

Nepal: Beyond Royal Rule

I. OVERVIEW

Nepal is in turmoil and the monarchy is in question. King Gyanendra had calculated that his authoritarian moves since October 2002 would return order to a land wracked by Maoist insurgency and political instability but he has failed. The seven months since the royal coup have seen security degenerate under a royal government with no plans for peace and democracy. The Maoists seized the initiative by announcing a unilateral three-month ceasefire on 3 September 2005. The international community needs to recognise that its calls for palace/political party reconciliation as the sole path toward stability are unrealistic. New lines need to be explored, beginning with support for the ceasefire and the tentative dialogue underway between the parties and the Maoists.

The king's actions have marked the definitive end of the old status quo. There is no prospect of a stable balance of power between palace and parties. The monarchy retains control of state instruments, crucially the army, but it has alienated other natural allies and prompted swelling republicanism. The Maoists are militarily strong and control much of the countryside but have failed to win popular support. Mainstream parties offer the hope of representative leadership but have lost legitimacy and must make difficult decisions about the monarchy and the Maoists. Civil society is finding a voice but cannot supplant the parties and will struggle to play a decisive role on its own.

History may credit Gyanendra for forcing the pace of political developments, albeit not as he had hoped. While endangering the future of the monarchy, the royal coup has prompted a healthy clarification of positions and acted as a catalyst for Maoist-parties dialogue. But there are many dangers. The Maoists are strong and determined, possibly serious about peace talks but also reluctant to give up the advantages they have won through force. The monarchy is weakened and in a corner; as pressure mounts the king, backed by the army, may stage a further, more brutal, crackdown on the mainstream opposition. The political parties' unity is fragile, and they have to reengage with their public while treading a careful line between two armed forces hostile to democracy.

The final pattern of the fallout from the royal coup has yet to become clear but some trends are identifiable.

The Maoist-parties dialogue has been boosted by the ceasefire announcement. So far it has set modest aims, with no illusions of instant solutions, but it has made some progress on building confidence and developing an agenda. Popular support for a monarchy that has failed to deliver peace or prosperity is declining. Political activists have already been joined on the streets by other protestors, and mainstream dissent will certainly grow. The mainstream parties will have to struggle to regain mass support.

The death rate from the conflict has risen, with 1,574 fatalities reported from January 2005 through June and major clashes in the following two months. If the Maoist ceasefire is not reciprocated or does not hold there is potential for further escalation. Meanwhile, both the economic and humanitarian situations have deteriorated.

The international community's one-point policy of urging the palace and parties to cooperate was reasonable as long as there were realistic indications they might oblige. However, the king's actions since February 2005 have produced a political sea-change, with moderate parties moving toward a more republican stance and the Maoists urging them to negotiate. Nepal's most influential friends need to engage in a serious rethink. They should:

- ❑ welcome the Maoist ceasefire and urge its indefinite extension, government reciprocity, and that all sides in the conflict seize the opportunity for substantive talks;
- ❑ continue suspension of military aid in order to maintain pressure on the royal government to restore democratic governance and explore all avenues to peace talks;
- ❑ replace the traditional insistence on a constitutional monarchy alongside parliamentary government as the sole path to stability and democracy with an unequivocal focus on democracy -- with or without the king -- and a negotiated peace;
- ❑ work towards better international policy coordination, especially between India, the U.S., the EU and the UN, preferably in the form of a loose contact group;
- ❑ hold a follow-up to the 2002 London International Conference on Nepal, bringing together all major players to chart a course towards a principled, democratic peace and ensure basic unity of purpose;

- support the UN human rights monitoring mission with money and political backing; and
- support mainstream, non-violent democratic parties, helping to protect them against attacks from both armed sides and planning for a potentially difficult transition to democracy.

There can be no return to the status quo before the 1 February coup. Nor can there now be any easy return to the political institutions of the 1990 constitution. The king has made clear his desire to take Nepal back to the absolute monarchy of the 1960s, while the Maoists insist on moving straight to a constitutional revision process. King Gyanendra's refusal to go back on any of his controversial steps, however many diplomatic exit routes he is offered, has reduced the chance for compromise. The mainstream parties' suspicion of the king's intentions and their consequent willingness to envisage abandoning the monarchy make a palace climb-down risky.

The king may yet give in to pressure to reinstate democratic institutions but his instinct is to see out his all-or-nothing gamble. He may find that he has been outflanked by both the Maoists and a resilient political mainstream that still embodies most Nepalis' desire for peace and democracy.

II. A ROYAL FAILURE

A. UNCONSTITUTIONAL MONARCHY

The February 2005 royal coup has failed.¹ The king started his power grab in October 2002 safe in the knowledge that Nepalis were frustrated with party factionalism, frequent changes of government, corruption, and a failure to bring peace, prosperity and security. If palace rule had delivered results, Gyanendra would have won some support. But almost three years of direct rule have achieved the opposite: four revolving-door administrations, a cabinet tainted by corruption and criminality, and a steady intensification of the conflict which has led to further loss of state control in the country.

¹ On the royal coup and its aftermath see Crisis Group Asia Report N°91, *Nepal's Royal Coup: Making a Bad Situation Worse*, 9 February 2005; Crisis Group Asia Briefing N°36, *Nepal: Responding to the Royal Coup*, 24 February 2005; Crisis Group Asia Report N°94, *Nepal: Dealing with a Human Rights Crisis*, 24 March 2005; and Crisis Group Asia Report N°99, *Towards a Lasting Peace in Nepal: The Constitutional Issues*, 15 June 2005.

In the months following the 2005 coup, international pressure had some effect. Most notably, it left the royal government in an awkward limbo -- prevented from carrying out the full crackdown the king's advisers had envisaged and with no other plan to cope with the Maoists and the democratic parties. The palace's true intentions have been gradually clarified: there was never any real focus on dealing with the insurgency. Rather, the priority for the hardline clique around the king has been to uproot democracy and restore royal rule. In this, the Maoists were actually a help, since they provided an excuse for autocracy that could be peddled abroad while their grip on the countryside weakened the primary enemy, the mainstream parties.

There has been growing, if belated, realisation that the royal government has no intention of hastening the return of democracy. Quite the reverse: the one constant of its program since February has been the effort devoted to undermining democratic institutions and politicians. The U.S., which had been strikingly patient with the palace, has implicitly recognised that it is trying to recreate the non-party Panchayat system that existed before 1990. In late June 2005, visiting Principal Deputy Assistant Secretary of State for South Asian Affairs Donald Camp said that the return to a pre-1990 Nepal was unacceptable.²

The king's call for municipal elections offers no real hope for reconciliation and has already been dismissed by the political parties. They see it as a ploy to put a democratic facade on an autocratic regime and are convinced that any local elections run by palace appointees under the watchful eye of the army would be far from free and fair. They argue that even the continued use of the term "constitutional monarchy" is damaging as it implies that the king has himself upheld the constitution.³

B. CORRUPTION AND CRIMINALITY

A stated priority of the post-February administration has been to deal with corruption, but any hopes that royal rule would bring clean government were seriously misplaced. The political intent was clear from the outset, when only "post-1990" cases were targeted. The fight against corruption rapidly descended into a transparent assault on the king's democratic rivals.

The Royal Commission for the Control of Corruption (RCCC) was condemned from its formation by the

² "Return to pre-1990 Nepal unacceptable: Donald Camp", www.nepalnews.com, 28 June 2005.

³ For a detailed discussion of these arguments, see Crisis Group Report, *Towards a Lasting Peace in Nepal*, op. cit.

political leaders who knew they would be its targets. Domestic and international jurists alike cautioned that its structure and functioning were inimical to due process.⁴ The U.S. said it was disturbed by the conviction of former Prime Minister Sher Bahadur Deuba and described the RCCC as an "extrajudicial organisation".⁵ The case involved the awarding of a contract in a large Asian Development Bank-backed water project. The bank was dismayed that the RCCC refused to consider its own thorough investigation of the allegations, which had found no evidence of wrongdoing. In September 2005, the Supreme Court finally gave in to repeated petitions and demanded that the RCCC furnish a written reply on its constitutionality.⁶

The king's own cabinet is hardly beyond reproach. His outspoken senior vice chairman, Tulsi Giri, is on the blacklist of wilful loan defaulters of the state-owned Nepal Bank Limited.⁷ Despite calls for his resignation -- which would seem mandatory given the government's professed tough policy on defaulters -- he chose to brazen it out with the king's support. On 14 July 2005, state-run Radio Nepal announced an expansion of the cabinet, which raised more questions about the king's judgement. The new ministers included a convicted criminal, the accused in a Panchayat-era corruption scam and one of those chiefly responsible for the violent repression of the 1990 democracy movement.

C. DISMANTLING DEMOCRACY

Royal rule has been characterised by the systematic dismantling of constitutional bodies and processes. The initial aim was to cripple the political parties and stifle mainstream dissent. Beyond that, the king's confidants have aimed incrementally to recreate the Panchayat system instituted by King Mahendra, Gyanendra's father, in the 1960s. This logic explains most of the structural changes the palace has implemented since February 2005.

In his 1 February address the king stated: "We believe that centralisation of authority is against democratic

norms".⁸ Decentralisation had been a prominent success story of the post-1990 period, a crucial driver for local development that was creating a sense of grassroots democracy. But the royal government has systematically reversed these advances. The 1960s Panchayat system of zonal commissioners answering directly to the palace was reinstated; committees were similarly established to monitor political activities and the civil service at the local level.⁹ Palace appointees, given power to dismiss government officials, have supplanted elected District Development Committee chairmen. Civil service unions have been banned, supposedly to avoid politicisation but prompting a strong backlash from bureaucrats, while reserved jobs for minorities in the civil service have been eliminated.¹⁰ The constitution has been bypassed in important processes such as the selection of a new Chief Justice, while the relevant law was not followed for appointing new National Human Rights Commission members.

While little has been done to improve security, much effort has gone into reviving the symbols and practices of absolute monarchy. Freshly painted signs bearing the king's sayings appeared around Kathmandu. The Ministry of Education started a campaign to develop "nationalist education" by ordering that photos of the royal family be put in all school textbooks. Nothing indicates a plan for reconciliation with the political parties. The most revealing comment was a call from retired Chief of Army Staff Sachchit Shamsheer Rana for the parties to be declared "anti-national elements",¹¹ a return to some of the Panchayat's most confrontational language. As long as the palace chooses not to dissociate itself from such views, it will be incapable of working with the democratic mainstream.

D. MISDIRECTED MILITARY

Supporters of the royal takeover argued that an unleashed Royal Nepalese Army (RNA) would quickly bring the Maoists to heel or force them into dialogue from a weakened position. Nothing of the like has happened. The army may have contributed to improved security within Kathmandu since the coup, but in the countryside little has changed. The army is still deployed defensively and seems either unwilling or unable to adopt a proactive

⁴ For example, Shambhu Thapa, chairman of the Nepal Bar Association, counselled that "arguments and legal provisions will be futile" in challenging the authority of a body that was itself extra-constitutional and designed for political purposes. "Legal debate on RCCC meaningless", *The Kathmandu Post*, 24 May 2005. No member of the commission is a legal professional.

⁵ "U.S. 'disturbed' by Royal Commission verdict", www.kantipuronline.com, 28 July 2005.

⁶ "RCCC asked to furnish reply on its constitutionality", www.kantipuronline.com, 4 September 2005.

⁷ Nepal Credit Information Bureau blacklist of wilful defaulters, 16 August 2005, p. 30.

⁸ Royal proclamation, 1 February 2005.

⁹ Without any explanation, the district monitoring committees were dissolved on 3 September 2005.

¹⁰ "King cuts civil service reservations for indigenous peoples", *Weekly Indigenous News*, 26 August 2005, available at <http://us.oneworld.net>.

¹¹ "Parties should be declared anti-national", *The Kathmandu Post*, 3 July 2005.

strategy to return some security to the general population. Given the lack of a political strategy, this is not surprising. Despite some headline defensive successes, the RNA's inability to control the insurgent threat was most starkly demonstrated by the Maoists' success in overrunning the remote base in Kalikot -- part of a road-building project -- on the night of 7 August 2005, killing well over 40 soldiers and capturing more than 50.

Token efforts to improve the RNA's image have failed to dispel the impression of an army licensed to commit systematic human rights violations. Even as the first steps were taken to implement the Memorandum of Understanding the government agreed to at the UN Commission on Human Rights in April, the International Committee of the Red Cross had to suspend visits to places of military detention as it was being denied appropriate access to all detainees. The RNA has further encouraged the development of village militias, which are likely to intensify the conflict and make its resolution much more difficult.¹² As the RNA has become more involved in administration and assumed a more nakedly political role, the type of rights violations have changed. For example, a journalist with the largest selling daily newspaper has received repeated death threats, apparently from the security forces, following a critical article on RNA failure to respond to allegations of rape and unlawful killing.¹³

The army has been the king's most solid support: without it, the coup would have been impossible, and its political role has increased significantly since February 2005. It was already the case that local commanding officers, who had taken control of the police and displaced civil administrators, were becoming the de facto governors of districts. Since the coup, their influence has been further extended. Retired generals are appointed to ambassadorships and other influential posts;¹⁴ serving officers make unashamed public interventions on policy issues.¹⁵ As the RNA's vested interests in conflict

become further entrenched, it may gain a de facto veto on any peace process.

While the RNA's national role has been extended, it remains a feudal army designed primarily to support royal power. Its only viable long-term future is as a professional army subject to democratic civilian control but no efforts in this direction are underway. Instead, the combination of less security and a more politicised military has increased the obstacles to peace and democracy.

III. THE MAOISTS AND THE MAINSTREAM

A. THE MAOISTS

The Maoists have not been weakened since February 2005. If anything, the prospects are that they will grow stronger, although they lack wide popular support, and they initially failed to capitalise on the opportunities the coup presented. Relative quiescence in the first months after the coup may have been caused by disunity within the leadership or may have been a planned policy of wait-and-see as pressure increased on the palace and the parties, but poorly conducted military engagements indicated weaknesses in both planning and capacity and raised questions about strategic direction. However, while the declaration of a strategic offensive in August 2004 looked premature, a series of attacks that month showed that the surprise announcement on 3 September of the three-month unilateral ceasefire came from a position of strength.

In March 2005, speculation over a rift in the Maoist leadership was fanned by RNA reports that the second-in-command, Baburam Bhattarai, had been expelled from the party. While these reports were both belated and exaggerated, the Maoists were forced to admit that there was a major debate -- the latest instalment of long-running disagreements -- within the politburo's standing committee and that Bhattarai had been disciplined.¹⁶ However, those who thought this might herald disintegration of the leadership were confounded when he surfaced in New Delhi in May 2005, accompanied not only by party spokesman Krishna Bahadur Mahara

¹² See Crisis Group Asia Briefing N°30, *Nepal: Dangerous Plans for Village Militias*, 17 February 2004.

¹³ "Kantipur columnist under constant threat", www.kantipuronline.com, 22 August 2005.

¹⁴ For example, Lieutenant-General Victory Shumsher Rana was appointed ambassador to Myanmar on 13 May 2005 and retired Chief of Army Staff Sachchit Shamsheer Rana is a vocal member of the Rajparishad (Royal Council).

¹⁵ One very senior RNA officer writes frequent opinion pieces in the English-language press under the nom de plume of "Ajay P. Nath". In an article entitled "Let peace be the priority", *The Kathmandu Post*, 31 August 2005, he argued that, "unless the state security forces are strongly beefed up, the terrorists won't give up their violent activities and atrocities.... To enforce the rule of law, the security agencies have to be effective; for that, the whole instrument of national power has to be marshalled

behind the legitimate operations of the security forces". The chief of army staff has repeatedly praised the royal coup, for example in a message to all RNA personnel on RNA Day. "RNA committed to democratic values is our vision: Thapa", www.nepalnews.com, 9 March 2005.

¹⁶ Forthcoming Crisis Group reports will examine the internal politics of the Maoist movement in more detail.

but also party chairman Prachanda.¹⁷ While press statements indicated that ideological and organisational disputes continued,¹⁸ the movement's unity was publicly emphasised. Prachanda confirmed Bhattarai's rehabilitation in July.¹⁹

A nationwide reshuffle of local commanders in mid-2005 may indicate a new phase of operations or further consolidation of central power within the party. Indications from many districts suggest that local commanders are seeking to extend their control of daily life and assert their claim to being a parallel government. Military actions are turning up the heat on the palace: August 2005 saw not only the Kalikot success but also attacks within Kathmandu Valley and the assassination of a royal appointee in mid-western Banke district while King Gyanendra was touring it. Meanwhile, attacks on industrial targets, combined with effective blockades, have underlined the Maoists' ability to wreak economic damage.

The Maoist leaders' Delhi visit was tacitly endorsed by the Indian government, its primary purpose being to give momentum to tentative efforts at dialogue between the Maoists and the mainstream parties. There has been a growing recognition within the Maoist leadership that an all-out military victory in the near future is not only unlikely but would invite immediate external action and be unsustainable. This has driven their exploration of compromise, involving acceptance of the short-term goal of what they term a bourgeois, parliamentary democracy.

Ideological preparation for such a move has been underway for years. A flurry of articles and press releases since late 2004 have indicated a willingness to stop short of a fully communist state. Prachanda and other leaders have repeated that they would respect the results of a free and fair election to a constituent assembly tasked with preparing a new constitution.²⁰ They have not, however, clarified the form of such an assembly and remain vague on any timetable for disarmament.

B. THE MAINSTREAM PARTIES

The mainstream democratic parties, the primary target of the royal coup, have recovered from the initial crackdown

and become radicalised against the monarchy. For the king's inner circle, February 2005 was a long-delayed redressal of the palace's ignominious surrender to a mass movement in 1990. The Maoist presence across the countryside assisted in the task of stifling political activity. Democratic politicians were already losing public confidence due to their poor performance and widespread negative perceptions about corruption, nepotism and factionalism.²¹ Four major parties had compromised themselves by joining the royally-appointed Deuba administration in June 2004, a government that was never likely to succeed. Participation in it, Unified Marxist Leninist (UML) General Secretary Madhav Nepal belatedly acknowledged in August 2005,²² was a bad mistake.

The Nepali Congress had refused to join the Deuba government. As the parties pulled themselves together following the coup, this helped its veteran leader, Girija Prasad Koirala, secure de facto leadership of a new seven-party alliance, which brought together the major mainstream parties with the exception of the royalist Rashtriya Prajatantra Party (RPP) and its offshoot, the Rashtriya Janashakti Party (RJP).²³ Against steep odds, the disparate members of the alliance managed to agree on a common minimum program, which addressed the restoration of democratic institutions (preferably through reinstatement of the 1999 House of Representatives) and peace negotiations with the Maoists.

Beyond maintaining unity and mobilising their supporters, the major parties face a testing two-part policy dilemma: their perceptions of the Maoists -- whether they will negotiate seriously; and their position on the monarchy -- whether the groundswell of republicanism should be heeded or a compromise preserving a ceremonial monarchy is still preferable and possible. The debate could split the larger parties, but relief at the Maoists' ceasefire announcement and widespread anti-monarchical sentiment have driven policy shifts. The UML central committee endorsed democratic republicanism in August while the Congress' General Convention dropped the commitment to constitutional monarchy from the party statute. Party leaders have urged diplomats to stop referring to the monarchy as "constitutional" and have

¹⁷ Crisis Group interviews, New Delhi, May and August 2005.

¹⁸ For example, Baburam Bhattarai's press statement of 25 May 2005 and Prachanda's statement of 27 May 2005 strongly hinted at continuing tensions.

¹⁹ Press statement, 18 July 2005.

²⁰ See Crisis Group Report, *Towards a Lasting Peace in Nepal*, op. cit., for discussion of the Maoists' position on constitutional change.

²¹ Subsequent Crisis Group reporting will examine the state of the mainstream parties and the agenda for their reform.

²² "Joining Deuba govt was a serious mistake: Nepal", www.kantipuronline.com, 15 August 2005.

²³ The RPP commands limited support; it won 10 per cent of votes in the 1999 parliamentary elections. The RJP was founded in March 2005 by former RPP leader and Prime Minister Surya Bahadur Thapa. Despite their royalist stamps, both parties have refused to endorse the royal coup.

forcefully questioned the rationale for "reconciliation" with a palace that seems determined to repress them.

The king may yet persuade the parties to buy into a compromise power-sharing deal, especially Congress, some of whose leaders are concerned a more republican stance plays into the hands of their left-wing opponents. But they would only be tempted by significant concessions. For now, the Maoists are making the more attractive offer.

C. DIALOGUE

The most significant result of February 2005 has been the impetus given to dialogue between the parties and the Maoists. Talks underway since shortly after the coup gathered momentum following meetings between party representatives, facilitators and Maoist leaders in New Delhi in May. The prospect of a possible united front has alarmed the royal government and its supporters; reports such as that of a formal alliance being agreed in far-western Humla district caused consternation.²⁴ The government's initial response to the Maoist ceasefire declaration was ministerial silence and a news blackout in the state media; the first on-the-record comments by the information and communications minister expressed only scepticism about Maoist sincerity.²⁵

The talks have made some progress. Most importantly, they have helped to clarify a theoretical framework for a peace process, with both sides able to agree on a constitutional assembly as a forum for debating a future political system.²⁶ Whatever the pitfalls along such a route, this is a major step towards a realistic agenda. It also suggests that those who insist a palace-party alliance is the only starting point for a peace process are too restrictive. Initial achievements have included a sense among mainstream politicians that the Maoists have eased pressure on their rural activists,²⁷ in line with a series of public statements promising to respect human rights, and a specific commitment to cease physical attacks on non-combatants.²⁸ The ceasefire announcement is a logical further step.

It is also significant that the dialogue is being handled relatively professionally despite the lack of external assistance: each side has stuck to realistic objectives and recognised the difficulty of addressing the larger differences; talks were deliberately slowed to ensure that various parties could buy into the process before it advanced too far; and the press statements have been well coordinated. In August 2005, the seven-party alliance agreed to appoint a joint team for formal negotiations, accepting an offer made by Prachanda more than a month earlier, without ceding him the credit that hasty acceptance would have implied.

Nevertheless, much of this appears to have been managed by the Maoists for their own purposes, and there is no guarantee the talks will succeed. There are major differences which cannot be bridged easily. The Maoists will find it hard to give up the advantages they have won through violence and will have to be persuaded that there are benefits in joining the mainstream. The parties may be keen to talk but they are not likely to give the Maoists the benefit of the doubt, especially in view of the murders of hundreds of their workers. Doubts about longer-term Maoist sincerity are legitimate; insistence that they can make a principled compromise has not been accompanied by any obvious change in the political culture of the movement.

By declaring a unilateral ceasefire, the Maoists have taken the initiative to convince the world of their willingness to compromise. Prachanda's announcement recognised that, "we are also well aware that a lot of people doubt our political commitment because of our resistance to the feudal political dictatorship. We have done our best to remove those doubts, working towards building an atmosphere of mutual trust, to be able to go for a progressive political solution".²⁹

D. CIVIL SOCIETY

It is encouraging that civil society has been more active and influential than many predicted. While not able to intervene decisively in the conflict, it could play a more critical role in mobilising the Kathmandu middle class, whose democratic aspirations tipped the balance in 1990 but which has become disaffected with party politics. Recent demonstrations led by the Citizens' Movement for Democracy and Peace (CMDP) have made a powerful statement against autocracy, royal or Maoist. They have attracted many participants who are scathing in their

²⁴ See "Maoists, parties hold district-level talks", *The Kathmandu Post*, 29 July 2005 and P.G. Rajamohan, "Nepal: The stalemate that isn't", *South Asia Intelligence Review* 4(4), 8 August 2005.

²⁵ "Govt expresses scepticism over Maoists' ceasefire announcement", www.kantipuronline.com, 5 September 2005.

²⁶ See Crisis Group Report, *Towards a Lasting Peace in Nepal*, op. cit., for an explanation of the Maoists' and parties' approaches to the constitutional assembly model for change.

²⁷ Crisis Group interviews, Kathmandu and New Delhi, August 2005.

²⁸ Prachanda, press statement, 19 June 2005.

²⁹ Press statement, 3 September 2005.

criticism of the major parties' failings but refuse to accept that as justification for denial of their democratic rights.³⁰

However, civil society cannot supplant organised political parties. This is not lost on civil society leaders themselves, who have focused much of their effort on urging the parties to reform and win back popular trust. One of the main protest organisers summarised: "We are not in a position to run a political movement ourselves -- that's the job of the parties, and we lack their capacity and control. But they still don't seem to have learned enough lessons from their mistakes in office. We're hoping that they learn quickly and fulfil their role responsibly".³¹ The high-profile CMDP events have also prompted suspicions among the parties, with the UML launching its own parallel movement to counter a perceived pro-Congress bias.³²

Throughout the post-coup period, the press has played a remarkable role, with journalists constantly pushing, often successfully, at the bounds of censorship. The royal government has been unable to sustain the harsh crackdown of early February, and a critical press has kept pressure on the palace and the Maoists to abide by international norms. Civil society go-betweens also played an important role in helping the party-Maoist dialogue get off the ground. However, such activities are much easier in the capital and larger towns. In the countryside, there is less protection, and neutrality is much harder to maintain.

The Maoists have never had much urban support and may not feel threatened by unarmed civilians in the capital. But for the king, the streets of Kathmandu are pivotal. Palace advisers will have already sensed the growing parallels with the mass democracy movement of 1990. Protests are being led not only by dedicated political activists but also by middle-class professional associations, trade unionists, artists and poets. If this movement gathers pace, it should also worry the Maoists. As a CMDP leader put it, "I don't know why [outsiders] want to flood Nepal with weapons to protect us from the Maoists. Do they think that after all these struggles for democracy we'll just roll over and let the Maoists rule us?"³³

IV. THE PRESSURES MOUNT

A. ECONOMIC DETERIORATION

Throughout the first nine years of the Maoist insurgency, Nepal remained remarkably, and paradoxically, stable. Political instability in the countryside and in central government did not translate into economic crisis; safety valves such as easier migration to India and a growing remittance economy cushioned displacement from the hills. While fuelling Maoist expansion, the collapse in rural government services was not disastrous for a population accustomed to state neglect. The conflict did not entirely derail development work, even in projects funded by the Maoists' supposed arch-enemies, the U.S. and India. Average GDP growth remained above 5 per cent -- not great by regional standards, but not bad -- and Kathmandu experienced something of a boom, fuelled partly by conflict-induced migration from the hills. But there is no guarantee this apparent stability will last indefinitely. Indeed, signs of deterioration have already appeared in all areas.

1. Fiscal pressures

Nepal faces an economic squeeze: fiscal crisis is not imminent but mounting pressures will harm business confidence and may add to popular unrest. While the budget announced in July 2005 is predicated on 4.5 per cent growth, growth slowed to 2 per cent in the fiscal year 2004-2005. A poor harvest, feared by analysts following low early monsoon rainfall, could push the economy into negative growth.³⁴ Poor relations with donors make a simple bail-out highly unlikely, although healthy foreign currency reserves provide a cushion of several months. Conflict-induced changes in rural social structures may also compound difficulties and increase the number of vulnerable families, especially those without remittance income to fall back on. Foreign investment has stagnated over the last two years; major domestic investors are reportedly moving some of their assets out of the country. The budget deficit for 2005-2006 is estimated at \$650 million,³⁵ of which the finance ministry hopes to cover \$480 million through foreign loans and grants. While around two-thirds of the development budget has been financed by foreign aid in the past, only half the projected loans were realised in 2004.

³⁰ Crisis Group interviews with demonstrators, Kathmandu, 25 July 2005.

³¹ Crisis Group interview, Kathmandu, August 2005.

³² Crisis Group interviews, Kathmandu and New Delhi, August 2005.

³³ Crisis Group interview, Kathmandu, July 2005.

³⁴ Crisis Group interviews with development economists, Kathmandu, July and August 2005.

³⁵ Figures denoted in dollars (\$) in this report refer to U.S. dollars.

Economic woes should not be exaggerated. Nepal has a good record for maintaining macro-economic stability in unpromising circumstances, and poverty alone does not dislodge regimes. But for a government already fighting on many fronts, a downturn in the economy brings extra pressures. Some of the fiercest street protests followed a hike in state-subsidised petroleum products in August 2005. Shortages and price-rises caused by the Indian trade blockade in 1989 fed the "people's movement" that toppled the Panchayat system. Any damage to Kathmandu residents' basic comfort would spell serious trouble for the king in his sole stronghold.

2. Development difficulties

Even sympathetic donors complain about the lack of meaningful dialogue with the royal government. "To say that relations are at a low ebb would be an understatement", commented a representative of a major bilateral donor. "Our ministers are determined not to make aid a political football but there is a vast gap between our and the government's analysis of the current situation, and they just won't talk to us realistically about their development goals".³⁶ The worsening security situation and Maoist consolidation across the country is bringing donors closer to a critical decision point. The Maoists are seeking to exert more and more control over rural development activities, either by issuing direct instructions or by working through community organisations. The country director of Swiss Development Cooperation has commented that, "it is surprising to see development agencies, small and large, local as well as multilateral, hide behind a vague and self-serving concept of 'communities' and pretend that the latter can create and defend the 'space for development' in a violent environment".³⁷

Wholesale changes at the Social Welfare Council, which regulates NGO and INGO work, may also constrict development projects, especially if the proposed new code of conduct is as politically restrictive as some experts fear. Major development partners share a sense of unease. Norway has pulled out of the flagship Melamchi water project, and other countries have kept their assistance under review. According to a senior aid official, the Asia Development Bank is still "deeply exercised" over the Deuba corruption conviction; it is not processing many outstanding 2004 loans and is holding all 2005 loans.³⁸ The World Bank is also pessimistic, threatening future Poverty Reduction Support Credit and possibly overall lending levels, and the International

Monetary Fund's (IMF) Poverty Reduction and Growth Facility for Nepal could go formally off track.³⁹ Britain's Department for International Development (DfID) has completed a full post-coup review of its program, concluding that spending in this financial year is likely to be around \$27 million lower than originally budgeted.⁴⁰ Donor confidence will be affected by the extent to which they are allowed to operate in accordance with their basic operating guidelines. Positive indications from the government and the Maoists have not yet translated into sufficient concrete demonstrations of goodwill.

3. Humanitarian concerns

Nepal faces a human rights protection crisis but not currently a humanitarian crisis. There are, however, increased risks of a serious humanitarian situation, especially in relation to internally displaced persons (IDPs). The first wave of people forced out of conflict-affected areas were mostly those best placed to cope, among them landlords and political party activists. Many of these were able to travel with resources and settle in relative comfort elsewhere. More recent IDPs have tended to be poor, often lower caste people, forced out due to specific threats from either the Maoists or the RNA, including the Maoist drive to recruit one fighter from every family. Those who remain in heavily conflict-affected areas are more vulnerable because of the slow collapse of basic infrastructure, caused not so much by government withdrawal as the loss of key local leaders and Maoist suspicion of community-based organisations. There is also an increasing incidence of sudden mass displacement, the most notable example being the flight of around 30,000 Kapilvastu villagers following vigilante violence in March 2005.

The UN is preparing a Consolidated Appeal (CAP) to be launched in early October, based on a common humanitarian strategy that is being developed in consultation with the Nepali government, local and international NGOs, donors, the Red Cross and international experts. A UN official stressed that, "we don't want to imply that traditional development cooperation should be abandoned but there is an urgent need to fill emerging gaps in the provision of essential services and prepare for potentially dangerous humanitarian contingencies".⁴¹ Nevertheless, some development practitioners are worried that existing efforts could be undermined by a broad-brush humanitarian approach, and the finalised CAP will no doubt reflect such concerns.

³⁶ Crisis Group interview, Kathmandu, July 2005.

³⁷ Jorg Frieden, "Imagined communities", *Nepali Times*, 12 August 2005.

³⁸ Crisis Group interview, Kathmandu, August 2005.

³⁹ Crisis Group interview, Kathmandu, August 2005.

⁴⁰ Crisis Group interview, Kathmandu, July 2005.

⁴¹ Crisis Group interview, Kathmandu, August 2005.

B. POLITICAL DISCONTENT

The government suffers from a lack of legitimacy, growing popular discontent and international isolation, all problems for which it lacks solutions. It has made no progress in addressing the insurgency and faces economic, developmental and humanitarian challenges. It has been thrown off balance by the Maoist ceasefire announcement and is unsure how to respond. The king still commands the loyalty of the RNA but this is a brittle form of power that will offer limited options if mainstream dissent increases. The royal coup was undertaken with limited planning: the general aim of replacing the political mainstream with power structures directly answerable to the palace was not accompanied by detailed thinking in other areas. This lack of strategy may prove fatal to the royal government: absorbed by long-term efforts to reshape the political system, it may be overtaken by immediate challenges for which it has no answers.

Crude efforts to suppress mainstream dissent have led only to renewed pressure from parties, student movements, trade unions, professional associations and civil society. The royal government has seemed determined to alienate almost all potential supporters and it has often been its own worst enemy: for example, just as opposition was building elsewhere, it decided to ban trade unions within the civil service. This prompted heightened discontent among government bureaucrats already unhappy at being subjected to close military and palace supervision.

By early August 2005, the policy vacuum had become painfully apparent. Ministers, who have in any case been granted no real authority, appeared to make up policy on the spot to avoid difficult questions. Council of Ministers Vice Chairman Kirtinidhi Bista appeared to reverse the spirit of the 11 February royal proclamation when he declared that the government was, after all, prepared to talk to the Maoists.⁴² He was, however, promptly repudiated by his colleague, Tanka Dhakal, Information and Communications Minister. More bizarrely, Finance Minister Madhukar Shamsher Rana suggested there could be a referendum to test whether republicans or monarchists had greater support.⁴³

Escalating street protests in Kathmandu will put more direct pressure on the government. They will continue to be led not only by the seven-party alliance but also by civil society groups, professional associations, trade

unions and students. Discontent is not confined to party politicians but has permeated crucial constituencies, including an increasingly sceptical business community. Organisations such as the Professional Alliance for Peace and Democracy, which unites the major lawyers', journalists', doctors', teachers' and engineers' associations, are taking their campaign to the districts. Businesspeople outside the capital, aware that the king has failed to improve security and is damaging their prospects, are restive. "None of us supports what the king has done", says a prominent regional businessman. "We all want to see the end of this government as soon as possible".⁴⁴

Reconciliation between the palace and mainstream parties is not theoretically impossible but is in practice a forlorn hope. The king has amply demonstrated that he will spurn opportunity to compromise, however much it may be in the interests of the monarchy and the country. The mainstream parties, convinced that his plan is to do away with democracy, are in an uncompromising mood. While a superficial deal may yet be possible, there is no chance of a seriously united anti-Maoist front.

The notion that the constitutional monarchy and multiparty democracy are, in India's favoured phrase, the "twin pillars" of stability in Nepal is now widely questioned. As the king's own senior vice chairman of the Council of Ministers has bluntly put it, one has to choose between supporting the palace or the parties -- it is not possible to support both at once.⁴⁵ Three years of attempts to persuade the parties to accommodate the ambitions of an autocratically inclined monarchy have only helped the Maoists to expand.

C. LOOKING BEYOND ROYAL RULE

The monarchy's support base is narrow and conditional, consisting primarily of the RNA. In the coming months, the royal government is likely either to collapse or to be replaced under pressure with some time-buying compromise. Governments of the last few years, including all royally-appointed administrations, have tended to survive around nine months. There are no good reasons to expect this government to buck that trend: determination not to give ground to the parties is not a sufficient policy response to the multiple mounting pressures.

There can be little doubt that of the three power centres in Nepal -- palace, parties and Maoists -- it is the palace that has been most gravely weakened since February 2005.

⁴² "Govt ready for talks with Maoists: Bista", *www.kantipur.com*, 5 August 2005.

⁴³ "Nation can go for referendum: FM Rana", *The Kathmandu Post*, 6 August 2005.

⁴⁴ Crisis Group interviews with Nepali businessmen, New York, June 2005.

⁴⁵ "Strengthen either monarchy or democracy, not both: Dr. Giri", *www.nepalnews.com*, 7 July 2005.

The mainstream parties that had served as the constitutional monarchy's strongest bulwark now offer a limited choice of "absolute democracy" (in which the monarch would be a powerless figurehead) or outright republicanism. The Nepali Congress has removed endorsement of the constitutional monarchy from its constitution while the UML has adopted the goal of a democratic republic. More radical politicians and student leaders have already placed republicanism firmly on the agenda and see a good chance of achieving their goals.

The end of Nepal's monarchy, or its reduction to a ceremonial vestige, is increasingly likely. It is still not inevitable but any other outcome would depend on a reasonable compromise, something that the palace is unwilling to countenance. The king is not like his late brother, Birendra: he is likely to see any concessions to the parties as a personal indignity, and these feelings will be reinforced by the clique he has surrounded himself with.

In the absence of compromise, there is a real danger that hardcore monarchists will conclude that a final, brutal crackdown is their only option. If the monarchy is backed into a corner -- something the king's consistent ruling out of concessions makes more likely -- and they feel they have nothing to lose, the growing street protests could be much more bloodily suppressed than in 1990. A sudden collapse of palace authority would bring with it the risk of a power vacuum, potentially allowing the Maoists to seize a decisive advantage. The only acceptable option in this case would be to ensure the RNA accepts the direction of an emergency all-party government strongly supported by a united international community.

D. RESPONDING TO THE CEASEFIRE

The Maoists' 3 September 2005 declaration of a three-month ceasefire has been widely welcomed and has raised new hopes of serious talks to end the conflict. The seven-party alliance and civil society groups have urged the Maoists to observe the ceasefire sincerely and the government to respond in kind. But the royal administration met the declaration with a studied silence and questioned the Maoists' intentions. Some members of the cabinet and palace advisers reportedly support a reciprocal truce but for the time being the war party, including most of the RNA's senior officers, has more influence, and it has urged the king to keep on fighting.⁴⁶ Observers report efforts by the RNA to expand its activities into rural areas that had been ceded to Maoist

control and believe this is designed to force the insurgents to break their ceasefire.⁴⁷

India offered the first international response, stating, "we hope that the ceasefire announced by the Maoists will contribute towards creating an environment in which a peace process can begin".⁴⁸ The use of the term "peace process" brings Delhi's language more into line with that of the Europeans; who would be involved in such a process or what form it would take, however, was left deliberately vague.⁴⁹ Donors and the European Union also welcomed the ceasefire, with the latter calling for a "democratically based peace process...involving a national consensus and reintegration of the CPN-M [Communist Party of Nepal-Maoist] into a multi-party democracy",⁵⁰ while the U.S. made no comment. Mainstream political parties, the Maoists and civil society representatives have called for a more active UN role.⁵¹ Secretary-General Kofi Annan noted this in his response to the Maoist ceasefire, saying he hoped that, "all sides in Nepal will take all measures which will lead to peace talks".⁵² The UN could now take the initiative to broker a wider ceasefire between the armed parties, a move that would receive broad support within Nepal and much of the international community.

V. THE INTERNATIONAL CONTEXT

The royal government has antagonised its traditional allies. The coup had been widely predicted, and India, the U.S. and UK had firmly warned the king against it. Not surprisingly, the coup met with stiff external opposition. The king could have redeemed himself had he played his cards carefully but his diplomacy has been counterproductive. While the palace courted Washington, it boasted of support from China, North Korea and Cuba. While royal associates worked their Hindu fundamentalist connections, others were busy talking up the chance of

⁴⁶ Crisis Group interviews with political leaders, diplomats and journalists, Kathmandu, September 2005.

⁴⁷ Crisis Group interviews with human rights workers and political leaders, Kathmandu, September 2005.

⁴⁸ "Press release by MEA, GOI, New Delhi regarding recent developments in Nepal", Indian Embassy press release No. Kat/64/2005, 5 September 2005.

⁴⁹ Crisis Group interview with Indian diplomats, Kathmandu, September 2005.

⁵⁰ "Declaration by the Presidency on behalf of the European Union in response to the statement of cease-fire by Chairman Prachanda, CPN(M)", Brussels, 6 September 2005, 11988/05.

⁵¹ For example, leaders of the seven-party alliance wrote to Kofi Annan on 6 September 2005 asking for the "greater support and understanding of the international community to stop our country from sliding towards a failed state".

⁵² Statement attributable to the Spokesman for the Secretary-General on Nepal, New York, 5 September 2005.

arms from Pakistan. India, despite certain apparently conciliatory gestures, will not enthusiastically support this government and does not believe it can last long. As noted, it was quick to offer a guarded welcome to the Maoist ceasefire, while noting the shifts in Congress and UML policy as well as the views of civil society.⁵³ UK and EU positions against royal autocracy have hardened, and the U.S. is realigning itself more unambiguously in favour of democracy.

A. INDIA

India led the condemnation of the royal coup and largely set the tone for a firm international response. However, it lacks a clear longer-term policy, and its positions have been the result of much debate within the Delhi establishment, some of it embarrassingly public. The army has pushed hard on behalf of the RNA, while the palace has frantically worked its Indian aristocratic connections to buy more breathing space. The left parties supporting the ruling United Progressive Alliance coalition, however, have strongly pressed the government to support restoration of democracy and a negotiated end to the conflict. India has sustained its freeze on lethal military assistance since February 2005 and despite announcing resumption of non-lethal aid has delivered very little. At the same time it has encouraged the Maoists-parties dialogue, much of it conducted on Indian territory.

While frustration with the king has mounted, the Indian leadership is unwilling to renounce its traditional support for the "twin pillars" of monarchy and multiparty democracy. Nevertheless, strong suggestions that it is time to move towards a new line have come from influential and knowledgeable quarters. Former ambassador to Nepal Deb Mukharji has urged replacing the "twin pillars" with a policy that puts Nepal's people at the centre.⁵⁴ Such thinking echoes private discussions in government policy circles, where scepticism that the monarchy will survive King Gyanendra's adventurism has grown significantly but is yet to be reflected in public statements.⁵⁵

The change in mood was underlined when Defence Minister Pranab Mukherjee, who is sympathetic to the RNA and palace, publicly voiced his disappointment at the former's ineffectiveness and linked it to the derailment

of the constitution and multi-party democracy.⁵⁶ When the RNA reacted to its embarrassing loss in Kalikot in August 2005 by blaming its Indian-supplied rifles, Delhi responded icily that, "our extensive experience of conflict situations has taught us that success does not depend on the weapon alone....If the Royal Nepalese Army is of the view that its understanding of this weapon is still incomplete, then the Government of India will be happy to again make arrangements to address their doubts".⁵⁷

Policy has consistently suffered from indecisiveness and a lack of serious planning; there is still no sign that recent actions form part of a coherent longer-term strategy. Moreover, continuing wariness of cooperating too closely with the U.S. and UK, let alone the UN and smaller countries, has hampered efforts to increase international leverage. There have been signs, such as behind-the-scenes collaboration in the run-up to the Commission on Human Rights session, that a more collaborative multilateral approach is possible but follow-through has been limited. As a senior third-country diplomat puts it, "India's analysis and actions just do not match. They insist that Nepal is in crisis but they don't appear to have a plan to deal with it. Maybe they are planning quietly but it would be good if they could reassure us".⁵⁸

B. CHINA

China has maintained quiet but not unconditional support for the palace. The royal government's hopes that it will meet all financial as well as military equipment needs are not realistic, though it has received \$12.5 million in budgetary support.⁵⁹ Delhi has most reasons for concern about Beijing's role but senior diplomats remain confident that bilateral ties are too important to be upset by bickering over Nepal. China may well try to increase its influence but only within limits, and with the understanding it cannot supplant India and has no reason to try.⁶⁰

Beijing may well respond to the request for military assistance by selling ammunition and aircraft -- it is keen to prevent a growth of U.S. influence in Nepal. Apart from concern for the stability of Tibet, however, its principal focus is on business opportunities rather than politics. Its support for the palace reflects historically

⁵³ "Press release by MEA, GOI, New Delhi regarding recent developments in Nepal", Indian Embassy press release No. Kat/64/2005, 5 September 2005.

⁵⁴ "Initiate action for talks", *The Kathmandu Post*, 13 August 2005.

⁵⁵ Crisis Group interviews, New Delhi, May and August 2005.

⁵⁶ "Nepalese Army not effective to quell Maoists: Mukherjee", www.kantipuronline.com, 8 August 2005.

⁵⁷ "On the INSAS Rifle", Indian Embassy press release No. Kat/59/2005, 13 August 2005.

⁵⁸ Crisis Group interview, New Delhi, September 2005.

⁵⁹ "China to provide grant assistance of Rs 870 m", www.kantipuronline.com, 16 August 2005.

⁶⁰ Crisis Group interviews, New Delhi and Kathmandu, March and August 2005.

close ties but does not preclude backing alternative arrangements should it become convenient. As a diplomat observed, "Nepalis view China with a sense of awe rather than familiarity. China knows there will be little price to pay for supporting the king as any future democratic leadership will reconcile itself to dealing with them regardless".⁶¹

C. THE UNITED STATES

The U.S. criticised the royal coup but came to be widely seen as close to the palace and lukewarm about restoration of democracy. It gave the appearance of having swallowed uncritically the king's false dichotomy of "me or the Maoists" and his assurances of commitment to democracy. Unlike India and the European Union, it did not welcome the seven-party alliance's call for restoration of parliament. Instead it urged the parties to adopt policies more acceptable to the palace. According to a senior envoy, the U.S. also worked behind the scenes to try to block Indian efforts to support the Maoist-parties dialogue.⁶²

The U.S. position -- influenced by sympathy for the RNA as much as for the palace -- has changed somewhat, primarily because of domestic concerns. The State Department's Donald Camp used his June 2005 visit to focus more clearly on democracy and question the king's true intentions. However, some pro-palace bias remains. Opposition Senator Patrick Leahy complained the following month that the embassy in Kathmandu was still "sending mixed messages that have been widely interpreted as giving equal consideration and validity to the views and actions of the King and the political parties", while the king himself was "using the army and police to crush the forces of democracy".⁶³

Ambassador James Moriarty not only argues that cooperation between the "constitutional forces" of palace and parties is the sole possible alternative to a Maoist victory but also insists on describing the palace as a "legitimate political actor".⁶⁴ He sees the corrupt and anti-democratic actions of the royal government as going "against its core principles" rather than being in line with its true nature. Nevertheless, his sharp criticism of the course since February 2005 suggests that the U.S., UK and India have come closer to a common assessment.

D. THE UNITED KINGDOM

The UK's condemnation of the royal coup was accompanied by much more scepticism about the king's attitude towards democracy than Washington showed. Ambassador Keith Bloomfield has been trenchantly critical of the march towards authoritarian consolidation. Looking back at six months of post-February rule under the pretext of restoring peace and strengthening democracy, he noted:

...[a] new and very different mentality...in which those who argue for a negotiated peace with the Maoists are publicly attacked for advocating giving in to terrorists, where democracy is presented as something that has to wait until the Maoists have been dealt with militarily, where there is no room for moderation and compromise -- you either support those in power or you are seen as being sympathetic to the Maoists.⁶⁵

Following former Prime Minister Deuba's conviction on corruption charges, Bloomfield wrote him a personal letter of support, which was leaked to the press. The UK plays a pivotal role in shaping international cooperation, having the ear of both Washington and New Delhi while maintaining the largest Kathmandu mission of all EU member states. It has taken a firm public stance for democracy and a negotiated settlement to the conflict. However, it is uncertain how to adjust policy to conform to its revised analysis.

E. EUROPEAN UNION

The EU is a major developmental aid player but has struggled to find a major political role. The UK presidency (July-December 2005) may be the best chance to draw Brussels into higher-level collaboration with other key countries and the UN. The EU's newly-agreed strategic partnership with India could prompt closer dialogue with New Delhi on the regional security implications of Nepal's conflict.⁶⁶ A major reason for the EU's ineffectiveness is the limited representation of member states in Kathmandu. The only sizeable presence is the British, who often prefer to emphasise a

⁶¹ Crisis Group interview, Kathmandu, July 2005.

⁶² Crisis Group interview with Western diplomat, Kathmandu, July 2005.

⁶³ Statement of Senator Patrick Leahy, "The United States and Nepal", U.S. Senate, 28 July 2005.

⁶⁴ Ambassador James Moriarty, "Remarks to the Nepal Council of World Affairs", 9 August 2005.

⁶⁵ "Nation can go for referendum: FM Rana", *The Kathmandu Post*, 6 August 2005.

⁶⁶ The strategic partnership, launched during Tony Blair's September 2005 visit to India, calls for EU-India cooperation on regional security issues, democracy and human rights and effective multilateral action "in which the UN plays a central role". See "The India-EU Strategic Partnership Joint Action Plan", British High Commission, New Delhi, 7 September 2005.

complex and long-standing bilateral relationship at the expense of joint initiatives. Yet, the EU is a potentially crucial member of a better coordinated international front, and it will surely contribute to peace process support and post-conflict assistance. The appointment of a senior envoy as an EU Special Representative would encourage more serious political engagement with international partners as well as prepare the ground for closer cooperation once a peace process is underway.

F. JAPAN

Tokyo avoids high-profile diplomacy but is a significant donor and has consistently diverged from the line taken by other major aid givers. It has continued to provide substantial direct budget support to the royal government. Japan will not offer military aid but does ally closely with the palace, primarily as a fellow Asian monarchy. It has not criticised the royal coup and invited Crown Prince Paras to visit in July 2005. Like India, Japan has been keen to secure Nepal's vote for UN reform and expanded permanent membership of the Security Council.

G. THE UNITED NATIONS

The UN has long been significant for development but the conflict has drawn it toward new roles. The agreement signed by the royal government and Louise Arbour, High Commissioner for Human Rights, in April was a major event that authorised establishment of a large mission with broad powers to engage both armed parties and to monitor and report on their conduct. The Maoists welcomed this, and it will be the first time they have had to face a concerted test of their sincerity and capacity to cooperate. While the mission will not be fully operational until October, key staff have been appointed and it has started work on the ground. The UN is also increasingly coordinating humanitarian and other contingency planning.

Nevertheless, the UN's political role remains unclear. Secretary-General Annan has repeatedly expressed concern at the deteriorating situation and offered his good offices to help resolve the conflict. In July 2005 this concern was underlined by the six-day visit of his special adviser, Lakhdar Brahimi, which raised the level of attention given to Nepal although India resisted it. Brahimi's subsequent visit to New Delhi revived hopes for closer cooperation between these two key players. The UN retains broad respect among the parties to the conflict and would be best placed to push for a wider ceasefire and assist a negotiating process.

VI. A NEW ENGAGEMENT

King Gyanendra's actions have demonstrated that the choice he has advertised between democracy and stability is a false one. His own autocratic measures have palpably increased instability, not restored a degree of order. Meanwhile, the Maoist ceasefire declaration has raised the question of what kind of peace process the international community should support. Most influential members refused to accept the royal coup as a *fait accompli*. Their criticism moderated the initial crackdown and has continued to act as a brake on the most excessive behaviour. But their pressure has been neither well coordinated nor related to clearly defined benchmarks. If the international community is to be an effective force for peace it must address its lack of unity, lack of clarity on longer term goals, poor communication and unimaginative policy formulation.

It must also face up to the fundamental questions about the monarchy that permeate Nepali society. Outsiders should not decide the country's political institutions, but to insist that Nepal must retain a "constitutional monarchy" is to do just that. It hands the king a veto on any progress to peace and prejudices the outcome of any constitutional revision process. It also seems increasingly out of step with domestic opinion. It may well be that the king's control of the army buys him a place at any negotiation but that depends on his willingness to talk. Furthermore, as with the Maoists, power should not in itself legitimate a political actor.

While domestic actors reshape the political landscape, the international community can help. As long as internal dynamics remain in flux and may throw up their own peace opportunities, there is no need for heavy-handed external mediation. But Nepal's friends should be clearer about their principles and the role they may play in helping a negotiated peace as and when the opportunity for substantive talks arises. They should:

Prepare for a Peace Process

- ❑ welcome the Maoist ceasefire, urge its indefinite extension, government reciprocity, and for all parties to the conflict to seize the opportunity for substantive talks;
- ❑ press the UN to take the lead in brokering an extended and unconditional ceasefire between the armed sides and with the backing of mainstream political parties;
- ❑ support the dialogue between the mainstream parties and the Maoists if it shows signs of leading towards a negotiated, democratic peace;

- ❑ plan to facilitate talks if requested by the participants, as well as to provide technical and financial assistance in the later stages of a peace process; and
- ❑ make a thorough assessment on the ground of the military situation and specifically of the RNA and be prepared to mitigate its potential role as a peace spoiler.

Maintain Pressure on the Palace

- ❑ press the royal government to revive democratic institutions and open the path to a negotiated peace settlement; and
- ❑ continue the freeze on military aid, suspend all general budgetary support, introduce targeted sanctions such as travel bans for palace advisers, ministers, generals and their families and prepare to freeze royal assets held abroad.

Develop Fresh Policies

- ❑ recognise that the traditional recipe of calling for the "twin pillars" -- king and parties -- to work together has not worked, and there is a need for a new, more open-minded, policy;
- ❑ as long as there remains a chance that the king may see sense, continue to search for imaginative compromises that can keep him in the picture and lead to a democratically negotiated peace; but
- ❑ agree to work together to advance a set of basic common principles for a democratic peace settlement, which should centre on a negotiated peace, multiparty democracy, respect for human rights and a military accountable to civilian control.

Support Democracy

- ❑ continue visible engagement with democratic political forces, including the parties, the media and civil society; and
- ❑ press for the RNA to start the process of democratisation and conversion into a national army accountable to elected civilian control.

Coordinate Better

- ❑ ensure more effective multilateral action, preferably through a loose contact group that can follow a common policy; in particular, the EU, U.S. and India should work more closely with the High Commissioner for Human Rights and the Secretary-General's special adviser;

- ❑ hold a follow-up to the 2002 London International Conference on Nepal to discuss common principles and policies;⁶⁷ and
- ❑ increase the EU's role, perhaps by appointing a Special Representative for Nepal to improve European policy coordination and work alongside other major players.

Make Contingency Plans

- ❑ prepare for a possible reconfiguration of power in Kathmandu and develop contingency plans for the collapse of the royal government, including coping with a possible power vacuum and escalated violence; and
- ❑ prepare to meet greater humanitarian needs and, while continuing development work where feasible, support the UN's Consolidated Appeal and its efforts to engage the government, donors, NGOs and others in contingency planning.

Kathmandu/Brussels, 15 September 2005

⁶⁷ The 2002 London International Conference on Nepal was the first attempt to coordinate the international community's response to the growing crisis in Nepal. It brought together the security, political and development policymakers of twenty governments and international bodies.

APPENDIX

ABOUT THE INTERNATIONAL CRISIS GROUP

The International Crisis Group (Crisis Group) is an independent, non-profit, non-governmental organisation, with over 110 staff members on five continents, working through field-based analysis and high-level advocacy to prevent and resolve deadly conflict.

Crisis Group's approach is grounded in field research. Teams of political analysts are located within or close by countries at risk of outbreak, escalation or recurrence of violent conflict. Based on information and assessments from the field, it produces analytical reports containing practical recommendations targeted at key international decision-takers. Crisis Group also publishes *CrisisWatch*, a twelve-page monthly bulletin, providing a succinct regular update on the state of play in all the most significant situations of conflict or potential conflict around the world.

Crisis Group's reports and briefing papers are distributed widely by email and printed copy to officials in foreign ministries and international organisations and made available simultaneously on the website, www.crisisgroup.org. Crisis Group works closely with governments and those who influence them, including the media, to highlight its crisis analyses and to generate support for its policy prescriptions.

The Crisis Group Board -- which includes prominent figures from the fields of politics, diplomacy, business and the media -- is directly involved in helping to bring the reports and recommendations to the attention of senior policy-makers around the world. Crisis Group is chaired by Lord Patten of Barnes, former European Commissioner for External Relations. President and Chief Executive since January 2000 is former Australian Foreign Minister Gareth Evans.

Crisis Group's international headquarters are in Brussels, with advocacy offices in Washington DC (where it is based as a legal entity), New York, London and Moscow. The organisation currently operates fifteen field offices (in Amman, Belgrade, Bishkek, Dakar, Dushanbe, Islamabad, Jakarta, Kabul, Nairobi, Pretoria, Pristina, Quito, Seoul, Skopje and Tbilisi), with analysts working in over 50 crisis-affected countries and territories across four continents. In Africa, this includes Angola, Burundi, Côte d'Ivoire, Democratic Republic of the Congo, Eritrea, Ethiopia, Guinea, Liberia, Rwanda, the Sahel region, Sierra Leone, Somalia, Sudan, Uganda and Zimbabwe; in Asia, Afghanistan, Indonesia, Kashmir, Kazakhstan,

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