector. One estimate suggests that Nepalese economy lost about \$800 million in GDP by 2002.²

There have been a number of studies on how the conflict has affected Nepalese society, but there is a dearth of research exploring its impact on the wider economy and businesses, and what role they might play in resolving it. Given the Maoists' increased targeting of the business sector, both for purposes of sabotage and to finance the insurgency, this needs closer attention and the present study aims to help fill this gap. It demonstrates that the insurgency has strong business links: its chief source of funding comes through extortion; and its economic aim is to improve the lives of workers in the industrial sector and farm workers. These links provide a window of opportunity in addressing some of the conflict's root causes.

The report explores these dynamics in greater depth, focusing in on businesses' coping strategies and the roles that business can play in mitigating conflict. It also demonstrates how good business practice can insure against the impacts of conflict. The research was carried out at three different levels: among Kathmandu-based, big businesses, mainly with an industrial background and often geographically removed from the conflict zones; among small and medium sized enterprises (SMEs) in Pokhara, a city central to the Nepalese tourism industry; and among micro and small businesses located in Jumla, one of the worst-affected districts. Businesses in Jumla mainly revolve around the retail trade. In all three cases, in-depth interviews were held with members of the business community.

In terms of coping strategies, the report shows that all levels of business are seriously impacted by conflict and respond to it in different ways. The most systematic effort at addressing the conflict was to be found in Kathmandu's big business community; SMEs and micro-enterprises are less sure of their role, but their coping mechanisms may provide good entry-points for more concerted efforts at addressing the conflict in future.

Conflict analysis

Nepal – at least until recent events – has been caught in a vicious, triangular conflict that involves the king, political parties and the Maoists.

Since King Prithivi Narayan Shah unified Nepal 237 years ago, Nepal has been ruled by the Shah dynasty and the monarchy is one of the country's most powerful institutions. Its power stems chiefly from its absolute control over the army. Two kings – the present monarch, Gyanendra, and his father, the late Mahendra – orchestrated two military coup d'états in 1960 and 2005 against democratically elected governments.

Though multiparty democracy is a relatively young institution, political parties first came into existence in the late 1940s to fight the Rana oligarchy, which was overthrown in 1952 through a combination of popular uprising and armed rebellion, led by the leading party in Nepal, the Nepali Congress.

Since the king dismissed the elected government in October 2002, the political parties have been at loggerheads with the monarchy. Animosity between them reached new heights after King Gyanendra seized total power on 1 February 2005, dismissing the cabinet and constituting a new one under his own leadership. He announced a state of emergency and jailed political leaders, cadres and human rights activists. The king constituted a Royal Commission for Corruption Control (RCCC) and gave it sweeping powers to investigate and judge corruption cases, and impose punishments. Political parties and rights activists denounced the RCCC as the tool of a political vendetta and it was later abolished by the supreme court.

With an estimated 10,000 guerrillas, 40,000 militiamen and 100,000 sympathisers, Maoists are also a formidable force.³ The rebels declared the 'People's War' in 1996. Their avowed goal is to establish a communist republic, but their chief demand is election of the constituent assembly, a proposal the king vehemently opposes.

When a few hundred CPN-M fighters launched their offensive in 1997, their influence was limited to four districts – Rolpa, Rukum, Pyuthan and Salyan – in Rapti, mid-west Nepal. They now have a presence throughout Nepal, although rebel influence in the Kathmandu valley has waned since successful combat operations by the Royal Nepalese Army (RNA) since 2004.⁴ However, their strength is undiluted beyond the

valley. In August 2005, Maoists made a daring raid on a military camp in Pili, Kalikot killing more than 50 soldiers and capturing a further 60.

The insurgency is primarily class-based, and there is common agreement that uneven development, and social and political exclusion are among its root causes.⁵ While it is not a secessionist insurgency, the Maoists have co-opted disenfranchised ethnic groups by promising them regional or local autonomy. In that sense, the insurgency ethnic as well as class dimensions. Support for the insurgents' agenda among these groups has increased as the conflict progressed, reflecting their economic and social exclusion.⁶

Though the conflict has not shown any secessionist tendencies, a move in this direction cannot be ruled out if the Maoists fail to achieve a negotiated settlement and advance into the political mainstream. To lure marginalised ethnic groups, the Maoists have created autonomous regions that give control to the local ethnic majority. The Khumbuwan and Kirant Liberation Fronts in the east, the Madhesi Liberation Front in eastern Terai, the Tamang Liberation Front in the centre, the Magarat Liberation Front in the western hills and the Tharuwan Liberation Front in the western plains are some of the ethnic organisations working under the Maoist umbrella. There is a danger that some of them will develop secessionist aspirations in future.

As these three sides have vied for power, Nepal has stood at a crossroads. In November 2005, the Maoists and the Seven Party Alliance (SPA) formed a political coalition in order to work together against the king's rule. While King Gyanendra wants the Maoists to give up their arms, he also sought a stronger role for himself in the constitution. He stated this categorically in an interview with *Time* magazine where he declared that the days of royalty 'being seen and not heard' were over.⁷ The Maoists' chief goal is socialism and communism,⁸ but they have said they would accept election to a Constituent Assembly as a way of resolving the conflict. The mainstream parties want both sides to give up arms and revert to a democratic space that gives dialogue a chance.

The rebels announced a three-month, unilateral ceasefire that lasted from September 2005 to January 2006, adding a new twist to the conflict. "The political base for the Maoists' possible alliance with the parties has become stronger after the CPN-M recently decided to go for the Constituent Assembly and the Nepali Congress decided to delete constitutional monarchy from its party statute," announced party chairman, Prachanda.⁹ Since the ceasefire, clandestine meetings have been held between the SPA and the Maoists. The rebels and the alliance reached an agreement in New Delhi, India in mid-November and subsequently made public their 12-point, joint agenda.

The rebels set out to shun violence and join mainstream politics, while the alliance leaders conceded to the rebels' long-standing demand for a Constituent Assembly. The two also agreed to put both the army and the Maoist forces under UN supervision during the Constituent Assembly elections.

Besides these actors, the Nepalese insurgency has other key domestic, regional and international stakeholders. Internally, media and civil society (including professional bodies of lawyers, doctors, engineers and university teachers, among others), all products of the post-1990, multiparty system, staunchly support democracy and oppose attempts by the king and the Maoists to impose authoritarianism and totalitarianism. They are the main bulwarks of democracy. During the king's seizure of absolute power however, he has made systematic efforts to stifle civil society and muzzle the press, including through banning news broadcasts on FM radio, the main source of information for about 90 percent of Nepalese.

India, the United States and the EU make up the three major international players. They have worked in informal alliance, sharing information and views on how to deal with Nepal. They are also Nepal's major suppliers of weapons. India has given Nepal six helicopters and regularly supplies small arms and ammunition. The United States has supplied the RNA with 16,000 M-16 rifles and other equipment. UK military assistance is limited to non-lethal weapons, chiefly transport helicopters, vehicles and anti-land mine technology. All want the king to revert to democracy, but none wants the Maoists to win power. All three oppose communist rule in Nepal for ideological and security reasons.¹⁰ But they also oppose the king's autocratic tendencies and weapons deliveries have been suspended since King Gyanendra seized power.

The spillover of the Maoist insurgency more directly impacts India since it is in the throes of Maoist insurgencies in Bihar, bordering Nepal, and Andhra Pradesh. In June 2001, the communist parties of South Asia formed a Coordination Committee of Maoist Parties and Organisations in South Asia (CCOMPOSA), with the goal of strengthening the collaboration between parties of the far left to heighten People's War in the region.

Two negotiations aimed at bringing the Maoists back into mainstream politics (the first in December 2001 and the second in August 2004) failed. The Maoists participated in the first parliamentary elections in 1991, winning nine of 205 parliamentary seats. While the Maoists demanded election to the Constituent Assembly as a minimum pre-condition for negotiations, King Gyanendra sought to avoid the risky road of a popular consultation that could end by removing his crown. The mainstream political parties, sidelined by the monarch, entered into agreement with the rebels to jointly fight against the king's autocracy.

The fourth international stakeholder in the Nepalese conflict is the UN. Secretary General Kofi Annan has offered his help in resolving the insurgency and sent Special Advisor Lakhdar Brahimi for talks with King Gyanendra and senior political leaders in July 2005.¹¹ Other multilateral and bilateral donors have begun to move towards more coordinated approaches to their interventions in the light of recent developments in the conflict.¹²

Nepalese economy and private sector

About 85 percent of the population is dependent on agriculture, but 44 percent of family farms measure less than half a hectare, which means the income is inadequate to feed a family of five all year round. The other two major contributors to GDP are industry (21.6 percent) and services (37.8 percent). Manufacturing contributes 8.1 percent of GDP of the industrial sector and tourism contributes 3.2 percent in the services sector.¹³ Although its GDP share is relatively modest, tourism is the third largest foreign-currency earner after remittances and exports.

Nepal's other major source of income is remittances. Since globalisation boosted migration in the early 1990s, about 500,000 Nepalese youths have gone abroad to work, chiefly in the Persian Gulf, India and east Asia. Officially Nepal received \$800 million in remittances in 2004, but unofficial estimates put the figure at \$1.2-1.5 billion.¹⁴

The greed-based theory of insurgency does not adequately account for Nepal's conflict.¹⁵ The Maoists justify violence against the state by articulating grievances relating to poverty, landlessness, social and political exclusion, and the predatory behaviour and corruption of state officials.¹⁶

Nepal's business is controlled by a handful of large business houses. Ethnically, the major economic players are the Marwaris, people of Indian origin, and the Newars, indigenous Tibeto-Burmans mainly residing in the Kathmandu valley. Their presence is dominant in all the key sectors of industry, trade and services.

Nepal's trading history dates back several hundred years to when Kathmandu was used as a transit route between Tibet and India. That legacy gave Nepalese business a trading orientation. In modern times, especially after India's independence in 1947 and Nepal's freedom from the Rana oligarchy four years later, trading planted deep roots in Nepal. After independence, India took a path of socialist self-reliance, either banning or severely taxing imports from the West and the neighbouring economic giant, China. Nepal took advantage of this restricted trading regime.

By maintaining a more liberal import-export regime, Nepal encouraged the re-export trade to India, which became the chief source of state revenue over time. Exploiting the 1,700 km border between the two countries, businessmen re-exported their imports to India through loopholes and smuggling.

The majority of Nepal's big business houses emerged, grew and prospered through the Indian re-export trade. It was because of this orientation and the easy money from the trading sector that the industrialisation process suffered badly, or never got started.

With its dependence on smuggling, the re-export orientation also spawned a legacy of corruption and tax evasion. Nepal's tax revenue is one of the lowest in the world, hovering at around 12 percent of GDP.¹⁷ More recently, economic liberalisation has facilitated the development of new sectors, such as tourism, banks, insurance and agro-businesses.

The private sector and conflict

The insurgency's interface with the business community

Business as 'class enemy'

Since the insurgency is often seen as a class-based struggle, the business community is perceived as its class enemy. In that sense, businesses have a direct interface with the conflict. The Maoists oppose the free-market economy and champion the socialist model. They see the business community as deriving undue benefit from the state policy of deregulation that was launched after the reinstatement of democracy in the 1990s.

But there is also an ethnic angle. The Marwaris are one of two dominant business classes in Nepal. In the wider population, there is resentment against the Marwaris as outsiders. For Maoists who say they are fighting Indian expansionism, the domination of Marwaris in the business community is a more serious issue. Maoists have bombed many Indian subsidiaries operating in Nepal, including ones of non-Marwari origin, such as Surya Nepal, Nepal Liver Limited, Colgate Palmolive, Nepal Battery and Dabur Nepal, among others. But the management of these factories claim they were bombed for refusing to comply with Maoist extortion demands.

The Maoists also target businesses part or fully owned by King Gyanendra. For instance, the Soaltee Group, in which the king and his family have a majority stake, has shares in the Hotel Soaltee, Surya Nepal and Himal International Power Corporation.

Target of extortion

The business community is the Maoists' largest source of funding in the form of extortion, or 'donations'. The sector has a poor record of paying taxes or fair wages, and is also vulnerable to blackmail.

In the beginning, the business community resisted paying extortion or only paid insignificant amounts. However, after Maoists started to attack army barracks in 2001, it began to comply with demands. Multinationals similarly refused to pay until the Coca-Cola factory in Kathmandu was bombed on 29 November 2001.¹⁸

None of the businesspeople interviewed for this study revealed exactly how much they paid the Maoists, but anecdotes indicate that the level of extortion is high. The

Maoist insurgency is reputedly one of the wealthiest rebel movements in Asia with \$64-128 million at its disposal.¹⁹ The Maoists raised between \$40-70 million in 2001 and may have accumulated reserves of \$30-40 million by the end of the ceasefire.²⁰

Working conditions

If businesspeople are targets of extortion, their workers are the people in whose interests the Maoists purport to work. Maoists engage with businesses both to extort and to force owners to improve the conditions of employment.

Maoists have raised concern about the working conditions of labour and exploitative terms that characterise the industrial sector. Many employees are denied basic minimum wages, let alone benefits. Since most work without contracts, there are few channels for official complaint. Such poor working conditions have developed into a deep sense of resentment against management.

The Maoists have taken advantage of this discord. In August 2004, they announced the closure of 47 enterprises until a set of 11 demands had been met.²¹ Some were political in nature – for instance, the release of imprisoned Maoist trade union leaders – but related to the welfare of the labourers. The Maoists made the following demands:

- Appointment letters to all workers backdated to the day of their employment
- Permanent employment letter to workers after they had worked for 180 days continuously
- Compensation (twice the salary of their working period) to labourers in case of redundancy
- Increasing the minimum wage from \$20 to \$40 per month
- Rent allowance of \$15 per month and a cost-of-living allowance of \$15 per month
- An end to the contract labour system
- Preferential access to work permits and employment for Nepalis
- A ban on the Group 4 company, which provides security to businesses
- Mandatory gratuity of 10 percent for workers in hotels and restaurants.

After negotiations, the government freed the trade union leaders and agreed that the demands would be resolved through dialogue between workers and proprietors. Although the minimum wage was improved, no other progress was made. Industries complain that the main Maoist demand was the release of their comrades, while the work-related demands had to follow negotiations and agreement with the trade unions and tripartite committees, which was difficult in the prevailing political situation.

Conflict impacts

Conflict impacts businesses through disruption, disincentive, and divestment.

Disruption

The Maoist insurgency has disrupted business activity in Nepal considerably. General strikes, transport stoppages, threats to shut down factories and bombings have taken a major toll, raising production, delivery and inventory costs, and reducing output, revenue and profits. Businesspeople say production costs have increased by 20-25 percent as a result of the conflict.²² The number of working days has declined because of strikes, raising overheads. In businesses like the garments industry, inventories have to be kept high, raising production costs.²³ Similarly, disruption in supply lines has increased industries' shipping and delivery bills. Transportation costs have almost doubled in the past three years, and transport is frequently delayed and disrupted. Taken together, supply disruption and other conflict-related factors have caused a decline of up to 40 percent in production in some businesses.

Disincentive

The risk of doing business has created a sense of gloom in the Nepalese private sector. Almost all businessmen interviewed said they had scrapped or deferred expansion plans. "The dampened spirit of the business community," said the managing director of one business group, "is the major loss impacted by the conflict. There is no optimism but depression in the business sector. Unless, the business sector feels confident to take risks to invest more, the economy will not move forward."

Divestment

Nepal and India share an open border of 1,700 km and people cross it freely. They also share free convertibility of currencies. Marwari businesspeople can easily shift their enterprises from Nepal to India if they decide to. No figures are available on how many businesses have actually transferred to India, but anecdotal information suggests the number is growing. Two large garment manufacturers have opened units in India, according to interviewees, and the current president of the Garment Association-Nepal conceded that importers are putting pressure on manufacturers to shift production to India so they can ensure more timely deliveries. The former president of the Nepal Chamber of Commerce and Industry (NCCI) said small-scale entrepreneurs likewise choose to divest, and estimates that some 400 companies in the central plains bordering India had moved operations over the frontier.

This report now presents responses to the conflict by the business community both in coping with conflict and addressing conflict issues. The given examples offer a spread of businesses (large, medium and micro); sectors (industry, services and trade); and proximity to conflict zones. They suggest that the good business practices adopted by some of them successfully mitigate the negative conflict impacts in that Maoist activity tends to focus more on businesses that are perceived as targets on ideological grounds.

Kathmandu-based business

This case study looks at how large-scale businesses are coping with the insurgency and examines the National Business Initiative (NBI) a private sector endeavour that seeks to play a constructive role in addressing the conflict.

Coping strategies

Different businesses employ different coping strategies, or combinations of strategies. The most common include the payment of extortion, raising workers' wages, improving worker conditions, quicker settlement of labour disputes and attempts to meet some of the Maoists' demands. In other cases, businesspeople approached the state for increased security and protection.

Extortion

Industry and trade are the most extorted sectors, along with private boarding schools. All interviewees conceded there was heavy extortion in these sectors, but none was willing to reveal how much protection was actually paid.

A number of factors influence the level of extortion demanded from a business. The Maoists target certain ethnic groups more than others. Businesses with poor tax-payment records, those which engage in illicit trade, or those which have a high concentration of Indian labour and little local involvement are targeted more often. According to one businessman, Marwaris, Shahs and Ranas are the main targets of Maoist intimidation.²⁴ Newars, another dominant business group, feel less vulnerability and some argue it is their good business practices that keep the Maoists at bay.

Indeed, the Maoists do extensive background research before targeting a business group. The higher the tax evasion, the more the extortion demanded. Businesses that engage in illicit trade are the most heavily extorted.

The use of foreign labour and labour relations in general are sensitive issues, more so since the insurgency intensified. Maoists exploit this sensitivity. If the majority of the workforce comes from the local area, it deflects pressure. According to one businessman: "Our experience is that the factories that have higher involvement of the local workers are the ones least impacted by the Maoists. When the factories employ many local people, it also becomes an issue of their survival and Maoists cannot easily interfere with the livelihoods of local people."

Increasing wages, work conditions and employee-worker relations

In the face of the insurgency, businessmen are vulnerable vis-à-vis their relationship with their workforces. Many businesses have been forced to raise minimum wages, improve

conditions and provide appointment letters. The Garment Association-Nepal increased minimum wages from \$30 to \$40 a month.²⁵ The Federation of Nepalese Chambers of Commerce and Industries (FNCCI), the umbrella organisation of the Nepalese business sector, wrote to all its branches urging employers to provide appointment letters to their workers with the result that many businesses now take this demand more seriously. Whenever there is a dispute between workers and employees, the inclination is now to settle internally. According to the president of the Garment Association, industrialists fear that the internal issue will get out of hand if it attracts Maoist attention.

Outsourcing/localisation

One of the most effective coping strategies is the outsourcing of work to local people. One business group, for instance, has appointed local dealers and sub-contracted some production to local people. “Local people are much better than us when it comes to dealing with the Maoists,” said the managing director. “Being on the ground, they understand the local dynamics and are more adaptive to the local circumstances.” Local people also provide better security. Because a plant may be connected to their survival, they will often take personal risks to defend it. This is crucially important in the current context where local administration and security forces often fail to provide adequate security.

Lay-offs and reserve pool

Lay-offs are difficult under Nepal’s exit laws, which is why many businesses avoid giving workers formal letters of employment. However, faced with lower production, factories are increasingly saddled with surplus workers that they have to make redundant. To cope with dwindling demand, Nepal’s largest garment factory cut its workforce from 3,000 to 1,800. Another business group had to lay off over 100 workers under a golden-handshake scheme. However, industrialists cannot lay off workers at whim. The two sides have to reach a common understanding for voluntary retirement. Businesses that fail to convince workers to resign see their reserve pool bloating. “One of my factories in Kathmandu has remained closed for last four months and yet I am paying my 350 unemployed workers half of their salary every month,” said the FNCCI president.

Direct engagement and negotiation

Businesspeople refrained from directly engaging with the Maoists for a long time. “Since the Maoists perceived us as the class enemy, the business community thought that there was no room whatsoever for engagement,” said the managing director of one company. At the same time, direct negotiations meant challenging state authority. If the state, particularly the army, suspected that businesspeople were cooperating with the Maoists, they could land in trouble or prison.

In early 2000 and 2001, the Maoists detonated explosive devices in the units of Indian subsidiaries and multinational corporations, including Surya Nepal, a

subsidiary of International Tobacco Company; Nepal Bottler's Limited, manufacturers of Coca-Cola; Nepal Lever Ltd, a subsidiary of Unilever; Nepal Battery; and Dabur Nepal Ltd, a subsidiary of Dabur India. This was consistent with the policy of opposing foreign investment in Nepal, the sixth demand in the Maoists' 40-point demand to the government in 1996.

However, when the Maoists announced on 17 August 2004 the closure of 12 enterprises, the business community reached its limit. These firms included locally owned and joint ventures. A week later, the Maoists announced the closure of a further 35 companies, threatening the collapse of the entire industrial sector. The Maoists switched their focus to local industries, rather than foreign subsidiaries, in order to force a sense of urgency on the business community. A list of demands on working conditions was issued, but it also included political demands, leaving businesses in the uncomfortable position of having to mediate between the government and the Maoists.

To address these threats, the FNCCI set up a task force to begin collective discussions with the affected industries, the government and legal trade unions, without initially making direct contact with the Maoists. After some consultation with civil society, the FNCCI contacted three well-known human rights activists. They agreed to mediate between the business community, government and the Maoists, thanks to the endorsement of the government and personal access to decision makers in the CPN-M.

After receiving government approval, the mediators brought together businesspeople and leaders of the Maoist trade union. After a lengthy process of negotiations, agreement was finally reached on 30 September 2004. The government agreed to release two Maoist trade union leaders and make public the whereabouts of other ones who had been detained. The FNCCI agreed that its members would negotiate with trade unions on workers' welfare issues. As a result, the Maoists withdrew their threat to force the closure of the 47 factories.

Getting involved in peacebuilding

In February 2003, at the invitation of the Swiss Development Corporation, two prominent business leaders took part in a seminar in Switzerland on Conflict Resolution and Peacebuilding in Multicultural Societies attended by representatives of Nepal's mainstream political parties, the CPN-M and civil society organisations. Businesspeople perceived the group's interactions as largely positive and one of them was invited to draft a common statement on its behalf. Encouraged by the experience, they returned intent on mobilising other businesspeople. Soon afterwards, together with the GTZ Private Sector Project and with advice from International Alert, the FNCCI, the NCCI and the Hotel Association of Nepal

(HAN) organised a national conference on the 'Role of the Private Sector in Peacebuilding, Reconciliation and Development' in which over 100 business leaders took part. The conference provided an opportunity to share experiences from other conflict contexts, including a speech by one of the South African businesspeople who had been central in the business community's role in negotiations between the African National Congress and the apartheid regime. One resolution to emerge was: "There can be no successful business in an unsuccessful society and there can be no successful society without successful business."

GTZ continued to provide support to business leaders who expressed interest in exploring further possibilities to develop strategies and programmes aimed at defining specific roles and next steps. This included the formation of a National Business Initiative for Peace (NBI). As part of the process, business leaders engaged more actively with NGOs throughout 2004, particularly Civil Solidarity for Peace, a coalition of hundreds of civil society organisations aimed at pressuring the government and the CPN-M to return to the negotiating table, in an effort to learn more about greater coordination on the peace issue.

National Business Initiative for Peace

The NBI comprises 14 national business organisations, including the FNCCI, the NCCI and the HAN. Its goal is to contribute to 'sustainable peace in Nepal through just socio-economic growth', while remaining politically non-partisan.²⁶ It aims to invest resources in three key areas: social capital; infrastructure; and the creation of safe spaces for peace talks and genuine peacebuilding efforts.

These areas of activity are based on a pertinent analysis of the conflict. "The conflict is aggravated by unjust socio-economic development and political failings. Poverty, disparities, poor governance, corruption and the failure to adequately deliver essential social services and infrastructure to rural communities and marginalised groups are the other underlying causes of the conflict. Therefore, for a lasting solution, the nexus of poverty, poor governance and marginalisation needs to be urgently broken."²⁷

The NBI acknowledges that the business community cannot act on its own, but needs to work transparently, and in coordinated partnership with others, including the conflict parties and civil society. Similarly, it recognises the need to reach out to different actors within the business community (individuals, businesses, chambers of commerce and so on) at different geographical levels.

Shortly after its inception, the NBI publicised its commitment to a set of basic principles for its work:²⁸

- ‘We, the business community are committed to improve the quality of life of all Nepalese through development of entrepreneurship, creation of opportunities and generation of wealth
- We believe that there can be no successful business in an unsuccessful society and there can be no successful society without successful business. Prosperity requires peace.
- We are part of the Nepalese society, therefore we are committed to investments for socio-economic betterment of all of us together
- We are committed to the overall well-being of our society
- We believe that businesses have to be transparent; and sensitive to the needs of all, including the poor and the marginalised regardless of their politics, ethnicity, caste, religion and gender
- We oppose forced and intimidated contributions in cash or kind to any parties
- We employ people on the basis of suitability and qualification only
- We are non-political, and we are open to cooperate in all genuine endeavours for peace
- We do not accept being subjected to violence, abduction, destruction, intimidation, extortion or threats to the rights of free peaceful of citizens in any manner.’

In line with these principles, the NBI aims to achieve the following goals by the end of 2007:²⁹

- The general public will become aware of the NBI and its activities
- There will be substantial press coverage of the NBI and its activities
- Entrepreneurs will become conscious of their role in conflict transformation and peacebuilding, and local chambers will initiate related activities
- Entrepreneurs will introduce socially responsible business practices in order to contribute to just socio-economic development
- Businesses will reach out to communities with socio-economic development activities
- The private sector will secure the cooperation, collaboration and/or contribution of larger civil society for activities/initiatives led by the private sector
- The NBI will increase its membership base
- Enterprises will be awarded a ‘peace certificate’ that will improve their public image
- Threats of harassment and intimidation against the private sector by any of the conflicting parties will decrease
- The private sector will engage in dialogue with government at various levels
- Entrepreneurs and their federations will identify topics for a future peace agenda and will table them.

To achieve these goals the NBI envisages a number of short-term, medium-term and long-term activities. “So far the business community has shown keen interest in the initiative and has participated actively in the strategy-designing process,” said GTZ’s Conflict Transformation Advisor. “They have also willingly shared the cost of the initiative and remain committed to making it a success.” GTZ believes the business community’s active participation in the NBI is both an attempt to burnish its image in society, and to do something tangible for peace.

GTZ views the business community as a strategic partner in peacebuilding for several reasons: it is not a direct party to the conflict; private sector actors enjoy access to conflicting parties; business can mobilise resources in support of peacebuilding initiatives; pertinent economic issues can only be addressed jointly with private enterprise; it has strong outreach and networking capacity as well as presence throughout the country; and it is one of the few sectors of Nepalese society that is regularly represented by a democratically elected representative body in the form of the FNCCI, giving it a high degree of legitimacy.³⁰

The fact that the NBI is based on cost sharing between the business community and GTZ proves that the latter is keenly involved in the initiative. “We are more and more convinced that the business community can borrow from international experience and make a meaningful contribution in conflict mitigation through good works,” said one business participant. He thinks that the business community can play a vital role in the post-conflict period by providing jobs to the victims of conflict and taking businesses to disadvantaged areas where feasible.

It is too early to assess what impact the NBI’s work will have on the wider peace process. However, its approach, inclusiveness and outreach to other actors evidence a willingness on the part of businesses to become involved in a strategic and sustainable way.

The tourism sector in Pokhara

The next case study focuses at the regional level on the conflict impact on Pokhara, Nepal’s largest city and the second major tourist destination after Kathmandu. Situated about 200 km west of the capital, Pokhara valley is blessed with a range of snow-capped mountains to the north and the beautiful lakes of Phewa, Begnas and Rupa. It is the starting point of half a dozen trekking routes into the surrounding mountains. About 25 percent of foreign tourists to Nepal visit Pokhara, making tourism the lifeline of the local economy.

Pokhara always had excess capacity. There are around 500 small and medium-scale hotels and restaurants and 50 or more travel and tour operators. This excess in capacity means cut-throat competition on price, which makes businesses vulnerable in the face of any slump.

Conflict impact

Though the Maoist insurgency began in 1996, there is a near consensus among tourism operators in Pokhara that it only began to affect them in 2000-01. Initially, Maoist influence was minimal and when the first cadres arrived around 1998 and 1999, hoteliers laughed away their demands, according to the managing director of one hotel. The president of the Regional Hotel Association of Pokhara adds that by the end of 2000, tourist inflows showed their first decline and the Maoists began asking for 'donations'.

Tourism is now one of the sectors worst hit by the insurgency. Since that first decline in 2000, it reached an all-time low in the March-April 2005 season when arrivals plunged by around 50 percent compared to previous peaks. According to interviewees' estimates, hotel revenues fell more sharply as owners frantically slashed prices so they could at least meet overhead costs. Hotel revenues are estimated to have fallen by 70 percent as a result. With such low earnings, most hotels have found it difficult to cover their staff salaries and have reduced employment levels. Kantipur Hotel has only 22 staff, down from 75 in 2000. Hotel Hungry Eye employs 20, compared to 55 five years ago. Half the small hotels and restaurants have been forced to close, along with 20 percent of travel agencies and 25 percent of trekking agencies, said the president of the local branch of the Nepal Association of Travel and Tour Operators (NATTO).

Because Pokhara is a popular trekking destination with foreign tourists, the slump in arrivals has hit guides particularly hard. According to NATTO, the Maoists routinely charge each tourist a \$15 'levy' with the result that adventure tourists prefer safer destinations, like Lukla. A representative from the Union of Trekking, Travel and Rafting Workers of Nepal estimates that there were about 300 guides in Pokhara in 1999, a number that has since fallen to around 60.

The insurgency has not only reduced business profits, it has seriously lowered the living standards of medium and small-scale entrepreneurs, forcing many to find alternative employment. In the worsened climate, businesspeople have lost access to commercial loans from banks.

Coping strategies

Extortion

Although extortion is a major form of Maoist engagement with the business community, there is strangely little of it in Pokhara, and almost none in the tourism sector. The Maoists started asking for ‘donations’ in 2001, concentrating their attention on the larger hotels – the sector worst hit by the insurgency. In the opinion of one interviewee, they based their demands on the size of the hotels and their fixed assets without taking into account that many were struggling to service debts and pay salaries.

As hotel-owners and other entrepreneurs started to blame the rebels for the sorry state of their finances, the latter found themselves on the defensive. Tourism operators say the Maoists have hardly asked for any financial support since 2003. Schools, especially private ones, are now among the most extorted institutions in Pokhara, indicating that the Maoists have moved on. This may be an admission of their negative impact on the sector and the worsened economic environment, according to interviewees.

Negotiations to exempt tourism from strikes

Pokhara tourism operators successfully engaged the mainstream political parties and Maoists in an effort to exempt the sector from general strikes and vandalism, these being the main deterrent to tourism. In June 2003, they organised a seminar with the leaders of all political parties to discuss how to insulate tourism from political disturbances. The leaders agreed that even when they called general strikes, the tourism business should remain open. The business community then held informal talks with the Maoists, who agreed to exempt tourism from their activities. The agreement also included allowing ‘green-plate’ vehicles, the official vehicles of Nepal’s tourist industry, to pass unmolested. Now, during strikes called by the political parties or the Maoists, the green-plate vehicles can still travel freely. Neither side has breached the agreement in the two years since it was reached; nor has any tourism-related business or transportation been targeted.³¹

Role of businesses in conflict settlement

Though tourism entrepreneurs engaged the Maoists directly and persuaded them to exempt their businesses, and some also paid extortion as a coping strategy, they remain neutral between the government and the rebels and have not assumed any direct role in addressing the conflict more pro-actively. In most cases, entrepreneurs do not think conflict resolution is their duty. “Making peace is not our role; it’s a government duty,” said the president of the regional hotel association. “We have seen what happens if we oppose the Maoists and overtly support the government.”

However, all the businesspeople interviewed agreed they could do more to address the issues in society that the Maoists have exploited to bolster their cause. “It is true that most of us haven’t fulfilled our social responsibility and there is a lot we can do,” admitted one. There is a growing realisation that entrepreneurs should adopt more inclusive hiring practices to address the issue of social exclusion. “If the state has failed to be inclusive in providing jobs and opportunities to marginalised groups of society,” commented the president of the regional hotel association, “we can play a contributing role towards this end ... Not all can play a role in big issues like inclusion, but we can do small things like helping our community keep clean, and helping them solve small problems at the community level that will not only boost our credibility in the local setting but also enhance our role in society.” When asked what was keeping the business community from taking a more constructive role at present, the owner of an adventure sport company in Pokhara replied: “Probably we haven’t suffered enough.”

Meanwhile there is evidence that some businesses do address issues concerning their communities. Good business practice can help to address socio-economic issues pertinent to the conflict, and may even provide some degree of ‘conflict insurance’, as the example of the Three Sisters’ Trekking Agency suggests.

Good business practice as ‘conflict insurance’: Three Sisters’ Trekking Agency

In a country where women across the ethnic and class divides suffer discrimination, it is those of lower caste or indigenous backgrounds who face the greatest disadvantage. This is evident in the sphere of employment: while making up 42 percent of the workforce, women in different sectors earn between one third and one quarter less than men. At the same time, women suffer disproportionately from conflict impacts, but have also been filling the ranks of the rebellion. Female fighters are said to be attracted to the Maoist cause because of its more egalitarian attitude to gender relations, and a hope that it will ‘liberate Nepali women’.³²

One example of good business practice that addresses these underlying conflict impacts is the Three Sisters’ Trekking Agency (TSTA).³³ Established as a restaurant in 1991 by three sisters from Darjeeling, India – Lucky, Nikki and Dikki Chhetri – their business quickly evolved into a ‘trekking company of women for women’ with an underlying commitment to empower Nepalese women. The launch of the TSTA coincided with growing dissatisfaction among women trekkers with their male guides. Accounts of harassment, swindling and rape were reported in local papers. The Chhetri sisters not only own the trekking company, they are also guides and accompany their guests on challenging routes. ►

Today, the agency is both an inspiration for many women and an example of how good practice can insulate business from the adverse impacts of the conflict. The Chhetris have made an organisational commitment to be guided by egalitarian principles. “We want to support disadvantaged women and promote social justice,” said one of them. The agency employs 30 girls and women from underprivileged families, including Dalits (the so-called ‘untouchables’), and trains them to guide clients on their vacations. Twice a year, in partnership with the NGO Empowering the Women of Nepal, candidates from remote villages can participate in an intensive training course on sustainable tourism and trekking. At the end of four weeks, women have the opportunity to participate in an apprenticeship with the TSTA during which they earn full wages. Since 1999, between 10-25 women have participated in the training programme every year. The training serves a dual function. On the one hand, it generates economic opportunities for women from deprived rural areas. On the other, it brings together women from different backgrounds, regardless of caste and status, giving them a sense of equality and empowerment.

While the sisters’ work began prior to the insurgency, and so is not a direct response to it, it does address an issue pertinent to the conflict context. They remain politically neutral but feel strongly about women’s empowerment and social justice. As a result, the Maoists have refrained from asking for donations, and have made no other demands. The issues the sisters are trying to address – women’s empowerment and the abolition of caste-based discriminations – form part of the Maoists’ political manifesto. Article 19 in the 40-point demand put to the government in 1996, before they took up arms, reads: “Patriarchal exploitation and discrimination against women should be stopped. Daughters should be allowed access to paternal property.”³⁴ While there are different views on how this objective would be played out in practice and the insurgency’s impact on gender dynamics, the problems identified are real and urgent. The Three Sisters’ Trekking Agency is one example of how the private sector can address such problems in its core operations by providing economic opportunities to the most vulnerable segments of society.

Micro-businesses in Jumla

Jumla Bazar (also called Khalanga) is the headquarters of Jumla district and Karnali zone, the most underdeveloped of Nepal’s 14 zones. Karnali has not yet been linked to a road. Jumla Bazar lies about 500 km northwest of Kathmandu. Jumla may be isolated by ranges of high mountains, but it houses all the government offices, schools, colleges, health posts and NGOs that work in the district. Jumla produces high-quality apples and medicinal herbs, but has no market in which to sell them. All small economic activities depend totally on air transport to and from Nepalganj.

The main clientele of businesses in Jumla Bazar is dispersed in the neighbouring village development committee (VDC) of Chandan Nath, and its adjoining VDCs of Mahat and Kartik Swami. In addition, they depend on the expenditure of government employees, teachers, students and NGOs, although many are moving away to safer places. The Maoists have also ordered Jumla's three private boarding schools to close down from the next academic year in April 2006.

Conflict impacts

Jumla first began to feel the heat of the insurgency during the first ceasefire in 2001. The Maoists had almost no influence or organisation in the district when the insurgency began in 1996. "They used to conduct isolated activities in the beginning," said the vice-president of Jumla Chamber of Commerce. "Initially, they demanded donations by sending letters through the post office but, as businesspeople refused to bow down, the insurgents started restricting physical movement, saying they would physically attack businesspeople if they tried to move out of district headquarters." The Maoists organised a mass meeting during the 2001 ceasefire, which turned out to be the start of their direct intervention in Jumla. One local shopkeeper recalls that some businessmen attended the meeting out of curiosity and fear of intimidation.

According to a local human rights organisation, the Maoists attacked Jumla Bazar twice, the first time in November 2002, and then again in August 2004. The first attack saw the destruction of 10 government offices, and the death of 55 Maoists, 37 security personnel, two civilians and the chief district officer. In the second attack, they destroyed seven government offices and four civilian-owned shops, and killed five policemen and a soldier. The insurgents also abducted six policemen, six prisoners and four government workers. In both attacks, houses owned by the general public, with the exception of those housing government offices, were spared. Jumla Bazar is still re-emerging from the debris. One representative from the local chamber of commerce said that, although businesses were not directly targeted, the attacks heightened their owners' sense of insecurity since Maoists also entered the homes of individual businesspeople to make sure they were not sheltering security personnel.

A daily curfew is in force in Jumla from 7 pm to 5 am. Since local people are subjected to regular extortion, local businesses are losing their clientele. Villagers fear buying anything of value lest they have to surrender it to the Maoists, who seize on luxury items as evidence of excessive wealth that ought to be 'donated' to the revolution. This fear keeps business from flourishing.

Several factors have contributed to a slowdown in business activity in Jumla Bazar since 2001:

- Villagers are unable to travel and shop due to restrictions imposed by the Maoists
- Small businesses displaced from the rural areas are now concentrated in the district headquarters, decreasing the share of business per establishment
- Maoists have established cooperatives in the rural areas, run by Maoist sympathisers, which directly affect sales in Jumla Bazar. Interviewees said cooperatives mainly sell daily necessities like kerosene, cooking oil, sugar, salt, soaps, rice and spices.

Local businesspeople say they have lost at least 20 percent of their sales since 2001. Some have left because of the conflict. One example is a local hotelier who was compelled to migrate elsewhere because he was doubly victimised by the insurgents and the security forces. The Maoists intimidated him for allowing security personnel to eat and sleep in his hotel, while security personnel intimidated him for providing the same services to rebels.

Interviewees estimate that despite these impacts, the bigger businesses make from \$400-600 per month, but they are under greater pressure for donations from the insurgents.

But the insurgents are not the only ones to pressure local businesses; the security forces are equally intimidating. Since 2001, they have made it mandatory for suppliers to seek permission to buy enamel, green shoes, red cloth, any material resembling combat uniform, electrical goods, wire, pipes, iron rods, among other items in a bid to cut the flow of goods that the Maoists need to support the insurgency. Similarly storekeepers are forced to open their stores in defiance of Maoist orders to keep them closed. Some businesses complain that security personnel demand donations under pretexts of re-stocking health camps or restoring destroyed temples. They are punished for doing business with Maoists. A local human rights body reports that one shopkeeper was sentenced to 105 days in prison for allegedly selling a carton of instant noodles to an insurgent.

The biggest challenge faced by the local businesspeople is extortion, which they have been forced to pay for the past four years. Private schools in Jumla Bazar closed because they could not afford, or were unwilling, to pay \$200-300 per month. Maoists routinely extort money from private schools all over Nepal because they oppose private education. However, none of the interviewees admitted to having paid donations either to the insurgents or security forces, from fear of retaliation in the event their identities were disclosed.

In an effort to increase control over local economic activity, the Maoist 'District People's Government' (DPG) has made it mandatory for all businesses to re-register with it. None of the local businesses has done so as yet, but it can be assumed that many

are in contact with the insurgents to seek assurances of safety. Traders in medicinal herbs, however, have been paying taxes to the Maoist administration. The Maoists also confiscated supplies brought in from Surkhet after the 1 February general strike in 2005, but they released it after local business people appealed to the DPG.

Efforts to engage with the Maoists

The district administration in Jumla Bazar has prevented the local chapter of the chamber of commerce from initiating efforts towards dialogue with local Maoists. Businesspeople are among those least convinced that such efforts would bear any fruit. However, many have been in touch with the district Maoist leadership to ensure their personal safety and the safety of their individual businesses, says one interviewee. While there is no evidence that micro-businesses have been able to address conflict issues in their communities more pro-actively, it is clear that they are greatly impacted by it and as a result are forced to manage relations with both Maoists and security forces very carefully.

Conclusions

The Maoist insurgency has taken its toll on the economy and impacted business heavily. It has generated destruction, disruption, disincentive and divestment. The cost of production has gone up due to disruption in the supply chain, and overheads have climbed due to disruption in production activity. Rising costs and declining turnover have severely hit profitability, creating strong disincentives to work and invest. Since the Maoists see the business sector as a class enemy, businesspeople are vulnerable to rebel activity. They often give in to extortion, but are generally averse to direct engagement and negotiation with the Maoists, for whom the business sector is a main source of funding.

The insurgents not only extort businesses, they also intimidate them in the name of the welfare of workers. Maoists exploit the loopholes and weaknesses of the business sectors before they attempt to extort them. Businesses with poor tax-paying records are treated more harshly than companies with 'clean' businesses. Similarly, industries with poor labour relations or exploitative rates of pay are targeted more than businesses with good working conditions. Maoists target foreign subsidiaries and multinational corporations more than local businesses, which is consistent with their policy of banning foreign investment in Nepal. However, it would be wrong to say that the Maoists target only businesses with ethical problems or foreign connections; they extort almost all businesses, but the extent of extortion and harassment depends upon the character of the business in question. Good business practice works as a deterrent against the rebels. The use of local labour, for example,

can deflect a lot of political pressure. Similarly, businesses doing good works in society, such as the TSTA, are barely impacted at all by the Maoists.

The good news is that businesspeople are gradually coming to terms with the fact that they have to take the initiative to engage with the Maoists. The businesspeople interviewed for this research realise that they have a role in resolving the conflict and addressing some of the structural injustices prevailing in Nepalese society. The NBI underscores this change.

However, this awareness is still in its infancy in Nepal. It is most pronounced among the Kathmandu-based, big businesses and large business associations, which have begun to explore a role in tackling the conflict at various levels, whether by addressing structural causes (workers' conditions) or advocacy for peace (organising peace rallies). It is too early to assess what impact the NBI will have in the long run, but even its foundation sends a strong signal from big business: it has recognised conflict as its problem, and is seeking to partner with other actors (state, non-governmental and inter-governmental) in order to address it.

Evidence from Pokhara and Jumla suggests that businesses outside Kathmandu have thought far less about actively addressing issues of conflict and peace, and there is concern that getting involved will be perceived as 'meddling' in political issues. The priority in both regions is survival, though when prompted businesspeople agree that there may be more they can do to contribute to peaceful coexistence. As with big businesses in Kathmandu, regional and local businesses have maintained channels of communication with the Maoists in a bid to contain the insurgency's impact on their activities.

A burgeoning civil society, which is becoming more vocal and active for peace, should also create a more conducive environment for business in the peace agenda. The business community should take on the onus of engaging the Maoists in more dialogue and negotiations to build a better understanding of one another, and long-term trust.

The many existing channels of communication between them is a useful starting point in this regard, and could be used for more pro-active engagement (where this does not make business more vulnerable to state retaliation), rather than fire-fighting in response to threats or attacks. While the NBI is a first concerted effort, it should not omit to factor in the needs of smaller businesses in more remote districts. They also have a lot to bring to the table since they are closer to the conflict and know its issues well.

Once trust is established, the business community should launch extensive dialogues with different stakeholders on the various economic and business

issues of the conflict in order to clear up misconceptions and analyse common problems from a more informed and shared perspective. However, the business community cannot engage the Maoists meaningfully without the consent of the state. The government should be flexible enough to encourage peace efforts coming from all quarters of society.

Similarly, there are many policies that the CPN-M should reconsider: its ban on foreign investment, nationalisation of large businesses and the closure of Indian subsidiaries are not in the economic interests of either Nepal or its people. Its understanding of the globalised economy and the role of the private sector within it also needs nuancing. There are a number of issues that the business community should urgently work to address. Exploitative terms of pay for the workforce not only reduce their productivity, they provide a recipe for conflict and violence. The business community has learned the hard way that businesses can only prosper in the presence of peace and stability. The improvement of workers' terms and conditions, the provision of services and the maintenance of good industrial relations are essential elements of civil peace and prosperity.

Nepal has notoriously low tax revenues, which translates into low spending for education, health and other services. If a state overlooks its people's most basic needs, as is seen in Nepal, it invites disaster in the long run. The business community should reflect on the low rate of tax compliance and come to a workable solution. No country can live in peace for long with an abundance of wealth for the few and poverty for many. The business sector must take some responsibility in addressing the widening inequalities in society.

Even small changes of practice can make a big difference. The business community should start inclusive hiring practices; build safety nets for its workers; address the issue of child labourers; and make improvements to community services. Such works earn respect from the people and go some way towards mitigating the structural inequalities in society.

Acronyms

COMPOSA	Coordination Committee of Maoist Parties in South Asia
CPN-M	Nepal Communist Party – Maoist
DPG	District People's Government
FNCCI	Federation of Nepalese Chambers of Commerce and Industries
GDP	Gross Domestic Product
GTZ	Gesellschaft für Technische Zusammenarbeit
HAN	Hotel Association of Nepal
NATTO	Nepal Association of Travel and Tour Operators
NBI	National Business Initiative for Peace
NCCI	Nepal Chamber of Commerce and Industry
NGO	Non-Government Organisation
RCCC	Royal Commission for Corruption Control
RNA	Royal Nepalese Army
SME	Small and Medium Enterprise
SPA	Seven Party Alliance
TSTA	Three Sisters Trekking Agency
VDC	Village Development Committee

Endnotes

- 1 Bhattarai, B. (1998) *The Political Economic Rationale of the People's War in Nepal* (Kathmandu, Nepal: Utprekash Prakashan).
- 2 Dhakal, A. (2004) in Sapkota, B. (ed.) *The Costs of War in Nepal: A Research Study* (Kathmandu, Nepal: National Peace Campaign).
- 3 Interview with representative of the Royal Nepalese Army.
- 4 Following recent events the army is no longer under the control of the king and has been renamed the Nepalese Army (NA).
- 5 See for instance Geiser, A. (2005) 'Social Exclusion and Conflict Transformation in Nepal: Women, Dalit and Ethnic Groups' *FAST Country Risk Profile* (Bern, Switzerland: Swisspeace).
- 6 Karki, A and Sedon, D. (2003) *People's War in Nepal: Left Perspective* (India, Delhi: Adriot).
- 7 *Time*, 26 January 2004.
- 8 "Our people are fighting against feudalism and imperialism; therefore, the immediate goal is to fulfil the tasks of complete democratic revolution. We want to organise and develop the country with the full initiative of the masses through the abolition of the feudal and autocratic monarchy." Maoist Chairman Prachanda in an interview with the *Far Eastern Economic Review*, 24 October 2002.
- 9 *Kathmandu Post*, 3 September 2005.
- 10 "With a violent, ideological, Maoist insurgency desiring to take over the state and then to export its revolution to peaceful neighbours, there is much more to worry about. But our [US] other concern is something my president has in fact pinned his second term on: freedom," said James F. Moriarty, US Ambassador to Nepal, in the eastern town of Biratnagar on 26 July 2005. Available at kathmandu.usembassy.gov/
- 11 United Nations, press release, 8 July 2005.

- 12 International Alert, internal interview, November 2005.
- 13 Central Bureau of Statistics (2001) *National Census* (Kathmandu, Nepal: Government of Nepal).
- 14 Nepal Rastra Bank (2004) *Annual Report* (Kathmandu, Nepal: Nepal Rastra Bank).
- 15 Murshed, M. (2005) *The Role of Local Business Communities in Civil War Abatement and Peacebuilding: Some Conceptual Issues* (unpublished). Background paper prepared for International Alert's *Local Business, Local Peace* project.
- 16 Deraniyagala, S. (2005) 'The Political Economy of Civil Conflict in Nepal' *Oxford Development Studies* Vol. 33, No. 1 (Oxford, UK: Routledge).
- 17 Finance Minister Madhukar Sumsher Rana (2004) Budget Speech, 16 July 2004.
- 18 BBC News, 29 November 2001.
- 19 *Far Eastern Economic Review* op. cit.
- 20 Bray J., Lunde, L. and Murshed, M. (2003) 'Economic Drivers in Nepal's Maoist Insurgency' in Ballentine, K. and Sherman, J. (eds.) *The Political Economy of Armed Conflict: Beyond Greed and Grievance* (Boulder, US: Lynne Rienner).
- 21 Human Rights Organisation of Nepal (HURON) (2004) *Human Rights Monthly* Vol. 7 (Kathmandu, Nepal: HURON).
- 22 "Costs have definitely gone up and the rate varies in different sectors but in the manufacturing sector, on average, the costs have gone up by about 20%," said one interviewee. Another interviewee put the rise in costs at 25%.
- 23 "Total turnover in my factory ... has gone down by 40%, which is also true for many other businesses," said the president of the Federation of Nepalese Chambers of Commerce and Industries who is also managing director of an apparel company.
- 24 CPN-M politburo member, Dev Gurung, once described the Marwaris, Shahs and Ranas as the party's chief enemies. Marwaris are businesspeople of Indian origin; Shah is the clan of King Gyanendra Shah; and the Ranas previously ruled Nepal for 104 years and have extensive marital and social connections with the Shah dynasty.
- 25 In July 2004, the minimum wage was raised after extended negotiations with the Maoist trade union, Federation of Nepalese Trade Unions (Revolutionary). The Maoists also demanded permanent contracts for labourers who had worked for more than 180 days continuously.
- 26 National Business Initiative (NBI) (2005), information booklet (Kathmandu, Nepal: NBI).
- 27 Ibid.
- 28 Ibid.
- 29 NBI (2005) *NBI Strategy Paper* (Kathmandu, Nepal: NBI).
- 30 Rai, H. (2005) *Business-led Peacebuilding as a Corporate Strategy in Contexts of Conflict: Nepali Private Sector Gets Involved* (Kathmandu, Nepal: Gemeinschaft für Technische Zusammenarbeit).
- 31 The Maoists did, however, hurl a bomb at one local hotel. Since the owner is an aunt of King Gyanendra, it may be assumed that this was an attack on the royal family, rather than the tourism business as a whole.
- 32 See, for instance, Geiser op. cit.
- 33 For more information see www.3sistersadventure.com/
- 34 Bhattarai, B. (1996) '40-Point Demand' reprinted in Thapa, D. (ed.) (2003) *Understanding the Maoist Movement in Nepal* (Kathmandu, Nepal: Martin Chautari).

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