

SPATIAL-HORIZONTAL INEQUALITY AND THE MAOIST INSURGENCY IN NEPAL

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ABSTRACT

The Maoist insurgency in Nepal is one of the highest intensity internal conflicts in the world at present. Investigation into the causes of the conflict would suggest that grievance rather than greed is the main motivating force. The concept of horizontal or inter-group inequality is highly relevant in explaining the Nepalese civil war. This has both an ethnic and caste dimension. Additionally, there is also a spatial aspect to the conflict, which is most intense in the mid and far western regions of Nepal, which are economically the most disadvantaged in terms of human development indicators and asset (land) holdings. This conclusion is based upon district wide data on human development indicators for the year 1996, which is the date when the armed Maoist insurgency, or people's war commenced, as well as data on landlessness and conflict intensity. Using the intensity of conflict (measured by a count of the number of deaths) as the dependent variable and HDI indicators and landlessness as explanatory variables, we find with Poisson regression analysis that the intensity of conflict across the districts of Nepal is most significantly explained by the degree of inequalities.

This version: 28th February 2003

* This paper is based on a study commissioned by the Department for International Development (DFID) of the UK in 2002. The views expressed in this paper are, however, those of the authors and not necessarily those of DFID.

1 Introduction

The landlocked Himalayan kingdom of Nepal is in the grips of a Maoist insurgency. Nepal is a low-income developing country; it also ranked 129th out of 162 countries in the composite human development index (HDI) in 2001, making it a low human development nation (see UNDP, 2001). Nepal is also a new democracy; prior to 1991 it was an absolute monarchy. Nepal is composed of 75 districts across five geographical areas: Eastern, Central, Western, Mid-Western and Far Western. Each of these areas is divided into three ecological zones: mountain, hill and plain (Tarai).

The Maoist insurgency in Nepal began in 1996. (See Bray, Lunde and Murshed (2003) for further details on the origins and time-line of this conflict.) Judging by the number of casualties, it is one of the highest intensity internal conflicts in the world at present. The conflict in Nepal recently (from November 2001) entered into a new and greater phase of conflict intensity.¹ Prior to the period of the first peace talks (July-November 2001) the total number of casualties numbered 1593 in the “People’s War” or first phase of the present conflict between 13 February 1996 to 26 July 2001, see Gautam (2001). This means that it was a medium intensity conflict, with engagements taking place mainly between the police and Maoists. After the failure of peace negotiations it has assumed the character of a high intensity conflict involving the Royal Nepalese Army (RNA). See Wallenstein and Sollenberg (2000) for the definition of conflict intensity². In Nepal there were 2046 conflict related deaths between 23rd November 2001 and 3rd April 2002. This death toll continued to mount in 2002. The civil war has led to widespread human rights abuses (see, Amnesty International, 2002) including the murder, rape and torture of civilians by the RNA, extortion and the use of civilians as human shields by the Maoists.

It is the contention of this paper that inter-group inequality and landlessness play a central part in motivating and sustaining the conflict in Nepal. The concept of horizontal or inter-group inequality, which is highly relevant in explaining the Nepalese civil war, has both an ethnic and caste dimension. Additionally, there is also a spatial aspect to the conflict, which is most intense in the mid and far western regions of Nepal, which are economically the most disadvantaged in terms of human development indicators and asset (land) holdings. This conclusion is based upon econometric analysis using district-wide data on human development indicators (UNDP, 1998) for 1996, the year the conflict commenced, district-wide data on landlessness as well as geographical characteristics, alongside figures for fatalities in all of the districts of Nepal. Using the intensity of conflict (measured by the number of deaths) as the dependent variable and HDI indicators and landlessness as explanatory variables, we find that the intensity of conflict across the districts of Nepal is significantly explained by inequality indicators.

The rest of the paper is organised as follows. Section 2 looks at horizontal inequality and other explanations for contemporary civil wars in developing countries. Section 3 moves on to apply these ideas to the specificities of the Nepalese case.

¹ At the time of writing, late February 2003, a cease-fire is in effect.

² Low intensity armed conflict: at least 25 battle-related deaths per year and fewer than 1000 battle-related deaths during the course of the conflict. Medium intensity armed conflict: at least 25 battle-related deaths per year and an accumulated total of at least 1000 deaths, but fewer than 1000 deaths per year. High intensity armed conflict: at least 1000 battle-related deaths per year.

Section 4 outlines the econometric results, and finally section 5 concludes with policy recommendations.

2 The Causes of Civil War and its Persistence

2.1 Greed Disguised as Grievance

In recent years, economists have started paying much more attention to internal conflict, motivated by the pressing need to understand continued development failure, especially in Sub-Saharan Africa. This literature makes a distinction between *grievance*, based on a sense of injustice due to the way in which a social group is treated, often with a strong historical dimension; and *greed*, an acquisitive desire similar to crime, albeit often on a much larger scale. Few would claim that these motives are entirely separate in practice, but the distinction can be a useful analytical starting point. According to the proponents of the greed theories of civil war, “greed” is disguised as political grievance. See Berdal and Malone (2000) and Collier and Hoeffler (2001) for examples of these types of arguments. By contrast, the alternative set of explanations emphasises grievances, particularly discrimination against well-defined groups based on ethnicity or religion. The inequality that arises from this process is described as *horizontal* inequality (see Stewart, 2000), which should be distinguished from vertical inequality across a relatively homogenous community.

Discussion of greed as a motive for conflict has mainly arisen in the context of natural resource endowment, an abundance of which—at least so far as valuable minerals are concerned—appears to increase the risk of a country falling into serious conflict. Greed might drive civil war, but it is mainly in the context of capturable resource rents, such as oil, diamonds or drugs, where poverty and grievances also play a part in fuelling war. Addison, Le Billon, and Murshed (2002) argue that it is not only resource rents that cause conflict, grievances also play their part in fuelling conflict, as does *poverty*. Above all, poverty makes soldiering less unattractive.

Most contemporary civil wars in developing countries have an ethnic dimension, in the sense of well-defined and ethnically distinct groups fighting one another. One reason is that ethnicity resolves the collective action problem of mobilising groups to fight one another. Ethnicity, whether based on religion, language or some other form, is a powerful organising principle, far superior to social class. It overcomes the collective action problem (Olson, 1965), whereby groups are unable to cooperate due to mutual suspicions. Well-defined grievances, however, are required for ethnically based conflict, and these must be seen and believed to be the case. That is why horizontal inequality can be so important. Some of the causes of this type of inequality may be historical, others are a product of discrimination and policy failures. Of course, collective action based on ethnicity requires conflict entrepreneurs or warlords to do the organising (Gates, 2001). Some of the salient aspects of horizontal inequality are briefly described below:

- *Asset Inequality*: Land inequality, the dispossession of peasant communities, and the limited poverty reduction associated with economic growth in highly unequal societies provide fertile ground for insurrection particularly when the dispossessed belong to separate and distinct groups drawn along caste, ethnic or religious lines.
- *Unequal Access to Public Employment*: Discrimination in the allocation of public employment is particularly resented in societies in which it represents the principal avenue for personal advance.

- *Unequal Access to Public Services and Over-taxation:* The over taxation of smallholders encourages insurrection, and indigenous peoples often face discrimination in access to schooling, health care, and public-sector jobs. Where there are inter-group fiscal transfers, which may take the form of spending on education and health for disadvantaged groups, or including them in government employment, commitment to the transfer by those in power may be imperfect.
- *Economic Mismanagement:* The risk of civil war is greater in low-income developing countries where poverty and poor human development indicators abound. Societies characterised by poor governance and widespread corruption, especially amongst the elite, are also more prone to conflict. The absence of economic opportunities, associated with low growth rates, landlessness, unequal access to education and skills can contribute to the risk of war. In fact the lack of normal economic occupation amongst young males, has been found to significantly contribute to the risk of civil war, Collier and Hoeffler (2001).

In practice greed and grievance are inextricably intertwined. Conflict motivated by grievance can acquire an acquisitive character as the once marginalised are tempted by the profit to be derived from power; civil war motivated by the desire to capture resource rents can breed grievance as lives and property are lost in the course of combat.

2.2 The Breakdown of the Social Contract and Institutions of Conflict Management

The catalogue of reasons presented above pertains to the *risk* of war. For large scale violence to break out other factors must be present. Not all societies with characteristics contributing to the risk of conflict, even those highly at risk, descend into open warfare. For that to occur there has to be a failure of the institutions of conflict management. This is what Addison and Murshed (2001) and Murshed (2002a) refer to as the social contract. Such a viable social contract can be sufficient to restrain opportunistic behaviour such as large-scale theft of public monies or resource rents, and the violent expression of grievance. Conflict-affected nations typically have histories of weak social contracts, or a once strong social contract that has degenerated.

What causes poor institutions to emerge? Several theories abound in the endogenous political economy literature, see Murshed (2002b) for a survey. Some authors such as Acemoglu, Johnson and Robinson (2001) date poor (or good) institutional determination to at least a century ago, and the pattern of colonialisation. More important is the fact that in certain cases an extractive and predatory pattern of production is set up. This prevents superior institutions, especially related to property rights and the rule of law from taking root. An extractive or predatory form of production can also be associated with feudalism, and the generalised tax farming associated with it. As the extractive state is expropriatory and predatory, bad institutions emerge and become entrenched over time. Such societies also tend to depress the middle-class share of income in favour of elites, as in Latin America (Easterly, 2001). The idea being that these elites, in turn use their power, identical with the forces of the state, to coerce and extract rents (Bourguignon and Verdier, 2000). The important point made by Easterly (2001) is that small elite-based societies do not have a stake in the long-term development of the land. Unlike in middle-class dominated societies, publicly financed human capital formation and infrastructural

development falls by the wayside, hence depressing growth prospects and increasing the risk of conflict.

Are democratic societies less prone to descend into violent conflict? Hegre, Ellingsen, Gates and Gleditsch (2001) have demonstrated a U-shaped relation between democratic institutions and the incidence of civil war over time. The probability of civil conflict is lowest both in established, well functioning democracies, and perfect autocracies. It is at some intermediate or transitory stage between autocracy and democracy that the risk of internal conflict is greatest. This suggests that state failure is more likely in between autocracy and well-functioning democracy. In this connection it should be pointed out that until recently (1991) Nepal was an autocracy, the transition to democracy is still at an early stage, increasing the risk of conflict in Nepal. Indeed, Hegre, et al. (2001) find that political transition is a primary factor.

The duration of conflict is clearly related to the financing of the war effort, especially but not exclusively for the rebels (Addison, Le Billon and Murshed, 2001). The work of Buhaug and Gates (2002) suggests that in general civil wars and conflict in the context of a mountainous region or where the conflict zone abuts an international frontier can increase the duration and intensity of the conflict. Fearon (2001) argues that civil wars with “sons of soil” dynamics (involving secession and possibly ideology) can last longer than a simple attempt to overthrow the government via a military coup.

Generally, speaking the longer a conflict persists the greater the price of peace in terms of the concessions that need to be made. The work of Walter (2001) across a cross section of countries demonstrates that it takes several attempts at peacemaking, and many failed peace agreements, before lasting peace emerges. This suggests an imperfect commitment to peace at various stages by the belligerent parties to civil war and insurrection. As Addison and Murshed (2002) point out this may be because of an impatience to consume rents and revenues that arise only in the context of war. These rents may also emanate from the war economy. Fearon (2001) also argues that the failure of commitment to peace is due to a perception that there is a chance of outright military victory, however small its probability, implying that the loss from making the concessions that will achieve peace is perceived to be very high. In other words, belligerents feel that the costs of making peace in terms of the necessary reforms and concessions are too high.

3 Horizontal Inequality & Institutional Failure in Nepal

The cultural context of the Nepalese conflict is analysed in detail in Bista (1991). The overlap between caste and ethnicity in explaining horizontal inequality in Nepal occurs because people from the less privileged castes in Nepal (the non-Bahun-Chetri-Newari peoples)³ are often also from different ethnic groups to the elite. Since the civil war in Nepal has an ideological orientation (Maoist) it also brings in an element of class struggle, and is an extension of political struggles against elite (Bahun-Chetri-Newari) domination of political and economic life. There is little in the sense of capturable natural resources in Nepal to point to “greed” as a motivating

³ In traditional Indian Hinduism there are five castes: Brahmins, Kashtriyas, Vaishyas, Sudras and outcastes (untouchables or Dalits). The first two correspond to the upper strata of society. In Nepal they are known as Bahun and Chetri respectively, to which the Newari group is added to form the upper caste group. Ethnic groups in the hills, mountains and the Tarai constitute the lower castes. Nepal also has its untouchable or Dalit group who are frequently referred to as the “occupational” castes.

factor in the onset of Nepal's conflict, unlike in much of Africa. The circumstances here point to grievances as the major catalyst for conflict, at least on the Maoist side, although greed related motivation could emerge once war is underway.

3.1 Horizontal Inequality in Nepal

Data pertaining to the human development index are presented in Table 1, where Table 1A refers to the period 1999-2000 (the latest available data) and Table 1B reports statistics for 1996, when much more detailed information at the district level was available.

Nepal made progress in terms of the human development index (HDI) between 1996 and 2000, with the national HDI rising from 0.325 to 0.466. (The HDI is an equal-weighted sum of income per-capita, educational attainment and longevity). The improvement in Nepal was mainly a result of a rise in the adult literacy rates. The poverty head count according to the national standard of Nepali Rs. 4404 per annum was about 42 per cent (42 per cent of the population live below the national poverty line). If we look at the purchasing power parity (PPP) GDP per-capita or income per head across the regions we will find that it had worsened for the Far-Western and Mid-Western regions between 1996 and 1999. Thus, these regions, which constitute the starting point of contemporary Maoist armed struggle in Nepal have not benefited from recent growth in the rest of the economy, *prima facie* evidence of *worsening* horizontal inequality. The picture is even more startling when we examine district wide data for 1996, the year in which the current people's war commenced, (sourced from UNDP, 1998). Mid-Western districts such as Rolpa, Jajarkot and Salyan had 25, 19 and 17 per cent respectively of the average income in Kathmandu. In the Far-Western district of Achham the average income was only 24 per cent of Kathmandu in 1996. Accompanying the per-capita income differentials are wide gaps in HDI indices. For example, the HDI for Rolpa, Jajarkot and Salyan were only 45, 44 and 35 per cent respectively of the Kathmandu level in 1996. In Achham, the HDI for 1996 was only 39 per cent of Kathmandu. All of these indicators evidence extreme inequality vis-à-vis the capital in areas that can be described as the major flashpoints of the Maoist insurgency.

Table 2 presents inequality across caste lines, another and perhaps more powerful form of horizontal inequality. The upper castes (Bahun-Chetri-Newar) constitute only 37.1 per cent of the population according to the 1991 census, yet their human development indicators can be about 50% greater than the hill ethnic, Tarai ethnic and occupational caste groups. Income per-capita amongst the hill ethnic groups is about 55% of Newaris. All societies exhibit inequality, but here it is not socio-economic inequality across a homogenous population, but divided up along ethnic, geographic and caste lines. The most striking evidence for this is the fact that the measure of vertical inequality, the Gini coefficient at about 0.35 does not make Nepal an excessively unequal society by developing country standards especially in Africa and Latin America (compared to approximately 0.58 for Brazil and South Africa). The Gini coefficient is constructed across ethnically homogenous income quintiles. Once caste and ethnicity is factored in, Nepalese society may be more unequal than the ordinary aggregate Gini coefficient might suggest.

Table 3 presents the breakdown of the composition of the central civil service by caste. Not surprisingly the upper castes dominate, and their representation is vastly in excess of their population share. It shows that, at least in the upper echelons (the level of Secretary and Joint Secretary), Bahun-Chetri-Newar domination in 2000 is

even more entrenched in the post-democracy era, compared to 1989 when Nepal was under the direct rule of the monarch. This reflects endemic educational inequality along caste lines. According to Gurung (1998, p 121) in 1992 about 87 per cent of all graduates came from the higher castes. The lack of employment opportunities of ethnic peoples at the level of central civil service, combined with landlessness and the debt trap, greatly reduces their opportunities for peaceful employment, making the alternative, armed rebellion a less unattractive option (Grossman, 1991).

Table 4 presents the pattern of landholding in Nepal based on official figures. It shows that following land reform and land ceiling acts, the percentage of large holdings (greater than 4 hectares has declined), as is the area covered by large holdings. But the percentage of medium sized holdings (1-4 hectares) shows an upward trend, at least in terms of the acreage or area covered by such holdings. It also suggests that there is a great deal of avoidance of land ceiling legislation by parcelling off ownership to relatives. The area covered by small-holdings appeared to be on the rise during the 1980s. The 2001 census states that about 1.2 million households, around a quarter of total Nepalese households, are landless. It is not landlessness *per se* that is the problem (Nepal may have less landlessness than other more populous parts of South Asia), but corrupt practices associated with land redistribution and the even more invidious debt-trap nexus that lie at the heart of rural grievance so central to the Maoist uprising. These are considered in the next sub-section.

3.2 Institutional Failure in Nepal

The Bonded Labour (Kamaiya) System: This practice is quite widespread in the Tarai and Mid-Western regions of Nepal, and has its historical antecedents in a system of compulsory unpaid labour services, which all classes except the exempt Bahuns and Chetris had to render. The modern Kamaiya system is related to the debt nexus (saunki), which forces the indebted to render labour services in lieu of debt servicing. In principle, there is a voluntary contract entered upon every mid-January (Maghi) lasting a year, but in practice the renewal of the contract is based on compulsion, and occasionally the falsification of debt outstanding (Karki, 2001, chapter 4). The movement against this system began in the 1950s. But importantly this campaign has intensified, especially within the Kamaiya community with Maoist support, after the restoration of democracy in 1991. The failure to deal with this problem, and the inhuman cycle of debt and deprivation that it involves is very much part of the institutional failure that has fuelled conflict in Nepal. This evidenced by the fact that it was only officially abolished on 17th July 2000. Land given to the Kamaiyas under official land redistribution systems has eventually ended back in the hands of the erstwhile landlords, with the Kamaiyas once again falling into debt owing to their inability to generate enough income from their temporary land tenure rights, due to skill shortages amongst them.

Landlessness (Sukumbasi): Along with the Kamaiya system, landlessness and the unfair practices connected with it are at the centre of rural unrest fanning the Maoist insurgency. According to Karki (2001, chapter 5) the various attempts at land reform since the 1960s motivated by donor (American pressure) to contain the spread of communism in Asia failed to successfully redistribute land amongst the landless. The movement against landlessness debt, and the struggle for the security of tenure dates back to the 1950s, and was not always non-violent. Force, including Indian army personnel were used to suppress these rural uprisings (Karki, 2001). Central to the movement was the destruction of (sometimes false) mortgage and debt documents, a

practice continued by contemporary Maoists. Government attempts at land reform were only partially successful. Redistributed land ended up in the hands of the non-poor, and as long as the debt nexus was not modified, the burden of debt servicing rendered the recent landless, landless once again. It can be argued that the movement for land rights forms the basis of Nepalese communism, and the modern Maoist movement.⁴

The Extractive State: A case can be made that the Nepalese state since the Rana period (1846-1950), has been extractive in the sense of exacting excess rents from the peasantry and smallholders. The landlord was a tax farmer. The effect is the development of poor institutions as discussed above, and the lack of economic growth is due to poor infrastructural development and low human capital formation. The state has no stake in the long-term development of the country and is akin to a roving bandit, and not a stationary bandit with an encompassing interest in the land (Olson, 1996). It also lacked the far sightedness (or a sufficient fear of communism) of the leadership in North-East Asia (South Korea and Taiwan) who redistributed land, which proved central to their future development. South-East Asian countries, such as Malaysia, have also pursued redistributive policies and prospered, avoiding conflict in the process. In Nepal, on balance, the state has chosen to suppress rather than placate or remedy grievances, particularly rural demands. Nepal's imperfect democracy since 1991 has raised expectations but failed to deliver. Above all, the state is seen to be ineffectual and corrupt. In many ways, therefore, corruption and rent-seeking politicians have replaced the former feudal tax farmer. State failure in Nepal was highlighted in the late 1970s by Blaikie, Cameron and Seddon (1980).

4 Empirical Results

4.1 Hypotheses:

Our central hypothesis is that violent civil conflict or its intensity is caused by asset and income inequality. Landlessness serves as a proxy for the former, while HDI (Human Development Indicator) is a proxy for the latter. We further hypothesise that natural resource rents are absent. Moreover, we posit that criminality and loot are not currently an issue in the Nepalese conflict.

4.2 Data

To evaluate civil violence we examine the number of people *killed* in each of the 75 districts of Nepal, which is analysed with respect to a common set of independent variables. The data for the dependent variable are based on Gautam (2001). The common independent variables are also based at the district level and include: *life expectancy, years of schooling, education, landlessness, a natural resource index, road density, extent of mountainous terrain*, and an interactive term regarding *resources* and *mountainous terrain*. All independent variables pertain to the initial period of conflict onset. These data come from the UNDP (1998). The summary

⁴ The declaration of the Nepalese Communist Party in 1949 began with the following slogan (Karki, 2001, p153):

Pahad, Parbat, Khola, Nala, Sabko
Malik Hami, Dash Banau Kina Hisha Sabko
The mountains, river, rivulets and land is everyone's
We are masters, why should be slaves, we all have a share in it.

statistics for these data are presented in Table 5. The count is a cumulative value of the number killed.

4.3 Method and Results

To examine the data on specific counts of incidents of civil violence, we utilize a Poisson regression analysis. The Poisson distribution is especially appropriate when dealing with small numbers of events. The Poisson distribution describes the probability that an event occurs λ times given that each occurrence is independent and has a constant probability.⁵ The shape of the Poisson distribution depends on the value of its mean (which is equal to its variance). If the mean is close to zero, then the distribution is skewed; if the mean is larger, the peak moves further from the vertical axis. (If the mean is very large, the Poisson distribution can be approximated with the normal distribution.) See Figure 1, which portray the distribution of the dependent variables. This distribution is clearly skewed, demonstrating the appropriateness of Poisson regression analysis.

The Poisson distribution for Y_i is a function of λ , the mean probability of an event occurring in a fixed period:⁶

$$Pr(Y_i = \text{event of violent civil conflict}) = f(y_i) = \frac{\exp(-\lambda_i)\lambda_i^{y_i}}{y_i!}.$$

We reparameterise λ in terms of some set of explanatory variables, x_i , and coefficients b . Because λ must be positive, we choose exponentiation as the link function, i.e. $\lambda = \exp(x_i b)$.

The results of this analysis are presented in Table 6.

Poisson regressions (with a linear link as we use here) are somewhat unique for maximum likelihood estimates in that the coefficient estimates can be interpreted in a way similar to OLS coefficients. For example, the coefficient for life expectancy is approximately -0.124 . This means that if the life expectancy were to increase by slightly more than eight years, we would expect a decline in the number of people killed due to civil violence in a district by one.

All independent variables except the mountain resources interactive variable are statistically significant with p-values well below the standard 0.05 criteria. (The p-values were estimated using White robust standard errors.) Life expectancy, education, natural resource index and mountainous terrain are all negatively associated with deaths due to armed civil conflict. By increasing life expectancy and education, a district would see the number of deaths drop. Education, in particular, has a strongly negative substantive effect. Factors that can improve the life of the citizenry can lead to a reduction in predicted degree of violence.

Indicators of inequality play a notably strong role in increasing the propensity for increased civil conflict. The gap in the Human Development Index and landlessness both possess strong coefficient values. The effect of increasing the HDI gap is especially strong. We find the greater the degree of inequality in a district, the greater the intensity of conflict. These results lend strong support to our central hypothesis.

⁵ To check this assumption of independence, we also estimated these results using a negative binomial regression and a generalized event count model. We found negligible evidence of overdispersion or underdispersion. The results remain robust across estimations.

⁶ See Gourieroux (1984: 702-703); Lee (1986: 690-691); Brehm and Gates (1997: 224-225).

Resource availability is associated with lower level of civil violence. This result tends to contradict the proposition that resource abundance leads to conflict. Indeed, it appears that resource rich districts are likely to experience fewer deaths due to civil conflict than resource poor districts.

The results from the Poisson regression analysis prove to be quite robust and significant. In addition to number killed (incidence of civil violence) we also examined the incidence of civil conflict in general (bombings and other forms of property destruction in addition to acts of violence that resulted in deaths. These results are quite similar to those presented here.

5 Conclusions and Policy Implications

The conflict in Nepal cannot be wished away, and a purely military solution is infeasible. It has to be remembered that countries that have won wars against rebels and Maoist insurgents have only established lasting peace through poverty reducing growth, redistribution of assets and economic reform (such as in Malaysia). This means addressing the horizontal inequalities that lie at the heart of the causes of conflict. Some 40 years of development assistance in Nepal have failed to help induce the reduction of horizontal inequalities in the country. As presented in sections 3 and 4 above, horizontal inequalities in Nepal robustly explain the intensity of the Maoist insurgency. Many of these inequalities have worsened in recent years, and group differences based on caste and ethnicity are central to explaining the genesis of the present conflict. Reducing horizontal inequalities is part and parcel of the strategy of overall poverty reduction. The difference with conflict countries like Nepal is that there needs to be an equal focus on tackling horizontal inequalities in addition to the general strategy of poverty reduction. The twin strategies of poverty and horizontal inequality reduction are *complementary* and do not compete with one another. It has also to be remembered that poverty, the lack of employment opportunities and other forms of horizontal inequality assist Maoist recruitment and retention, making life in Maoist cadres a relatively attractive option. The key areas of horizontal inequality that need to be addressed include landlessness, the debt burden of the rural poor, as well as greater non-upper-caste access to state-sector jobs.

Among the consequences of prolonged civil war are severe sectoral distortions within the economy (Addison and Murshed, 2001). This makes the task of post-war reconstruction more difficult. These distortions are usually the result of wartime incentives that favour investment in services and trading, rather than agriculture or manufacturing. As a result, the post-war economic recovery is unbalanced and not pro-poor. The sectoral composition of the Nepalese economy is already distorted by worker remittances that are invested in non-traded sectors such as construction (classic 'Dutch Disease' effects). The conflict, and the exodus of the wealthy to urban Nepal, is further exacerbating this construction boom, especially in Kathmandu. Unless these distortions are corrected, the horizontal inequalities that produced conflict in the first place will not be reduced.

Even if the conflict cannot be ended, there are great gains in terms of conflict abatement. The poor are doubly disadvantaged by high intensity conflict. Not only are they most affected in terms of the loss of life and other human rights abuses, but also their livelihoods are seriously disrupted in the process.

Donor support and aid can play a pivotal role in reducing conflict intensity. Despite the fact that aid is fungible, money allocated for social sector expenditure can,

in principle, be diverted to military use; aid might prove to be helpful in reducing the intensity of fighting. This is because military expenditure is very resilient in the presence of civil war. A 5 per cent reduction of revenues available to the government will not lead to a proportionate decline in security expenditure. If anything it may have to increase, at the expense of development budgets, as is already the case in 2001/2. Without aid (project aid and budgetary support) social-sector expenditure might be even lower than in the presence of aid. The peace party within the state needs to be encouraged, and improvements in matters relating to human rights could be a condition of aid. Development assistance needs to be related to “commitment technologies”, actions that promote lesser conflict intensity (see, Addison and Murshed, 2002). It has to be borne in mind that at a fundamental level there is a trade-off for the state involving fighting the insurgents or appeasing them. The commitment to peace comes from a more credible commitment to transfers and poverty reduction by the state, which will reduce horizontal inequality and the numbers attracted to armed rebellion as an alternative livelihood.

It is, therefore, unfortunate that some donors and neighbours are encouraging military solutions and giving military aid. Outright military victory for either side is highly unlikely. A narrow focus on the prosecution of war also serves to distract all concerned from the root causes of the insurgency: inter-group inequality, poverty and widespread human rights abuses.⁷ Military strategies also do not assist the process of the removal and redress of human rights abuses, so central to eliminating the ordinary Maoist guerrilla’s intrinsic motivation to fight.

⁷ Some of the fiercest Maoist guerrillas are women who have been raped by the Nepalese army or security forces. This fact serves to illustrate that people fight not just for material gain (extrinsic motivation), but also out of a sense of injustice (intrinsic motivation).

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TABLE 1A: Human Development Indicators for Nepal, 1999-2000.

YEAR	2000	2000	2000	2000	1999
NEPAL	HDI	LIFE EXPECTANCY	ADULT LITERACY	PPP GDP per capita	GAP
	0.466	59.5	50.7	1237	
RURAL	0.446	58.7	48	1094	
URBAN	0.616	71.1	69	2133	
<i>Ecological zone</i>					
MOUNTAINS	0.378	49.8	44.5	898	
HILL	0.51	65.1	55.5	1262	
TARAI	0.474	62.4	46.8	1267	
<i>Development zone</i>					
EASTERN	0.484	62	56.6	1073	63%
CENTRAL	0.493	61.3	49.8	1713	
WESTERN	0.479	62.8	51.67	1022	60%
MID-WESTERN	0.402	53.2	47.8	861	50%
FAR-WEST	0.385	52.1	43	899	52%

Gap
Measured
With
Central
Region

Source: UNDP (2001)

TABLE 1B: Human Development Indicators for Nepal, 1996.

	HDI	LIFE EXPECTANCY	ADULT LITERACY	PPP GDP per capita
NEPAL	0.325 GAP	55	36.72	1186 GAP
EASTERN	0.339	104.5	41.9	1148
Mountain	0.342	105.29	38.4	1033
Hill	0.368	113.37	40.2	892
Tarai	0.378	116.41	43.2	1326
CENTRAL	0.339	104.33	35.1	1442
Mountain	0.269	82.82	22.2	1099
Hill	0.441	135.74	45	1871
Tarai	0.31	95.51	29.1	1185
WESTERN	0.35	107.79	39.5	1082
Mountain	0.313	96.51	39.5	1075
Hill	0.351	108.13	41	1235
Tarai	0.349	107.37	37	867
MID-WESTERN	0.276	85.01	32.2	933
Mountain	0.241	74.33	19.6	770
Hill	0.311	95.61	33.2	961
Tarai	0.307	94.58	33.9	943
FAR WESTERN	0.286	88.01	34.6	916
Mountain	0.261	80.32	29.6	648
Hill	0.26	80.09	31.5	909
Tarai	0.327	100.89	39.5	1061
	gap			GAP
	With Nepal = 100.			Measured with Central

Source: UNDP (1998).

TABLE 2: DIFFERENCES BY CASTE 1996

	HDI	LIFE EXPECTANCY		ADULT LITERACY	PPP GDP per capita	
		55 GAP	36.72		GAP	1186 GAP
NEPAL	0.325	GAP		36.72	GAP	1186
BRAHMIN	0.441	135.87	60.8	98%	58	1533
CHETRI	0.348	107.31	56.3	91%	42	1197
NEWAR	0.457	140.73	62.2		54.8	1848
GURUNG						
MAGAR						
SHERPA						
RAI						
LIMBU	0.299	92.21	53	85%	35.2	1021
MUSLIM	0.239	73.67	48.7	78%	22.1	979
RAJBANSI						
YADAV						
THARU						
AHIR	0.313	96.28	58.4	94%	27.5	1068
OCCUPATIONAL CASTES	0.239	73.62	50.3	81%	23.8	764
OTHER	0.295	90.94	54.4	87%	27.6	1130
		GAP	GAP	GAP	GAP	GAP
		NEPAL =	WITH	WITH	WITH	WITH
		100	NEWAR	BRAHMIN	NEWAR	NEWAR

SOURCE: UNDP (1998).

Table 3: Central Civil Service by Caste (percent in 1989)

	Section Officer	Assistant Secretary	Deputy Secretary	Joint Secretary	Additional Secretary
Brahmin (Bahun)	62.1	54.5	45.6	54.9	46.2
Chettri	9.5	11.2	13.4	17.1	15.4
Newar	21	26.6	29.9	22.5	34.6
Hill Ethnic	2	0.9	2.1		3.1
Tarai Ethnic	4.2	5.2	7.9	5.4	
Muslim	0.3	0.3			
Others	0.8	1.3	0.9		

**Source: Gurung, Harka (1998),
Nepal Social Demography and Expressions
New Era, Kathmandu: Nepal, p 121**

In the year 2000

Brahmin and Chettri	73.4	74.3
Newar	22.3	17.9
Others	4.3	7.8

**Source:
Enabling State Programme (ESP), 2001
P 184**

Table 4: LANDHOLDING IN NEPAL

	1961		1971		1981		1991	
	HOUSEHOLDS PERCENT	AREA PERCENT	HOUSEHOLDS PERCENT	AREA PERCENT	HOUSEHOLDS PERCENT	AREA PERCENT	HOUSEHOLDS PERCENT	AREA PERCENT
LANDLESS	1.43	0	0.8	0	0.37	0	1.17	0
LESS THAN 1.0 HECTARE	73.89	24.03	76.77	27.2	66.32	17.33	68.63	30.5
1-4 HECTARE(S)	19.56	35.68	18.39	39.29	28.05	46.13	27.68	50.8
> 4 HECTARES	5.13	41.42	4.03	33.74	5.35	36.54	2.51	18.7

Source

Central Bureau of Statistics
Cited in Karki (2001), p 127

Figure 1: Distribution of Number Killed in Civil Violence

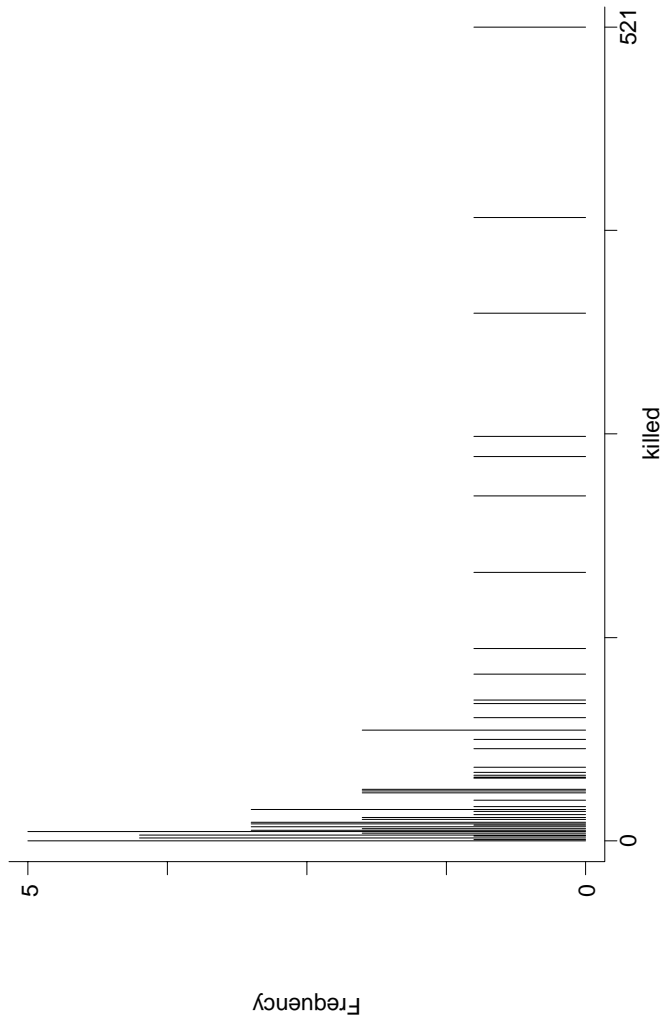


Table 5: Summary Statistics of Dependent and Independent Variables

Variable	Obs	Mean	Std. Dev.	Min	Max
killed	75	92.049	419.0756	0	3728
life expectancy	75	55.799	6.2465	36	67
education	75	0.279	0.0875	0.122	0.59
HDI gap	72	0.519	0.1014	0.244	0.75
landlessness	75	0.388	0.1411	0.177	0.85
natural resource index	75	0.38	21.7945	1	75
road density	75	0.068	0.1455	0	0.94
mountainous	75	0.515	0.2574	0	0.93
mtn*resources	75	17.315	15.0233	0	69.52

Table 6: Poisson Regression Analysis of Number Killed by Civil Violence

Killed	Coefficient	Robust SE	P > z
Life expectancy	-0.124	0.0703	0.025
Education	-4.612	2.8646	0.030
HDI gap	10.779	4.8363	0.016
Landlessness	1.879	1.1884	0.003
Natural Resource Index	-0.043	0.0212	0.026
Road Density	-9.666	4.4264	0.000
Mountainous	-4.789	2.4569	0.042
Mntr*resources	0.033	0.0334	0.146
Constant	3.741	3.7409	0.004

Number of observations = 72 (districts)

Wald chi2(8)= 94.23

Probability > chi2 = 0.0000

Log likelihood = -1953.4498

Pseudo R2 = 0.4909

Note: The dependent variable is an event; a count of the number of people killed in each district of Nepal. The p-values are for one-tail tests.