

Marit Haug

Decentralization in Nepal - what are the alternatives?

Title: Decentralization in Nepal
- what are the alternatives?

Author: Marit Haug

NIBR Working Paper: 2008:116
ISSN: 0801-1702
ISBN: 978-82-7071-743-9
Project number: O-2683
Project name: Nepal reports

Financial supporter The Norwegian Ministry of Foreign Affairs

Head of project: Marit Haug

Abstract: This paper describe the background of the current debate on federalism in Nepal. Political, civil society, ethnic, and community-based mobilization in Nepal created strong pressure on the Constitutional Assembly to deliver a federal solution that will allow the diverse ethnic and caste groups of Nepal to be represented in governance institutions at different levels, and to have equal access to services, infrastructure and economic opportunities. The paper argues that there is a need to think in terms of a three-tier federal states and continue the participatory development tradition working through closely with communities. Existing governance institutions at the sub-national level have been considerably weakened during the conflict and there is a need for long-term, flexible plan for strengthening subnational governance capacities.

Summary: English

Date: September 2008

Pages: 14

Publisher: Norwegian Institute for Urban and Regional Research
Guastadalléen 21,
N-0349 OSLO

Telephone (+47) 22 95 88 00
Telefax (+47) 22 60 77 74
E-mail: nibr@nibr.no
<http://www.nibr.no>

Org. nr. NO 970205284 MVA

© NIBR 2008

Preface

On May 28, 2008 the Constitutional Assembly met in Kathmandu to start deliberations on a political solution to the decade old conflict in Nepal. On the same day Nepal was declared a Federal Democratic Republic. This paper locates the current debate on federalism in Nepal within the context of popular mobilization and previous efforts to decentralize governance institutions in Nepal. The paper argues that there is a need to think in terms of a three-tier federal system, where the third, local layer of governance will safeguard the rights of minority groups within the federal states and continue the participatory development tradition through working closely with communities. Moreover, existing governance institutions at the sub-national level have been considerably weakened during the conflict and there is a need for a long-term, flexible plan for strengthening sub-national governance capacities.

Inger Balberg and Berit Willumsen have done the technical editing of the paper – thank you!

We would also like to thank the Norwegian Ministry of Foreign Affairs for funding this paper.

NIBR, September 2008

Marit Haug
Research Director

Table of Contents

Preface	1
Summary.....	3
1 Introduction.....	4
1.1 The exclusionary nature of the Nepali state.....	4
1.2 Popular mobilization and regional and ethnic demands for federalism....	5
1.3 The Constitutional Assembly and federalism.....	7
1.4 Post-1990 decentralization measures: DDCs, VDCs, and community- based development.....	9
1.5 Assessing decentralized models.....	11
1.6 Conclusion and policy implications.....	13

Summary

Marit Haug

Decentralization in Nepal

- what are the alternatives?

NIBR Working Paper: 2008:116

This paper describes the background to the current debate on federalism in Nepal. It argues that political, civil society, ethnic, and community-based mobilization in Nepal has created strong pressure on the Constitutional Assembly to deliver a federal solution that will allow the diverse ethnic and caste groups of Nepal to be represented in governance institutions at different levels, and to have equal access to services, infrastructure and economic opportunities. Although the CA has declared Nepal a federal republic, the debate on the specifics of a federal system is just starting. The focus until today has largely been on the principles for delineating the new federal units; should the units be formed on the basis of the habitation patterns of ethnic groups or not? Although some of the large ethnic groups live relatively concentrated, there are more than 100 ethnic and caste groups of Nepal, many of whom live interspersed throughout Nepal creating a complex ethnic mosaic. At the same time the mobilization of people during the last decade has led to increased awareness and new capacities for development at the community level. This paper argues that there is a need to think in terms of a three-tier federal system, where the third, local layer of governance will safeguard the rights of minority groups within the federal states and continue the participatory development tradition through working closely with communities. Existing governance institutions at the sub-national level have been considerably weakened during the conflict and there is a need for a long-term, flexible plan for strengthening sub-national governance capacities.

1 Introduction

Strong popular mobilization and heightened political awareness among many of Nepal's diverse ethnic, religious, and caste groups have resulted in demands for political influence. The political parties must deliver on the voters' hopes for change, aspirations for political influence, demands for improved service delivery, and expectations about higher incomes. How can decentralization contribute to achieving these objectives and which options are on the table? The Nepali context is particularly complex, with the population of 25 million being made up of around 100 ethnic, religious, and caste groups, often living interspersed.

The current debate on decentralization in Nepal is concerned with exploring federal models that will allow the diverse groups of Nepal to become included in political processes, and more generally in the development process. The debate on federalism constitutes one component of a larger debate on the 'restructuring' of the Nepali state aimed at making the state more inclusive. The restructuring debate encompasses: i) the future status of the different languages of Nepal; ii) the nature of the state: should it be secular or religious; iii) the design of the electoral system: should it be based on proportional representation or a First-Past-the-Post System (FPTP); iv) securing the rights of minorities in the Constitution; and v) the mechanisms for producing a more inclusive public administration through affirmative action or reservation.

The backdrop to the restructuring debate is the exclusive nature of the Nepali state. Through their hold on state power the King and high-caste Hindu males from the hills have sustained social, cultural and political control over Nepal. The introduction of democracy in 1990 allowed for broader popular participation, and in April 2006 Jana Andolan II tipped the balance tipped in favour of the people who set in motion a process of state transformation through massive street protests.

1.1 The exclusionary nature of the Nepali state

The uniqueness of Nepal lies in its vast cultural, ethnic and caste diversity. Nepal is composed of 101 ethnic and caste groups, 91 linguistic groups, and 9 religious groups. Due to the remoteness of many areas, and to the prevalence of traditional economic, social and cultural structures that remain relatively untouched by modernization, Nepal's cultural diversity has been preserved to a large extent. Nevertheless, the dominance of the ethnic and caste microscope as a way of observing and interpreting Nepali society is striking. Ethnicity and caste are the primary markers by which people describe and value each other. For over one hundred years Nepali law has been based on caste as the Civil Code of 1854 ranked

the people according to caste. The ranking also included the ethnic groups who were outside the cultural caste system. Rank in the system defined access to government resources and services. Despite the adoption of the principle of equality in the new legal code of 1963, the legacy of the 1854 law has remained in customary law.

After the unification of Nepal in 1768, the monarchy ruled through an alliance with the Hindu high castes who dominated the political, social, and economic power structures as well as the highly centralized administrative system. The high caste Hindus from the hills are comprised of the Brahmins and Chhetris and constitute 31 per cent of the population.¹ Their domination was justified and legitimized through the adoption of Hinduism as the state ideology and through the constitution of Nepali as the only official language. This political-administrative system has through its policies and practices effectively hindered Janajatis (ethnic groups), Madhesis (people inhabiting the southern part of Nepal, the Tarai), and Dalits (people who according to the Hindu caste system are untouchable) from accessing political and administrative power. Interestingly, their dominance has not diminished since the democratic elections of 1990.

Politics in Nepal today is about challenging the traditional elite's hold on power. Despite the paradigm shift that came with the 1990 Constitution when Nepal was declared a multi-ethnic, multi-cultural, and multi-lingual nation, many of the old features remained. Moreover, post-1990 political institutions have been marred by patronage, corruption, and conflict.

1.2 Popular mobilization and regional and ethnic demands for federalism

Today's debate on a federal Nepal is a consequence of the Maoist insurgency and strong popular mobilization resulting in demands formulated by civil society organizations and political parties. Popular mobilization culminated in the Jana Andolan II of April 2006 and in the two Madhesi protest campaigns of January and February 2007 and 2008.

King Gyanendra's two royal coups in October 2002 and February 2005 were followed by widespread popular mobilization against the King and demands for republicanism. Jana Andolan II mobilized three to four million Nepalis, or 23 per cent of the population, in nationwide demonstrations. Most people took part in order to achieve peace and reconciliation while a smaller number say they wanted economic development and good governance. The most important point is that the success of the Jana Andolan II gave people a sense of having the ability to affect change. For example, when asked about what the options are if the Maoists do not deliver on their promises, a common answer is that they will be thrown out in the same way that the former king was forced to leave. The Jana Andolan II continued a tradition that mobilized the population for the reinstatement of multiparty democracy in 1990. The 1990 democratic regime replaced the partyless Panchayat regime introduced in 1960.

¹ Sometimes the Newars of the Kathmandu valley are included as a dominant group.

Jana Andolan II also began a process that brought the Maoists into the mainstream of politics in Nepal, thus bringing to an end the decade-long conflict. Whereas the Maoist abandoned their former objective of establishing a one-party People's Democracy and expressed their commitment to a multiparty system, the Seven-Party Alliance conceded to the Maoist demand for a Constitutional Assembly (CA) to reform the political institutions of Nepal. On April 24, 2006, the House of Representatives was reinstated and formal negotiations between the Seven-Party Alliance and the CPN (Maoists) began. Subsequently the parties agreed on a number of institutional innovations: the May 2006 declaration on the establishment of a secular state and the promise of CA elections, the Comprehensive Peace Agreement of November 2006, the Interim Constitution in January 2007, the formation of the interim legislature in January 2007, and the interim government in April 2007.

In early 2007 a *regional dimension* was added to popular mobilization in Nepal when large sections of the Madhesi people turned out in violent mass protests during 21 days to demand a stronger representation for the Tarai in national politics. The uprising forced the Seven-Party Alliance and the CPN (Maoists) to negotiate with the Madhesi people. Moreover, demands for a federal state voiced by the Madhesi groups firmly placed federalism on the political agenda. Having been populated mainly by people from India, the Tarai saw massive immigration from the hills from the 1960s onwards, resulting in a dramatic change of the demographic composition of the Tarai whereby the Hill people ultimately constituted 48 per cent of the population. The Hill people have continued to dominate the administrative and political structure of the Tarai, leading to discontent on the part of the Madhesi population of the Tarai.

The period from April 2007 to April 2008 when CA elections were finally held was characterized by months of political bargaining, resulting in a number of separate agreements between the interim government and political forces that threatened to block the political process. In December 2007 the interim government and the CPN (Maoists) signed a 23-point agreement resulting in the Maoists rejoining the interim government (having pulled out in September 2007). The political parties committed themselves to making Nepal a federal democratic republic as soon as the CA convened. On February 28, 2008, the interim government signed an eight-point agreement with the United Democratic Madhesi Front (UDMF), a loose alliance of Madhesi parties, including the Madhesi Janadhikar Forum (MJF). Finally, in early March the interim government agreed with the Federal Republican National Front (FRNF) on a five-point plan that contained an agreement on a federal republic, group rights for ethnic groups and proportional representation in all branches of the state. FRNF is a coalition of Hill and Tarai ethnic groups - a coalition that marks a noteworthy alliance across the traditional Hill-Tarai divide.

In other words, pressure on the interim government from ethnic and regional groups and the need to manage regional and ethnic relations has been a prominent feature of the political landscape after the Janadolan II. Yet many activists have not been satisfied with the progress on inclusion issues, and felt that Nepali politics had been caught up in infighting over power-sharing between the political parties.

Since 1990 Nepal has also witnessed strong popular mobilization through civil society organizations manifested in the growth of nationwide civil society

federations, most notably the National Federation of Indigenous Peoples (NEFIN) and the Dalit NGO federation, as well as women's organizations. In 1996 the Dalit NGO Federation was composed of five Dalit NGOs. In 2008 the number of members had increased to over 300 organizations. Dalit organizations, such as the Dalit NGO Federation, advocate proportional representation, a demand resulting from the scattered habitation of Dalits throughout Nepal. Moreover, Dalits advocate reservation within state institutions for Dalits, 20 per cent Dalit representation in government institutions, at central and sub-national levels, as well as in government-appointed commissions.

The Nepal Federation of Indigenous Nationalities (NEFIN) founded in 1990, the umbrella organization for the Janajatis, has seen a similar expansion. The agreement reached between the Government of Nepal and NEFIN on August 7, 2007, summarizes the demands made on the government by NEFIN: i) proportional representation in the electoral system and at all levels and bodies of the state, ii) representation of all Janajati groups in the CA, and iii) recognition of locally spoken mother tongues. Further, the parties agreed on the formation of a state restructuring commission with a mandate to present recommendations to the CA regarding a federal state structure based on ethnicity, language, geographic region, economic indicators and cultural distinctiveness while keeping the national unity, integrity and sovereignty of Nepal at the forefront. Recognition of the Tibeto-Burman languages spoken by the different Janajati groups is another distinct Janajati demand intended to overcome language-based discrimination.

1.3 The Constitutional Assembly and federalism

Following CA elections on April 10, 2008, the CA convened on May 28. The CA functions for two years as constitutional assembly and as parliament. More than previous parliaments, the CA mirrors the diversity of Nepal. The CPN (Maoists) in particular had placed representatives of formerly excluded groups on their lists. Just over 30 per cent women were elected to the Constitutional Assembly, slightly short of the target of 33 per cent set out in the declaration adopted by the House of Representatives in May 2006. The CPN (Maoists) won 220 of 575 elected seats, the Nepali Congress (NC) 110 seats, and the CPN (Unified Marxist-Leninist) 103 seats. In total 25 political parties are represented in the CA.

The demand from the Tarai and from ethnic organizations is for a federal Nepal. Nevertheless, in a 2007 nationwide survey the majority of the respondents (58 per cent) were in favour of a unitary state. In 2004 67 per cent favoured a unitary state. Although these figures should be interpreted with caution because of the difficulties people have in understanding the concepts, they show that the majority of the population are not convinced by the federal argument. People with higher education and people living in areas with high ethnic activism, i.e. the eastern and central development regions tended to be in favour of federalism. Moreover, Madhesi people showed the strongest support for federalism with eight of ten respondents in favour of federalism. The same survey documented that the political parties and political elite were overwhelmingly in favour of federalism.

The CA has declared Nepal a Democratic Federal Republic. However, the CA debate on the detailed workings of a federal state is yet to start in earnest. Similarly, the political parties have not yet worked out detailed proposals on how they envisage a future federal system of government. The three largest parties of the CA hold different views on the design of a federal system. India's interest is another factor that is likely to influence the outcome of the debate and any solution is likely to need the backing of India. Many observers see the interests of India behind the strong push from the Tarai for autonomy.

Autonomy and decentralization are at the heart of the Maoist agenda in Nepal. *The CPN (Maoist)* party is viewed by people - according to a 2007 survey - as the most important advocate for the rights of the excluded groups. More than other political parties the Maoist party has adopted the agenda of the excluded groups and has incorporated their demands in their programme. Hence their original 40-point programme on which they declared war in 1996 favoured a federal constitution and proposed that areas in which ethnic communities are in the majority should be allowed to form autonomous units. Further, backward areas should be given regional autonomy and regional discrimination between the hills and the Tarai should be eliminated. The 40-point programme also stated that all languages should be given 'equal opportunities to prosper.' The Maoist election manifesto issued before the CA elections proposed 11 autonomous provinces and two sub-provinces with right to self-determination. Delineation of federal units will be based on ethnicity and geography. According to local development minister Dev Gurung, the federal states should be given autonomy while certain rights related to defence, foreign policy and monetary policy should remain with the central government. Yet Gurung rejected the proposal for a separate province comprising the Tarai: "The demand for single Madhes province is irrelevant in the present context because it infringes upon the rights of indigenous groups in Tarai, and will give rise to monopoly of some groups there" (Nepalnews.com).

CPN (UML)'s CA election manifesto states that the party favours a three-tier federal structure based on the country's ethnic, linguistic and cultural composition and geographical specialty.

In a recent interview the party leader Pradeep Nepal supported a federal solution with 10 to 15 provinces with the exact number to be decided through political consensus in the CA. The critical question of the delineation of the federal units should take into consideration geographical positioning, natural resources, language and culture. He rejected the idea of one Tarai unit, saying that it would be impossible.

Nepali Congress' (NC) manifesto proposes a three-tier government - central, provincial and local. NC leader Dr. Prakash Saran Mahat recently stated that the would-be federal structure should be determined by different aspects such as geography, economy, culture, ethnicity and historical background. He maintained that a purely geographical and ethnicity-based federalism is not possible and that such federal structures could even prove detrimental to peace and national unity. The number and size of the federal states would be decided by the CA on the basis of the recommendation of a commission that will be formed for restructuring the state.

The Madhesi Janadhikar Forum (MJF), also known as Madhesi Peoples' Rights Forum, and other Tarai parties have pushed for autonomy for the Tarai. Following the Madhesi uprising in early 2007, Madhesi demands for autonomy have upstaged the Janajati demands for autonomous ethnic regions. The most recent demand is for independence for the Tarai region, one Madhes-one Pradesh (province), encompassing the 20 districts of the Tarai. The three largest Madhesi parties control 14 per cent of the seats in the CA.

Despite the formation of the CA some argue that politics is still decided within the elite circles of Nepal. This criticism implies that the voices of the formerly excluded groups are not heard within the political parties. Their lack of political representation is exacerbated through the constitutional prohibition against ethnically based political parties. In order to overcome this potential weakness in representation, caucuses have been set up within the CA to represent the interests of entities that cut across the political parties. NEFIN, in a comment by its President Pasang Sherpa, recently stated that: "The NEFIN urges the indigenous and all other marginalized groups represented in the CA to remain united to forward their demands in a forceful way", adding, "We are ready to raise our issues right inside the parliament and if need be we will take to the streets with full force" (Nepalnews.com). This statement testifies to the newfound sense of power held by formerly excluded groups.

1.4 Post-1990 decentralization measures: DDCs, VDCs, and community-based development

The highly centralized nature of the Nepali state suggests that effective decentralization of power will pose challenges. Central government officials as well as politicians are likely to be intent on holding onto power. These are problems commonly encountered in decentralization processes. However, the military conflict between the Maoists and the government has added an extra problematic dimension to the process in Nepal, almost bringing it to a standstill.

Following the introduction of democracy in 1990, local elections were held in Nepal in 1992 and in 1997. Representatives were elected to 75 District Development Committees (DDCs), 58 Municipalities and 3913 Village Development Councils (VDCs). When their terms expired in July 2002 no new elections were held due to the dissolution by the king of Nepal's House of Representatives in May 2002, the return to monarchical rule and the military conflict. Local bodies have not been elected since. Hence, the functions of local bodies were transferred to appointed committees. The Local Development Officer (LDO) was charged with heading the DDCs and responsibility for operation of the VDCs was transferred to a committee headed by the Secretary of the VDC. The committees were authorized to exercise the powers given to the local bodies through the Local Self-Government Act of 1999.

For a number of reasons the decentralization process in Nepal has been incomplete. Despite a process whereby some functions and budgetary responsibilities of the Ministry of Education, the Ministry of Health and the Ministry of Agriculture were handed over to the DDCs from 2001/2002, the DDCs do not have a role in the formulation and implementation of policies in the devolved sectors. The line agencies are accountable to the central government. The lack of clarity on

responsibilities between the DDCs and line agencies has continued to hamper the effectiveness of the local administration. The lack of opportunities for raising revenues has further constricted the operations of the local bodies. Moreover the DDCs lack the organizational capacity and managerial and administrative competence to carry out their functions and responsibilities, and they do not have the technical skills required to function as development agents in the districts. In particular DDCs in remote districts need basic office hardware. Initially a number of donors supported capacity-building efforts at the sub-national level. However, with the escalating conflict, the absence of elected members, and the lack of a clear strategy for the future, most donors scaled back their support or pulled back altogether. Another lesson learnt from the experience with local governance is that staff should be recruited locally through the Local Public Service Commission to ensure that staff remains in the district. Despite their limitations, a number of provisions considered by observers as satisfactory were enacted, such as provisions for popular involvement in the formulation of five-year district development plans.

Due to the prevailing insecurity, government officials were restricted to district headquarters, and they seldom ventured outside the district headquarters. Similarly many village level officials were forced by the Maoists to leave, and government offices were destroyed and burnt. Maoists set up a parallel administration in areas under their control. At the village level 'people's committees' were charged with spearheading a combination of participatory and coercive change. The notion that the 'state today does not exist' is frequently heard around Kathmandu. In this view, lawlessness prevails and extortions and killings continue. Although official data show a clear reduction in conflict-related killings following the agreement between the Maoists and the government in November 2006, behavioural patterns acquired during the conflict remain whereby a culture of violence is perpetuated.

In this context the continuation of development efforts at the local level is indeed remarkable. Indicators suggest that people's access to services such as health, education, and rural infrastructure has improved during the conflict. Throughout the years of conflict the dominant model for development was community-based mobilization and service delivery whereby communities were involved in the planning and operation of services through community-based organizations. Most donors delivered aid through such community-based systems. Norway's support for the Decentralised Local Government Support programme (DLGSP) is a prime example of this type of programme. Through DLGSP communities have been mobilized for community development and have gained access to savings and credit schemes. At the same time training in support of participatory planning has been given to DDCs. The proposed follow-up programme is a multi-donor and multi-sectoral programme supported by over ten donors including Norway, the World Bank, Dfid, Danida.

The emphasis on community-based development enabled donor agencies to continue their support throughout the conflict. The preferred model was implementation through an international or a Nepali NGO who were assigned the task of mobilizing the target communities for project delivery. However, the links to the local governmental bodies tended to be weak. DDCs often did not have information about ongoing activities in their districts, in particular activities run by non-governmental organizations. Planning and prioritization at the DDC level took

place only through very loose mechanisms, for example projects tended to be listed but not prioritized in the annual district plan, reducing the district plans to a compilation of NGO initiatives. Although participatory planning at the district level as envisaged in the district development plan mechanism did not work, target-group participation was strong in the planning, implementation, and operation of particular projects.

1.5 Assessing decentralized models

The difference between a unitary and a federal state is not that one is more decentralized than the other, but that the former can be decentralized through legislation whereas the latter is decentralized by constitution. Federal political systems divide sovereignty between the constituent states and the federation as a whole. The constitution takes the form of a treaty between or among a certain number of federal units or states. The treaty defines the division of powers between the states and the federal level. An important point is that constitutional changes cannot be made unilaterally by the federal government, but have to be accepted by the states. The principle behind a federal constitution is that each state delegates a certain amount of power upward to the federal government.

The purpose of decentralization² in terms of *development* objectives include deepening the level of national democracy and promoting popular participation in order to provide services in an equitable and responsive manner. Yet, despite its promises, there is no consistent evidence in the international literature to document that decentralization has improved efficiency, equality or service delivery as promised in the development discourse on decentralization. With respect to equality the findings suggest that the potential for redistribution across regions is promising. This finding is interesting in the context of Nepal because it suggests that a well-designed, decentralized model could reduce regional inequalities. However, problems of inequality *within* each devolved unit must be addressed through specific measures. This means that special efforts must be made to include marginal and vulnerable groups.

The most positive finding from the literature is, perhaps not surprisingly, that decentralization strengthens *popular participation*. In Nepal the post-1990 period has seen significant awareness-raising and increased popular participation. Myriads of community-based organizations and NGOs are active throughout Nepal, and many of them have made significant contributions to service delivery. Through the active involvement of user groups, some of them have tackled the even tougher challenge of producing sustainable service delivery. It is important for any future development plans to build on the capacities and competence acquired by communities and to ensure that community structures are not undermined, but rather supported. The political parties are not clear on the role of local governance institutions under a future federal system. Nevertheless, if a new governance system is intended to reflect the diversity of Nepal through the effective participation of all its people, efforts should be put into the design of the sub-federal level.

² Decentralization is used here to include the federal as well as sub-federal levels.

In Nepal the crucial issue for *federal level design* is how political participation could be structured to take into account regional, ethnic, caste, and religious values and interests. The international literature on this issue does not offer effective guidance for donors or governments. Most notably there is contention over the principles upon which decentralization should be built. The main rift runs between supporters of federalism who argue that ethnic groups should be the building blocks of a political system designed to manage differences, and others who argue that a decentralized system should cut across ethnic boundaries and be designed to foster collaboration and transcend ethnic differences. Some recent academic contributions have even warned that decentralization in ethnically divided states is a high-risk strategy that often produces unstable solutions. This debate is reflected in Nepal. Proponents of a federal state in Nepal built along ethnic lines argue that this model will bring the government closer to the people and allow the federal units to address long-standing grievances held by the minority communities. Opponents argue that the non-contiguous ethnic mosaic of Nepal makes the division of Nepal along ethnic lines meaningless as most of the federal units will be composed of a number of different groups, hence creating new minorities. The supporters of an ethnically based federation argue that the new federative units shall enact legislation to secure minority rights and that a number of mechanisms shall be put in place to protect minority rights.

From a conflict-management point of view the international experience with decentralization shows a mixed record. Despite the implicit assumption that decentralization will resolve conflicts, decentralization can also produce new sources of conflict. Care should be taken to ensure that decentralized models have inbuilt mechanisms that can address potential conflicts. In contexts where decentralization succeeds, the process could have a significant conflict-mitigating potential through the mechanisms identified below:

- a broadening of popular participation, in particular by inclusion of minority groups in political processes
- bringing sub-national groups into a bargaining process with the government
- increasing state legitimacy through broadened local popular participation
- establishing state outreach and control in remote areas
- building trust between groups that participate in local governance institutions
- redistribution of resources between regions

Decentralization could also create new conflict dynamics, resulting in:

- Increased conflict between local and national power holders over power sharing. Decentralized units and the resources that accompany decentralization may be used as a basis for political mobilization, increasing the capability of groups to break away. On the other hand the central government may work to undermine newly devolved powers to regain their hold on power.
- Increased conflict between regions, in the absence of national policies that seek to counteract such conflicts. Reallocation of power to sub-national levels may

lead to intensified conflict between regions as resource rich regions may see decentralization as an incentive for separation.

- Disputes at the local level over control of land, resources, aid, etc. Disputes may become exacerbated by undemocratic processes at the local level that foster discontent among the population. Externally funded programmes are particularly vulnerable to exploitation by local strongmen.

Finally, the discussion on decentralization should take into account the wider issue of state restructuring. Most durable multi-national federal governments have practiced consociational forms of democracy at the centre, in the form of: i) cross-community executive power sharing, ii) proportional representation of groups throughout the state sector, iii) ethnic cultural autonomy and formal and informal veto rights. Others have identified federation-wide political parties that need to win support from all groups as a way of balancing majority and minority concerns.

1.6 Conclusion and policy implications

Findings from the international literature indicate that decentralization is most likely to succeed when accompanied by regime change. In Nepal the Maoist insurgency together with political, ethnic, civil society, and community-based mobilization created a unique blend of activism which resulted in inordinate pressure by the people for state restructuring. Since Jana Andolan II new demands have continuously been incorporated in deals between the interim government and representatives of excluded groups. Finally, the CA elections in April 2008 created a new broad forum for deliberations on the key governance issues facing Nepal. Although the three largest political parties have agreed on adopting a federal model, the principles of federalism remain contested; should federalism be introduced along regional and ethnic lines or should the new federal states cut across cultural divides? A new model is likely to result from bargaining between the political parties who will be under intense pressure from ethnic and regional groups.

Regardless of the outcome at the federal level, there is a need to focus on the sub-federal level. A third-tier of government could secure popular representation in development efforts by building on the advances made in awareness, local capacities for development, and political participation at the local level. Popular participation should also be balanced in relation to pressure to deliver quick peace dividends. International guidelines for rebuilding after conflict stress the importance of participation by communities and local governance institutions and warn against compromising on participation. Moreover, donors should take care to ensure that their support for decentralization is balanced between the federal and the local level to avoid taking sides in the realignment of power relations in Nepal.

Earlier experience from Nepal suggests that responsibilities between devolved units should be clearly demarcated and central and sub-national incentive systems should be designed to support decentralized governance. Since decentralization implies reallocation of power, the process often creates a new set of local institutions which serve the interests of particular social groups and often the local elite. One key issue is how to equip decentralized systems to deal with localized conflicts over access to

both government resources (education, jobs, etc.) and natural resources. Another critical issue is how local governance institutions can be designed to act in a non-discriminatory manner towards minorities.

This paper is based on the research project 'Decentralization as a strategy for resolving conflict? Case studies of Nepal, Sri Lanka and the Philippines.' The research is funded by the Norwegian Research Council under the Poverty and Peace Programme. The project formally starts in August 2008. The paper also draws on Decentralization in conflict and post-conflict situations, NIBR Working Paper 2005, no. 139.