

Building State Capacity for Governance Effectiveness in Nepal

Dev Raj Dahal

Introduction

The recent qualitative transformation of international politics has brought the agenda of rebuilding the state's capacity into the forefront of governance discussion. Rebuilding the state requires a viable central structure of the state: a state where parliament continues to legislate, executive develops political leadership, the judiciary performs adjudicatory functions and society participates in public spheres. It also requires the creation of a sound political circuit of the system especially the dynamic orientation of the political parties, parliament and government towards constitutional and institutional arrangements. Institutional effectiveness of the state requires a sound state of political economy especially in handling the tasks of social, economic and political objectives. The establishment of representative nature of policy regime and evolution of strong legitimacy through the organization of various local, sub-national and national self-governing institutions can foster an intercommunication between society and the state, form representative link of the polity and facilitate their functional transformation. The art of institutional design ensure rights of citizens, distribution of political authority, rules of property rights and exchange, coordination, conflict resolution, transparency and accountability mechanism enabling the state to mobilize, politicize and territorialize society and strengthen society's capacity to socialize the state for the rational construction of social and political order. The innovative capacity of state becomes vital to ensure the quality of governance performance and the legitimation of its political action.

The state is a permanent institution to guarantee national security and integrity, institutional stability, collective goods and public information. It has the legitimate power to contain rebellion, collect tax, set rules and allocate resources. As a unitary political community where citizens communicate among each other about politics and public affairs and assert their rights and duties, the state is used as an instrument of collective action at home and abroad. A strong state holds central authority among community, stands above diverse interest groups of society, commands loyalty from citizens and maintains a rule setting and rule execution functions. The state is territorially bounded. It "supports the institutional capacity of government to guarantee and allocate resources efficiently to create the enabling conditions for achieving equitable economic and social development" (Rondinelli and Cheema, 2003: 257). The governance, in contrast, is de-territorialized in its domain of decision-making, rules and actions. Effective governance rests on the premise that "those who exercise the prerogatives of the government can be held accountable to the specifiable terms and conditions of a public trust" (Ostrom, 1988: 404).

Governance is a coordinated regime of diverse actors—public, private and voluntary—committed to influence common goals—national security, rule of law, access to information, participation and provisions of necessary public goods and services to the people. It generates a scope for mutual communication between the leaders of these actors, orients them towards shared goal attainment, jointly establishes public order through principles, norms, rules, policies, institutions and contracts at horizontal and vertical levels and develops a sense of collective identity. "Devising effective governance systems is akin to a co-evolutionary race" (Dietz, Ostrom and Stern, 2003:1907). Sound relationship among the actors is the beginning and ending point for understanding its dynamics and finding the possible concurrence between rational choice of individual actor and public choice they hold in common. As governance has a well-defined utility function, it is confronted with a well-defined set of alternatives (Simon, 1983: 12). The key to the performance of governance in future is legitimate, predictable and accountable collective action. A distinction between good and bad governance is made on the basis of regulating properties of the collective rules that frames political and economic

activities and provides rules and incentives for the management of collective behavior. The collective behavior requires checks to place restraint upon absolute satisfaction of interest by individual actor. Governance, in this sense, implies the restructuring of the legitimate field of action of actors as per the changing nature of the rules of the game. The core functions of one governance actor cannot be reduced to the other. The process of governance is tested on the basis of its legitimacy, transparency, accountability and equity. If each actor stands in a definite relation to other, preserves its own identity and organizes in an institutional network of authority, communication and public action, it can generate potential source of social capital, capture development synergy and help resolve conflicts by addressing the failure of governing structures, conflict dynamics and its root causes. Transaction cost economics holds that “governance is the means by which order is accomplished in a relation where potential conflict threatens to undo or upset opportunities to realize mutual gains” (Williamson, 2001:95).

The cardinal challenge in governance effectiveness lies in defining “rational decisions” of the actors in the spirit of constitution and aspiration of its citizens. Rationality is often connected to the means and goal-directedness of actors. The nature of relations among the governance actors underlines diverse mode of coordination and implementation of laws and agreements to address various layers of collective action problems. The logic of national public action by the state is important in areas, such as consultation, planning, negotiation and decision-making and adapt the society to cosmopolitan culture. National society is not confined to the national state rooted in shared identity, place, descent and language. Markets continuously constitute the post-national constellation through the deregulation of domestic financial system, opening of capital account convertibility, lifting restrictions on foreign exchange transaction and allowing the entry of foreign banks, investments and companies in the country. Civil society is equally competing with the market for societal denationalization and counterbalancing the power of the state for national and international action. These measures are evacuating the local context of political action and exposing the national political economy to undue risks.

The institutional arrangements of people’s organizations, federations and civil societies in Nepal are better suited than market institutions to respond rationally to the problems of “social choice” of diverse people at the local level, achieve the principles of *subsidiarity* articulated in the Constitution of the Kingdom of Nepal 1990, Local Self-Governance Act 1999 and Tenth Five-Year Plan (2002-07) and negotiate the negative effect of market economy. People’s institutions offer a weighty channel to introduce new social responsibility where the government and commerce have dominated many spheres. Participation of people in voluntary associations is positively correlated with income, education and social status. Governance provides scope for the solution of various problems of diverse set of people—constituted as workers, consumers, voters and citizens. Any effort to improve existential condition of various people through rational means is articulated as a condition of modernity, democracy, human rights and emancipation of people. This paper mainly focuses on four basic areas—constitutional political economy, neo-patrimonial political culture, governing the policy making, crisis of development, and draws a brief conclusion.

Constitutional Political Economy

Nepal became a modern state only in 1768. Since then it remains a pro-active unitary community. But, Nepalese live under multi-institutional and multi-constitutional arrangements. Some rules regarding human rights, trade, technology, ecology, etc transcend national constitutionalism. Globalization of local power through local self-governance equally made the logic of collective action extremely heterogeneous. The bond of laws organized at different layers is not precise for law enforcement and resolving collective action problem. The conception of constitutional political economy thus “makes it possible to explore what kind of links exist or can exist between micro and macro constitutional processes and arrangements” (Sabetti,2004:6). Located in the periphery of the global geopolitical system, Nepal has been the

consumer of global ideas (predominantly Anglo-Saxon) and ideologies and institutional arrangements related to security (Gorkha recruitment, Peace and Friendship and extradition treaties and arms assistance agreement), constitutional and political practices (Common Law Tradition and parliamentary polity), scholarship, educational curriculum and development system even before its acculturation to modernity, democracy and human rights. Adoption of the Anglo-Saxon political culture by the Nepalese leaders and policy makers has elevated the institution of private property, private enterprise and private profit “to normative ends in and of themselves, and the fiction of economic man to a pseudoscientific shibboleth” (Levitt, 1995:8).

Constitution empowers the polity through which the people and their representatives are expected to make public policy. Geographical location of Nepal has defined the necessity of different economic policies and institutions, diverse structure of incentives, directions and magnitudes of movements of labor and capital across the borders and their productivity (Olsen and Kahkonen, 2001:11). Impact of global political culture and the behavior of global and regional markets have strongly affected its political and economic destiny. Therefore, every democratic change in 1950, 1979, 1990 and 2001 though aimed to alter property and power relations had to adjust with the national, regional and global imperatives of status quo, stability, capital accumulation, market allocation and, consequently, stymied the possibility of social transformation.

These political movements have left little space for “open moments” for the Nepalese leaders to reflect and construct a Constitution of their own, shape future policy choices, articulate desirable social transformation and make the people the actors of history. Mediation of every movement by outside forces in favor of self-justifying interest groups, market institutions and geopolitics affected the internal equilibrium between the state and society, subverted the ideals of justice and equal opportunity and clogged the prospects for public choice for self-governance. These political movements upheld the vision of a very narrow campaign confined to the restoration of multi-party dispensation and sharing of power by elites rather than freedom from arbitrary power and the constraints of material poverty. But, the expectation of ordinary people participating in the movements was very high, broad-based and radical that sought to anchor the possibility for a decisive break from the shackles of authoritarian past and enhance life-choices. Three national and two local elections and articulation of political messages by political parties and the media further radicalized the consciousness and demands of the poor about improving their living condition. The process of regime transformation, however, often remained incremental and evolutionary. The new elites emerging from the political movement adjusted with the elites of *ancien regime* thus leaving the societal choice untransformed. The enormous disproportion between the strength of customary power and civic power acted as a brake on orderly social change.

The conception of constitutional state remained a key motivational factor in the movement marking a point of discontinuity between two historical periods—between pre-democratic when the state was relatively strong and post-democratic when the state is facing serious crisis due to violent conflict, frequent political agitations and social movements. Heavy dependence on outside powers for legitimacy and power required it to cooperate and collaborate with other states, non-state and other international institutions. Erosion of the central power left the central authority fragmented. And the leadership incompetence remained pervasive due its survival mentality, governmental instability, the paralysis of parliament in representation, policymaking and conflict resolution, structurally incompetent bureaucracies to respond to demands for service delivery for a rapidly changing set of population and overloaded judiciary. Additionally, weak law and order institutionalized corruption, fostered a strong culture of impunity and weakened the national integrity system of the governance. The People’s War waged by CPN-Maoist since 1996 further compelled various governments to confer power and money to the national security establishment,

bureaucracy and aristocracy to defend the *raison d'être* of the state. Does this mean that post-1991 regimes negated the historical achievement of the state to serve public interest and link democratization to social justice? One key challenge for the constitutional political economy of Nepal lies in the adoption of adversarial model of regime where the criterion for rationality is weakened by mutual unaccountability of the stubborn governments and various forms of disloyal opposition thus rendering the state capacity to smooth political interaction fragile.

The Constitution of the Kingdom of Nepal 1990 envisions an open society based on social justice and the sovereignty of people. It also provides parameters within which the struggle of governance actors can proceed in the presence of certain overarching boundaries, rules and limits. “Constitutional rules establish the terms and conditions of governance, including who is a member of a political community, what basic rights and duties are conveyed by membership and how future collective-choice decisions applicable to public, private and common property goods will be made” (Sabetti, 2004: 3). Nepal has ratified the Covenants of the Universal Declaration of Human Rights--on Civil and Political Rights and Social, Economic and Cultural Rights. This brings Nepal's political vision closer to liberal democracy than neo-liberal one. Three key features of the Nepalese Constitution-- right to work (embedded in the Preamble of the Constitution), right to information and public-private partnership--aim at establishing liberty and equality in a mutually congruent course. But, the unsymmetrical level of support by political parties to the Constitution and rival visions reflected in their party documents reveal a lack of national consensus on the question of national political economy.

A liberal democratic state mediates the interests of capital and wage labor and settles class conflicts in society through constitutional means. It socially demonstrates a commitment to a rational economic policy so that majority of people who are poor peasants, waged workers, Dalit and deprived are not sidelined from public discourse and policy attention. The social partnership of the capital with the labor can protect the marginalized through elaborate program of compensatory and entitlement measures and abolition of hereditary feudal privileges. The Constitution says every Nepali is equal irrespective of particular distinction or origin and has an equal claim to a life of dignity as well as political and social equality. Central to the idea of democratic citizenship are the values of participation of people in the sovereignty of the nation. But, the way power was structured in Nepal served only a small powerful group rather than the public at large and political power was virtually unrepresentative of social hierarchy, social diversity and social complexity. As a result, development discourse assumed cultural dimension of identity politics, rebuttals and poignant criticisms of the dominant institutional life of society.

Similarly, the Constitution also limited the power of state to facilitate the society's economic, cultural and moral expression and self-organization of people into civil society. In this sense, it adopted a path of “constructive reform” as opposed to the justification of class conflict adhered to by radical communist CPN-Maoist waging People's War and conservatives fawning class hegemony and hereditary form of patronage politics adhered to by mainstream political parties. The constitutional vision of settling social conflict by democratic legislation crafted on the basis of reason, public opinion, democratic will-formation and social transformation in response to the will of the people hit a critical snag. An inclusive transformation alone can help citizens achieve their sovereignty, self-worth and self-dignity. Due to weakness of elected bodies—political parties, parliament and local self-governance institutions, their frequent dissolution and competitive forms of legitimacy—traditional, electoral and revolutionary—the public accountability in Nepal suffered chronic deficit.

To manage the fiscal crisis of the state, the Nepalese leadership since 1991 bypassed the constitutional vision of social justice and implemented neo-liberal economic policies—fiscal discipline, redirection of public expenditure priorities towards high economic growth, tax

reforms, interest rate liberalization, competitive exchange rate, privatization, trade and foreign direct investment liberalization, deregulation and establishment of property rights. These policies granted autonomy to the capital market, opened up national society to free capital mobility and increased the use of money as the medium of exchange. Its critic, however, argues, "Property rights cannot be established, maintained and enforced by markets alone" (Ostrom, 1988:392). These policies deterred political choices of the state for social action, deconstructed the constitutional vision of a liberal state, de-linked the state's economic connections to the society, widened the existing gap between public and private education, communication, health and economy, institutionalized the existing caste and class power differences, created rural-urban gap and stunted the social mobility of under class in political and public life. The hegemony of market over the state subordinated the political and social life to the accumulation of capital. Noted scholar argues, "Economic liberalization has meant so far mainly the acquisition of norms and values from abroad that the society does not need and cannot afford" (Panday, 2001: 11). The firm presence of the historically evolved causal social order, with caste structure, its socially determined imperatives, its organizations and rationalizations, and its feudal privileges and rights, practically undermined the rational construction of political society. The modern conditions thus confronted the Nepalese politics with poor prospect for success.

The entire political transition period in Nepal remained highly uncertain. As a result, the balance of power between the civic and customary forces remained fragile, national capitalist class could not enjoy decisive power advantage, strategic interaction between the state class and society was inadequate and political power often faced factionalism and stiff resistance causing frequent government change and political standoff. Constitutional politics—involving certain limits on governmental power and guarantee for citizens rights-- thus failed to articulate the public life of society and organize civic power for collective action. Regime was maintained not by negotiation but by hegemonic imposition of rules, fiat and whip that bureaucratized political parties, civil society and the parliament. The individuals in power had often treated the wealth of the nation as their paternal property and formulated public policies accordingly to subsidize their social, economic and political activities. Use of public expenditure to augment the private wealth of powerful persons and the lack of progressive tax system have distorted the utility of economic reforms, stimulated market malfunction and weakened the political will and ability of leadership to distribute public welfare and social justice to the ordinary people. The whole processes undermined the constitutional political economy which opposes a tendency toward political centralization.

The resilience of neo-patrimonial system generated inhospitable climate for democracy consolidation and the development of autonomous civil society to revive the concept of citizenship equality. Growing political factionalism, split and reunion in each political party defy the conception of a shared national identity, a coherent regional and global economic policy strategy and the need for long-term shared developmental goals. The rule of governance, facilitated by an alliance of government elite with a strategic minority of the opposition, neutralized the civil society's power to articulate, communicate and effect collective action. Use of state clientalism to forge intra-elite accommodation across party lines did diffuse the strength of societal power, such as trade unions, human rights organizations, civil societies, women's organizations, etc to articulate and helped to maintain the status quo down to the grassroots levels.

Neo-Patrimonial Political Culture

Nepal's political culture can be described as a neo-patrimonial one. The term patrimonial system defines a situation in which general interests of the state is subordinated to the particular interests of governing class and state-society relations suffer disharmony. In such a condition, the political system becomes indistinguishable from the interests of the governing

class in power. “Neo-patrimonial regimes, given their ultimate political dominance, used external conditionality as an excuse for cutting back on the modern state sectors while protecting and often expanding the scope of the neo-patrimonial state” (Fukuyama, 2004:27). Due to the persistence of strong patrimonial political culture, tolerance of pervasive corruption and a culture of impunity for the powerful segments of society, the formal apparatuses of Nepali state became very weak after the restoration of multi-party regime in terms of structure, resources and performance. The authority of party in power relied on a function of the efficiency of the patrimonial network it controlled rather than institutionalized checks and balance of power. In a patrimonial system, governing class bases its claim to power, authority and legitimacy on informal structures of vertical patron-client relationships, with rewards flowing top-down and support springing from bottom-up in the system. The governing class ensures the political stability of the regime and personal political survival by selectively distributing rewards and services to *affno manchhe* (cronyism) and seeking their *bafadari* (compliance). A patrimonial culture thus places the state class in the position of a giver and the people as the receiver of development benefits, not the claimants of Constitutional rights to development. It does not treat people as co-producer of development but only consumer (Dahal, 2001: 39).

Historically, the governmental power in Nepal often remained structurally undifferentiated from societal interest groups and, hence, the formal structures of the state ill-managed to become impersonal. The wholesale *pajani* (reshuffling of office heads in bureaucracy, regulatory bodies, corporations and development projects) in every change of government without the consent of Public Service Commission (PSC) indicates the resiliency of the patronage system. In fact, it demonstrates the particularistic nature of power. Political power is largely personalized and institution has become synonymous to the incumbent and legitimacy rests on selective practices of redistribution. After all, systems of patronage in weak states, often makes up a resilient societal force: they have survived Shaha dynasty, Rana Oligarchy (1846-1950), failed attempts at democratic transformation in the 1950s, authoritarian Panchayat system (1960-1990), the onslaught of the movement for the restoration of democracy in 1990 and the system of royal cooptation after 2001.

The historical dominance of Kathmandu over the administration and political economy left the state’s penetration into society very poor. Rana oligarchy further centralized and consolidated power and decision making in Kathmandu, pursued socially exclusive, rent-seeking and predatory politics. It was highly resistant to change. The democratic openness and constitutionalism after 1950s also could not give up non-clientalist patterns of social, economic and political organization and change. The post-1992 Nepalese governing class’s justification of ideologically loaded neo-classical free market and neo-liberal globalization policies in the name of historical limitations of the state and the lack of its choices further weakened local power to global forces and limited the writ of the state. These policies, in essence, served their patrimonial interests and have been directed more towards the unification and integration of the Nepali state and its people--peasants, workers and consumers to global capital than achieving just social transformations and helping the governing class to intermediate between their constituencies and policy makers.

In terms of development, a patrimonial system of governance neither successfully innovates to become competitive, nor tends to develop specialization function to unleash the productive forces of society. The political culture of Nepal thus often mirrors a tension between the forces of change and the beneficiaries of the status quo. The new Governance Act 2004 seeks to establish well defined boundaries for civil servants and politicians aiming to establish proper recruitment, promotion, transfer and other facilities as well as provision of quota measures for Dalits, women and ethnic groups to remedy previous inequities and manage conflicts arising from unsatisfied re-distributional demands and expectations. Weakening of regulatory bodies has made anti-corruption drive of the government difficult.

The newly empowered anti-corruption body, Commission for the Investigation of Abuse of Authority (CIAA) is struggling to maintain the financial integrity of the governance. It is, however, absurd to believe that CIAA alone is able to strengthen the foundation of a modern chain of accountability unless civil society, media, Auditor-General and Public Account Committee of the Parliament exert concerted moves to establish inner checks in the polity and prevent the misuse of public resources.

Deeply penetrated by the powerful interest groups of society and international regimes Nepali state can be called a weak one. The weak state can be defined as a relative ineffectiveness of rule of law, leaving powerful persons largely free to decide what they please. The political class of Nepal challenged the state of Nepal on several fronts by tax cutting, privatization and denationalization as well as weakened its all disciplines, coherence and hierarchies. This was combined with the historical migration of the surplus rural labor and landless youths to India, Gulf countries, East Asia and Europe and reduced the strength of dynamic forces of society for social transformation. Excessive focus on market rationality also created problem for the design and implementation of social institutions. "Market structures are not substitute for the whole web of social interactions, nor do they justify libertarian policies" (Simon, 1983:78). As a result, democratic institutions that are supposed to serve the public goods of society suffered mal-adaptation. Market can allocate resources only if prices reflect real costs of production. In the absence of proper government regulation, market incentives in Nepal established corporate monopolies and denied workers' right to livelihoods.

Moving away from the historical social responsibility of the *welfare state* to protect weak, give them justice and settle political conflicts in society, the multiparty political leadership created a *subsidiary state* where rural poor, region and class subsidize the urban, rich and powerful sections of society. The boundaries between the state and non-state actors have been redrawn. As a result, the state began to lose its legitimate monopoly on force, taxation and loyalty of citizens. It also ceded its sovereignty in policy making to sub-national forces, cross-national coalition of various sorts and international organizations. The Nepali state has also lost the capacity to negotiate bilateral and multilateral donors exactly when the economy is being globalized and consequently hard realities of power politics evoked existential crisis, basic needs deficit and death by hunger in remote areas. The Nepali state thus faced challenges on all fronts by tax cuts, privatization and fragmentation of authority and competitive discontent driven by partisan, ethnic, class, communal, religious and regional considerations. The vehicles of privatization reduced the economic power of the state to support the social projects, but not its ministers, police, bureaucracy and chiefs of public sector corporations. As a result, the cost of regular expenditure did not reduce much so that social and economic surpluses can be diverted to productive sectors and increase the state's capacity to serve rural constituencies to develop. The growing conflicts at the structural, manifest and latent levels in the state have roots in the centralization of political power, resources and opportunities in Kathmandu and distancing rural populace from its benefits.

A welfare state treats its people as children, socializes the costs of their well-being and promotes their rights expecting loyalties in return. The government as the executive of the state is given a legitimate role in providing social support to the poor, weak and vulnerable against the economic uncertainty of the market. The weakening of the state, however, drew broad masses into the discourse about the "public space" at both national and local levels and made peace, livelihood and human freedom a major stake for the Nepalese people. The weakening utility of social projects, absolutization of class, caste, ethnic, regional and religious differences and their contestation with national identity, primacy of efficiency over economic security of citizens and the adjustments of the society to global capital demonstrate the erosion of the power of politicians to use politics to empower the public. To correct all these anomalies, Nepalese politics needs a radial cleansing process at the leadership level and bringing "politics back in command," so that politics is not devoid of public policy making

responsibility and the leaders are made accountable for policy failures. Experts and consultants locked into domestic and international power do not perform as “organic intellectuals” and bear the consequence of their flawed policy prescriptions.

The state class largely relied on the centrality of capital in the process of social transformation. Those who supplied the capital cancelled the autonomy of the state, dictated the terms of public policy making and counter-balanced the public sphere committed to the ideals of social justice, rights and virtues. Nepalese political leadership is admirable for their courage (*Gorkhali* culture) in political agitation but it lacks the gift of vision, commitment, management and responsibility to solve society’s problems. Their pre-national political solidarity (*affno manchhe*) weakened the social basis of citizenship as they developed a political culture of clientalism in the state institutions, political parties and civil society. The injudicious application of neo-liberal economics in hunting, pastoral, agricultural and feudal society of Nepal fragmented the labor market and broke the social structure of the “periphery” leaving its politics at the mercy of left radicals and the “core” (Kathmandu) to the conservatives and neo-conservatives hostile towards the just distribution of opportunities and life-chances. Re-centralization of economic decision making in the halls of Singha Durbar has weakened the principles of *subsidiarity* underlined in the Local Self-Governance Act 1999 and the creation of counter project institutions by the government and donors weakened the power of elected political bodies to articulate. As a result, a wide spectrum of political parties and public organizations in Nepal which control public power have not established the kind of ties with society which would help the people and their civil societies identify with the national institutions and mediate the process of interconnection between the society, social classes and the state.

Governing the Policy Making

Nepal’s rapid transition into peripheral capitalism has been facilitated by the mandates of global neo-liberalism, which has been accepted as the cardinal policy of governance by successive Nepali governments (Mishra, 2000:2). This transition was a total inversion of liberal democracy—a democracy that hinges on the projection and representation of political power from society to the state through the medium of political parties, civil societies, public opinion, competitive elections and communication. The adoption of neo-liberal market reforms was the outcome of technocratic coalition of a few economists, consultants, politicians and bureaucrats rather than the expression of Constitutional vision and party manifestoes. If a democratic regime abdicates its manifest public role in favor of state minimalism, it destroys systematically the natural ground of its legitimacy and cannot save itself from mounting popular resistance. In Nepal, wrong economic policies produced systematic race to the bottom dynamics—poverty, inequality, social alienation and political protests exacerbating factional struggle among the establishment, parliamentary political parties and CPN-Maoists over the state power and resources. As a result, the state autonomy and capacity to stand above the interest groups of society and address distributional questions have drastically undermined.

Nepal did not have historically open moments to open up the possibility of self-reflection when its citizens and leaders achieved some real chance of making political and development decisions that could realistically have altered the course of events towards national progress (Bleie, 2003:1-34). Are politicians in command of public policies then? If not, how can they persuade the people to lay claim on those policies not made by them? Do the needs and demands of citizens shape policy agendas? Public policies, argues Joseph Schumpeter, are “based on ideology” (2004: x). The politics of knowledge, therefore, seeks to accord primacy on the interests and purposes of certain social groups and their articulation “in certain theories, doctrines and intellectual movements” (Wirth, 1936: xxviii). Nepal has adopted the International Monetary Fund (IMF) and the World Bank- sponsored Poverty Reduction Strategy Paper (PRSP), the UN formulated Millennium Development Goals (MDGs) as well as bilateral country cooperation framework and

adjusted to effective international policy coordination through Nepal Development Forum (NDF). These policy instruments offer a buffer against domestic political differences while allowing global integration process. The Tenth Five-Year Plan is adapted to these policies to address the appalling level of poverty in the country, achieving high economic growth rate (7 percent), investment in balanced development, social sector development especially uplifting women, Dalits and ethnic groups and achieving good governance. Achieving the objectives of these policies requires sound human resource development, information technology capacity building, institutional reforms and resource mobilization.

To be sure, these policies emerged as an adaptive response rather than optimization of the course of rational progress for Nepalese citizens. It has also weakened the public ownership on the policy and its institutions and postponed the participatory reform process. Political regimes appeared weak in confronting economic and political crisis, sustaining continuity in public policy, allocating public goods and resisting undesirable harsh aid conditions for the fear of losing international creditworthiness. International reform measures designed by donors were also half-hearted. They did not threaten leaders' control over discretionary state resources. The National Action Plan for Aid Harmonization with official objectives and policies does not appear effective. Aid transparency is essential to build trust between recipient and donor and attune both to the sensitivity of political and social condition. Similarly, legal right to access of people to aid and informed appraisal by development aid by the civil society, parliament and public can serve as a powerful counterforce to corruption in public life.

The historical trajectory of Nepal's development consistently points that Nepalese societies, polity and economy have succumbed to non-evolutionary fluctuation mainly induced by the nexus of exogenous forces to national decision making elites. One grim fact of Nepalese policy making is that policy makers seem paying more attention in bringing in the development concepts invented elsewhere in an entirely different context than learning from indigenous practical knowledge and experience evolved historically to address genuine needs of native people. The roles of parliament, National Development Council and the National Planning Commission (NPC) seem to have little role in policy formulation. Despite the implementation of ten periodic plans, Nepal's economic problems remain unchanged since 1950s. The central issue associated with this is the growing gap between political response of social science disciplines and the life-world of majority of people. The practices of knowledge and social sciences in particular became simply the instruments of disciplinary knowledge and disciplinary society caught in caste and class hierarchy, patriarchy and the reinforcement of the strict division of labor. The other is the hegemony of a comprador class and urban bias in the formulation and implementation of public policies. The key decision-makers of Nepal, whether under democracy or aristocracy, come from the urban upper strata of the society not thoroughly socialized with the interests, needs and concerns of majority of rural people. This is why the allocation of development projects and budgets strongly reflects the weight of political interests of those in governmental power. Independent media continuously educate the public about this exacting the accountability of politicians, planners and bureaucracy.

Crisis of Development

How can Nepal state ensure the bright future of its citizens when it lacks the legitimate monopoly of power to consolidate internal sovereignty and bind authority over people and territory? Can development and democracy organized in a security vacuum? In a redefined role of the state due to globalization what kinds of linkages should be strengthened between development and security? The resolution of the crisis of development in Nepal requires a social analysis of several policy choices. Enforcement of certain laws, policies and strategies of development requires an analysis of the context. "The whole process of development, both in theory and praxis, is little more than the ruling elites' concerted efforts to replicate the West by decorating the national economic and socio-cultural landscapes with the images of material glory, the ultimate symbol of Western modernity" (Shrestha, 1997: 31). The reality of political

economy of Nepal is that it is largely characterized by the persistence of an exploitative regime. Majority of those Nepalese standing between the capital and the labor are losing their political and communicative space fast. This means policy regime has to capture the middle ground and development strategies are to be attuned to subsidize the underclass. Decay of middle class and decline of the redistributive capacity of the state have made the political regime the most conflict prone and less reconciling to the public needs. This assumes that development policy of Nepal has to beef up the structural stability of the polity and make “development contract” just and sustainable. A sharp drop in the state revenue has facilitated the decline of middle class in Nepal. Growing political conflict forced the middle class to leave rural roots. The state’s dependence on a few native and foreign comprador classes weakened the tax and revenue base of the state as profits were repatriated abroad. The reckless spending of public money by the government to stay in power and a culture of impunity for the powerful sections of society broke the national integrity system of governance. As an unstable regime with “soft-state” character, Nepal could not fix the long-term development goals for the country, set priorities and design effective and easily implementable policies.

Specialization of agro-products has made Nepal as usual exporter of primary products—the role of a periphery in global capitalism. Now, it is even losing its comparative and competitive advantages in this sector. With an average per capital income of US\$ 250 per annum, Nepal is a poor country by the standards of world development statistics. Nearly 85 percent of people live in rural areas and agriculture contributes 39 percent to Gross Domestic Product. Only about 20 percent of land is irrigated and 20 percent of people have access on electricity. The appalling level of poverty (44 percent in rural areas and 23 percent in urban areas) has fed the movements of rage and embittered the competition for scarce resources.

Great inequality has posed the problem of social differentiation and institutionalization. Economic growth hovers around 3 percent. About 90 percent of workforce is engaged in the informal sector. About 300 thousand people enter into the labor market every year. Over 60 percent of total population of Nepal is below 25 years. Sixteen percent of labor force is unemployed. Due to high population growth (2.27 percent), Nepal's labor market is dominated by the younger generation. But owing to sluggish economic growth, there is no demand for labor. Now, the total labor force in the country is 11 million. Official record indicates only 2 percent of the people as unemployed. But, underemployment rate is widely believed to be as high as 48 percent. About 3 million people are looking for jobs to support their families. The growing policy shift from production and manufacturing to service sectors, rural to urban areas and public to private caused the wholesale decline of institutional public life in Nepal. In historical terms, Nepal is suffering from a poor condition of industrial culture, accompanied by a stagnation of agricultural production. The lack of modernization of the force of production has also weakened the force of orderly social change.

Globalization is weakening the base of social security producing casual labor, contract labor and home-based workers. To increase market transaction, investment and credit, national and global capital markets and their allies in Nepal are demanding increasing labor market flexibility, right to hire and fire, causalization of work and lack of any social security for the workers. Nepal's economic lifeline, to a great extent, depends on the import of tourists and export of unskilled workers. More than 1.1 million Nepalese working abroad annually send more than Rs 80 billion in the form of remittances, which contributes to 18 percent of the nation’s Gross Domestic Product (GDP). Its manpower is not adequately trained to revolutionize the production process due to lack of know-how. The implementation of Agriculture Perspective Plan remains in limbo. The trade agreements with bilateral donors, South Asian Free Trade Agreement and World Trade Organization intended to move goods and foreign direct investments remained free from public accountability. Trade deficit is widening, revenue collection is declining, and security expenditure is mounting while development expenditure is declining.

Resistance to genuine rural and agricultural development policies comes from a) those classes of society who are in a privileged position but do not reinvest their economic surplus to the production; b) the private sector which thrives in tax evasion; and c) contractors, professional class and consultants who are assimilated into domestic and international power structure and are, therefore, unable to perceive local reality. These classes, thriving on foreign aid and appropriation of rural surpluses, give little thought to the collective welfare of the nation and people. The implementation of economic and public policies remains weak not only because of the weak institutional capacity of civil servants but a lack of political interest and the polarization and politicization of the bureaucracy along partisan lines, unintended effect of patronage politics and a lack of public "ownership" in policy content and policy formulation. Worse still, no one assumed accountability for policy failure.

Nepal is increasingly dependent on foreign aid as nearly 70 percent of its development budget comes through foreign aid. Burdened internally by growing amounts of private and public debt, the debt per capita for each Nepali is about Rs. 13,000. Foreign aid has helped Nepal in the expansion of health, education, transportation, communication and electricity but not in the expansion of the structure of production (Panday, 1999) and fight against the problems of poverty created by social and economic power structure. It is immature to blame all the donors because some of them have even assumed the responsibility of generating partnerships, broadening the exchange of ideas and experiences, undertaking the financial cost for the implementation of local development policies and working even in adverse political conditions. Decline in productive activities in both agricultural and industrial sectors, growth in finance and manpower companies and shadow business and excessive import of consumer items and construction activities clearly exhibit as to whom foreign aid has served. The contribution of foreign aid to the structure of production, the maintenance of monetary stability and the promotion of social justice to bridge the gender, rural-urban, regional, caste and class divide, the outcome remains not much encouraging.

Does land reform hold the promises for rational progress? The past governments legislated land reforms several times but the state provided several loopholes in the law so that landlords could hide their lands under different names. Urban elites closed off from the heterogeneity of the needs and interests of majority of people now demand for the redistribution of rural land, fragmentation of rural power and resources and appropriation of rural surpluses, such as educated elite, money and commodities. Rural elites prefer decentralization and distribution of urban power through progressive property tax and sound rural-urban linkages. Underdevelopment of rural Nepal is caused by comprador nature of urban class which in order to maintain its privileged position often tried to deprive majority of poor to achieve social mobility by public education, economy, health and communication. Now, majority of the rural people are suffering from semi-unemployed condition. Stimulating the engagements of the majority in gainful activities is a major policy challenge for poverty alleviation.

A small percentage of urban elite occupies a large chunk of productive lands and there are limited opportunities in non-agriculture sector. Elimination of countless labor-intensive rural small-scale industries due to the urban elites' policy of promoting MNCs, market deregulation, denationalization and open border added further hardships in agrarian life. The unequal distribution of the factors of production and misuse of public resources additionally defy the prospect for equitable and inclusive growth. "The wealthy families are known to park their wealth in financial markets and real estate outside the country" (Panday, 2001: 90). Capital flight and non-investment of surplus capital in agriculture and industry point a trend showing constant decline of progress. Almost similar policy mistakes occur in the implementation of decentralization. If this is the case, why is the implementation aspect not consolidated then? Obviously, decentralization does not serve the interest of urban class's tendency to monopolize power and resources. Decentralization of political power erodes the base of informal political system maintained historically by patron-client relationship and the web of power, improves service delivery and ensures good governance to the rural poor. In such a context, the role of political ideologues lies in

articulating the interests of people and providing them a broad cultural interpretation that explain to activists how deprivations have come about and how to overcome them (Kitchalt, 2003:3).

Conclusion

Building the state capacity is essential to promote the effectiveness of governance—governance that can balance the interests of its three members—public, private and civil societies, creates legitimate public order and generate policy coherence for equitable progress. In a heterogenous social and economic space like Nepal where its periphery is not well connected to the center, Kathmandu, the legitimacy of governance rests on whether enterprises, localities, region and the state can produce widely accepted outcomes for diverse people and construct national identity. Similarly, the effectiveness of the state rests on strengthening the central structure of the state and its political circuits so that its ability to penetrate society is accompanied by sufficient level of representative links and welfare incentives. The congruity of its economic space low lands, Tarai with the political heartland, the hills and valleys, has to be strengthened to achieve the political rationality of economic action. Only then Nepal can cohere the components of security, demography, culture and political economy. The prevention of the growing erosion of native values, rules and interests is central to foster the formation of national community able to compete in the comity of nations. Violent, structural and latent conflicts are draining the social capital and the ability of the state to penetrate society, create authority, maintain security, facilitate service delivery and organize development activities. This means conflict resolution must occupy a central place on the priority of governance reform and respond to the pressure for structural change bubbling from the grassroots. Without capturing the economy of scale through internal market integration as well as creation of a single labor market by means of proper political policy, Nepal's governance trajectory will remain uncertain.

The economic role of the state lies in the management of macroeconomics, infrastructure development, production of public goods and rectification of the structural injustices. Development is about improving the quality of life of people, modernization of productive forces and an alteration in property and power relations to develop citizenship equality and a sense of national political community. The central challenge for Nepalese leadership now is to retain the poor and middle class into party politics and integrate non-class based social movements of women, peace, Dalits, ecologists, professionals, students, etc into its ideology and make the state a responsive institutions capable of addressing deep rooted multi-causal conflicts integrated within the ongoing evolutionary development of society.

Development, democracy and governance subsume the play of politics, ideology, interest, knowledge and power in the real life-world. Political power and social cohesion in Nepal require an efficient governance to control conflict and generate economic efficiency. The exercise of a visionary political leadership is a necessary condition to the creation of a stable political order. A democratic leadership has to find ways to bind civil society and market institutions to statehood and prioritize the interests of the poor and disadvantaged because they are in need of development. It has also to balance the aspiration of Nepalese for identity with the Spirit of the Age. But, the political society must mediate the contradictions of society, between the general and particular interests and the mounting pressure from below for self-governance and above for global integration so that development polices are implemented without much resistance. The moral responsibility springing from the vast poverty in rural areas and the wealth concentration in urban areas has to be mediated by the state by means of providing the most basic services to the people. The country's backwardness can be corrected by removing the structural factors that cause poverty, inequality and breeds conflicts. Without comprehensive political and economic reforms, it would become difficult to democratize the polity and ensure sustainable development. Promoting development in Nepal requires production revolution linked to poverty alleviation.

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