

**EXTENSION OF THE INTERIM STRATEGY
Danish development assistance to Nepal 2008-2010**

December 2008

Extension of the interim strategy for Danish development assistance in Nepal

In June 2006, a two year interim strategy for Nepal was approved. The background for applying an interim strategy instead of the normal five years' strategy was the coup d'état in which the King of Nepal assumed all political powers in 2005 and the very fragile and turbulent political situation in the country. Denmark strongly condemned the King's coup, but wished to continue Denmark's substantial and longstanding development engagement for the betterment of the living conditions for the Nepalese people.

The reason for an extension of the interim strategy until end 2010 is continued political volatility in Nepal that makes it very difficult to engage in a new five years' country strategy. In post-conflict situations, it is very important to have strategic flexibility to adjust to changes. The extension period will also be used to examine the feasibility of joint donor strategies and funding modalities - in line with the Paris Declaration and the Accra Agenda for Action.

Focus areas for continued assistance

The peace process has slowly moved forward, despite many setbacks, since the Seven Party Alliance and the Maoists succeeded in signing a historic Comprehensive Peace Agreement on 21st November 2006. There is, however, still considerable risk of set-backs in the peace process. The challenges and risks of the peace process are the reasons for extending the interim strategy - but also the reasons for the continued Danish support to the peace process with a high degree of flexibility and adaptation to a constant and fast changing political context.

The *strategic objectives* of the interim strategy have been twofold:

- to facilitate and promote the development of a democratic political environment, respect for human rights and rule of law, and a peaceful resolution of the armed conflict; and
- to continue, in spite of political instability, to contribute to poverty reduction in a peace- and conflict-sensitive manner through economic growth and improvements of service delivery, targeting the poorest segments of the population.

These two strategic objectives are still relevant and will guide the areas of focus in the interim strategy until end 2010. The areas of focus of the Danish assistance to Nepal will therefore be as follows:

- to continue the substantive and longstanding engagement in the education (a new phase is expected to begin in 2009) and energy sectors, and thereby ensure service delivery to the poorest segments of the population in these sectors.
- to continue the longstanding Danish support to human rights, democracy and good governance. From 2009, the programme will focus on fewer civil society partners and move from project support towards core funding of partner's strategic plans. Support will also be extended to some state institutions, including a new national programme for local governance.

- to continue the Peace Support Programme. In the first phase (50 million DKK approved by the Danida Board in March 2007) Denmark has supported the preparations for the election for the Constituent Assembly, observation of the election, local dialogue regarding the peace process, and preparation of the reintegration of Maoist soldiers, collection of explosives and arms and conflict mediation. A review in January 2008 found the support to the peace process to be highly relevant in the present context, in which the need for different kinds of interventions and support evolve with short notice. The review concluded that the support has functioned as an important strategic and flexible instrument for the Danish engagement in the political and security aspects of the peace process. The continued Danish assistance to the peace process is harmonized with national priorities and other donors. A second phase (50 million DKK) has been approved by the Board of Danida in August 2008 and the support is expected to be given for the Constituent Assembly, demobilization and reintegration, Security Sector Reform, and other important areas for advancing the peace process to a logical conclusion.

See Annex 1 for disbursements and commitments under the interim strategy.

Political context and the peace process

From 1996 to 2006, Nepal was engaged in a civil war between Government forces and the Maoists (CPN-M), which left an estimated 13,000 dead. The war was finally brought to a halt with the signing of the Comprehensive Peace Agreement on 21st November 2006. The move towards peace gained momentum when an alliance of the seven mainstream parties (the Seven Party Alliance - SPA) reached a 12-point agreement with the Maoists in late 2005 to combat the rule of the King, who had assumed power in a coup d'état in February 2005. This convergence was made possible when the King failed to gain national and international support and clearly failed to achieve his stated aim of bringing the war to an end.

The anti-monarchy alliance culminated in a mass movement in April 2006, forcing the King to give up direct rule and reinstate the Parliament, which had been suspended since October 2002. The reversal of the royal rule was only possible due to a popular mobilization, which was promoted by a broad alliance of the traditional parties, the Maoists and civil society groups. It led to an immediate ceasefire, and opened the possibility for peace talks, which culminated in the Comprehensive Peace Agreement. The UN Security Council reacted by fielding a UN Mission in Nepal (UNMIN) in 2007 with the mandate to monitor arms management and provide election advice.

One of the key successes of the Comprehensive Peace Agreement was to remove the two armies from the political centre-stage by setting up 28 cantonments for the Maoist People's Liberation Army (PLA), and at the same time confining the Nepal Army (NA) to barracks. Another major achievement was the successful holding of election to the Constituent Assembly (Parliament) on 10th April 2008. This election followed two postponements of elections in June and November 2007.

However, the process from the Comprehensive Peace Agreement to the Constituent Assembly election has been difficult and throughout the period critical aspects of the peace process have been used by one side or the other for tactical purposes, or ignored. The Comprehensive Peace Agreement provided for the rapid incorporation of the Maoists in the Interim Government, but this was only achieved 6 months later on 1st April 2007. In between, a new uprising took place in the early months of 2007 as the Madhesi population in southern Terai plains, mostly in the Central and Eastern districts, protested against that the Comprehensive Peace Agreement, claiming that it did not address historical exclusion of the Madhesi from national politics. The strikes, shut-downs and protests left over 30 people dead and radically transformed the political picture. Other caste and ethnically based grievances also emerged, notably among the indigenous Tharu, Limbu and Rai-communities, and the so-called “lower castes”, including the Dalits (untouchables).

As a wide variety of protests from many different groups flared up throughout the country, it became clear that the years of insurgency and the subsequent Comprehensive Peace Agreement had stimulated more expectations than had been anticipated or that could be addressed in the short-term. A series of talks and agreements with protesting groups in late 2007 and early 2008 created the conditions under which the April 2008 election could take place. However, as is often the case in Nepal, the political agreements, made to overcome particular deadlocks, were not implemented. The most important of these post-Comprehensive Peace Agreement deals was the 23-point agreement of December 2007, which restated commitments to a range of issues in the Comprehensive Peace Agreement, including the immediate establishment of several commissions that should enable Nepal to deal with the post-conflict situation. None of these bodies were actually established, thus further entrenching a pattern of broad political commitments without follow-up.

For the Maoists, it has been a challenge to move from an insurgency movement to a political party in government. An initial Interim Government set up after the April 2006 uprising proved to be barely functional and incapable of taking the required policy decisions in a timely fashion. In opposition the Maoists had few clear policies as opposed to broad slogans and oppositionist stances, and only chalked up limited achievements. The period since April 2006 has been characterized by crisis management, with political parties adopting strong positions and engaging “position” battles, often through the media rather than through formal mechanisms. The interim period failed to build trust between the parties and to prepare them for the demands of coalition politics.

Although the Comprehensive Peace Agreement was a major step forward, it fell short of giving a clear road map for addressing key issues. The future reform of the two armies was vague and ambiguous, leaving the issue of the security sector reform to be resolved during the constituent assembly. Similarly, the new Government needs to deal with the issue of lands confiscated and (re-)distributed by the Maoists during the civil war, none of which has been returned despite repeated assurances to the contrary. The country was in a pre-election mode from November 2006 to April 2008, during which discussions were limited to deals on power-sharing. The other peace issues were left suspended and now need to be addressed urgently.

In the interim period, there was a disappointing failure to make significant progress on human rights issues. The end of the war resulted in a reduction in the number of the most serious

violations of human rights. However, there was no move towards ending impunity. The new leadership has yet to demonstrate that it can and will ensure the protection and promotion of human rights in Nepal. Denmark, through its long standing support to human rights and good governance in Nepal, has supported a number of organisations which monitor the situation, engage in advocacy work and put pressure on the conflicting parties to make tangible improvements.

As noted, a major achievement of the interim period was holding of election to the constituent assembly on 10th April 2008. The Maoists won a convincing victory in the election, gaining about 30 % of the votes. Two newly established Madhesi parties together polled around 15 % of the votes and were also clear winners. The two traditional parties, Nepali Congress (NC) and the Communists (CPN-UML) had unexpectedly poor results. A positive result of the election was that traditionally excluded groups now have unprecedented representation in the constituent assembly. Women make up one-third of all MPs, over 5 times more than in the 1999 election. All in all, the outcome of the election has produced by far the most representative legislature in Nepal's history.

It took five months of negotiations before a Maoist-led coalition government together with CPN-UML, a Madhesi party and three small parties was formed in August 2008. During this period, the peace process was at a standstill. The only important decision by the constituent assembly was the solid majority vote in May 2008 to abolish the monarchy and declare Nepal a republic. The new Government is now facing the difficult challenges of bringing the peace process to a logical conclusion, drafting a new constitution, and providing the expected peace dividend to the people.

Challenges to the peace process

The challenges that Nepal is facing can be summed up as follows:

Keeping up momentum in the peace process: In the period from the political agreement on the election date in early 2008 and until the formation of the new Government, the peace process has been at a standstill. It is important to ensure that the political parties fulfill the commitments of the Comprehensive Peace Agreement, including the integration of the Maoist combatants, land reforms, the issue of people who have disappeared, and dealing with transitional justice issues, e.g. establishing a truth and reconciliation commission.

Ensure an efficient and inclusive process of drafting the new constitution: No discussions on the different elements of the constitution, including difficult issues such as the power sharing between the President and the Prime Minister, as well as the principles for restructuring the state have been held.

Ensure inclusion of marginalized groups at all levels of the Nepalese society: The political, social and economic inequalities, which have existed for centuries, were the reasons behind the violent conflict. If these are not addressed, lasting peace cannot be reached. The Maoists have promised significant improvements in these areas, but delivery is dependent on support from other political parties.

Ensure fulfillment of democratic principles by the political parties: Especially the Maoists need to be both encouraged and pressured in the process of transition from a rebel movement to a democratic political party. It is also necessary to remind the other political parties, including the new Madhesi parties of their democratic obligations.

Ensure law and order: There is an urgent need to ensure enforcement of law and order throughout the country. Actions must be taken to stop political groups using violence instead of arguments, to stop criminals who operate freely in the vacuum of an inefficient police and justice system, and misuse of power and corruption in the public sector.

Tangible improvements in human rights and addressing impunity: All political parties must be held responsible to fulfilling their promises, including reforms in the justice sector, strengthening the National Human Rights Commission and implementing its recommendations, as well as establishing a truth and reconciliation commission. The mandate of OHCHR should be extended in order to maintain international pressure.

Ensure the continued international support to Nepal: It is important that the international community continue to support the peace process. There is a need for leverage on all parties to ensure continued progress of the peace process. All steps must be taken to ensure that Nepal does not become a “failed state”.

Deliver a clear peace dividend for the Nepalese population: Disappointments with unfulfilled promises risk becoming a basis for renewed unrest and conflict. Therefore, tangible social and economic improvements for the ordinary population must be ensured. Improvement of local governance is a key element to improve conditions in the districts and development assistance can play an important role in this.

Annex 1

Indicative Commitments (DKK Million)	2007	2008	2009
- Education Programme	-	-	290.0
- Rural Energy Programme	160.0	-	-
- Human Rights and Good Governance Programme	-	170.0	-
- Local Grant Authority and other projects	10.0	10.0	10.0
- Support to Peace process	50.0	50.0	-
<i>Total</i>	220.0	230.0	300.0

Indicative Disbursement (DKK Million)	2007	2008	2009
- Education Programme	120.0	110.0	83.0
- Rural Energy	30.0	36.0	32.0
- Human Rights and Good Governance Programme	24.0	25.0	30.0
- Local Grant Authority and other projects	12.0	12.0	10.0
- Support to Peace process	34.0	7.0	50.0
<i>Total</i>	220.0	190.0	205.0