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THE IMPACT OF POLITICAL INSTABILITY ON ECONOMIC AND SOCIAL SUSTAINABILITY: THE CASE OF NEPAL

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THE IMPACT OF POLITICAL INSTABILITY ON ECONOMIC AND SOCIAL SUSTAINABILITY: THE CASE OF NEPAL

Abstract

Purpose

This research paper, describes the number of different economic programs introduced in Nepal between 1990-2010. The study focus on how those programs are affected from political instability and corruption to ensure social and economic sustainability in the life of poor people.

Design/methodology/approach

This research is based on a document analysis (Journal articles, Web page, Reports of various institutions) A conclusion is derives via qualitative data analysis from subjective approach.

Findings

The results showed that the program which was introduced by Outsiders (Other than government organisation) is effective to bring social and economic sustainability in the life of a poor people. However, the programs introduced by the government were failed to achieve their goal because of political meddling.

Research limitations/implications

The research was conducted via secondary data analysis (document analysis) therefore, it is recommended that the future research can be carried via primary data.

Practical implications

The research will provide valuable guidelines to the Nepalese government and other government of developing countries, which are suffering from political crisis to implement their plan and policies effectively.

Social implications

This research is very help for the Nepalese societies to understand the role of the Nepalese government to address social and economic problem. In addition, it will help them to evaluate the efficiency of political government.

THE IMPACT OF POLITICAL INSTABILITY ON ECONOMIC AND SOCIAL SUSTAINABILITY: THE CASE OF NEPAL

Introduction

Nepal is a landlocked country, situated in south Asia having great geographical and cultural diversity. It has three ecological regions, the Himal (Mountain), Pahad (Hill) and Terai (Plain) areas. It is sub classified into five geographic regions; each region consists of mountain, hill and terrain (Terai). It is sandwich country between India and China. There is a great threat from two gigantic nations in the area of economic and industrial development because those nations economy is booming rapidly in compare with Nepalese economy (Stern 2003).

The poverty is a major problem of developing countries so as in Nepal. Illiteracy, unemployment and low economic growths are major problem of Nepalese society. The poverty in Nepal is highly associated with a social exclusion and turbulent political situation. In 1996, the level of poverty was 42% (Central Bureau of Statistics 2008); the government was targeted to reduce poverty by 25% in 2010. To achieve that result, Nepalese government place high priority for development efforts to reduce poverty. The consequence of this period of so-called democracy has actually resulted in an increase in both poverty and unemployment.

The Nepalese people expected that the newly elected democratic government (1991) would introduce social and economic developments which would achieve positive societal change especially in relation to the alleviation of poverty and increase in employment. However, this great hope of sustainable prosperity was not fulfilled and led to continuing frustration.

The elected government initiated various financial programs during 1990-2010 to improve the situation of the poor. However, the lack of democratic institutions and committed and educated politicians turned the great hope of sustainable reform towards a corruption, violence, ethnic disputes, political instability, poverty and poor economic outcomes.

This paper explores the introduction of a number of these economic sustainability programs from 1990-2010 and their struggle to survive within the corrupt political environment characterised by civil unrest. It demonstrates that the most successful programs were those sponsored by outside parties (International development agencies and non government organisation n) who were not subject to political meddling and misdirection of financial resources.

The first part of this research focuses on political history of Nepal. The second part mentions a poverty and economic situation of Nepal. The third part of studies outlines the political instability and corruption in Nepal. The fourth part deals with economic program initiated by government, and those outside the

government. The final section, evaluate the effectiveness the programs in relation to political unrest and a conclusion derived.

Political history of Nepal

Nepal is a relatively young country formed from warring peoples from forty six disparate states, united under one leader, Prithvi the Gorkha in 1768. He was the founder of the Shaha family dynasty which ruled Nepal in an unbroken lineage until 2005, when the monarchy was replaced by a republic.

Over this long family rule, there have been different degrees of power exercised by the king ranging from absolute sovereignty until 1951, when a period of democracy was introduced with an elected prime minister. However this period of democracy was short-lived and in 1960 the king assumed full power once more until the people revolted in 1990 to restore political democracy. The election in 1991 restricted the king's power to that of a constitutional monarch. The result of 1991 election is shown in Table 1.

Poverty and economic situation in Nepal

The poverty line is an economic measurement of poverty; per day income one USD is considered as a poverty line (Ringen 2009). Nepal is one of the developing countries which is suffering from extreme poverty. Asian development report states that in 1996, 40 % of the people in Nepal are below the poverty line (Asian Development Bank 2002) and in 2004 it was 31% (Do & Iyer 2007). According to Deraniyagala (2005) and Svedberg (2004), it is tenth poorest country in the world having less than USD 200 per capita income. High population growth rate and low economic growth have deteriorated the living standard of poor people in Nepal (Chhetry 2001). The majority (85.4%) of poor people are living in rural area of Nepal (Parajulee 2010). The development of rural society is very minimal in comparison with urban areas of Nepal. The poverty in rural areas (35%) is higher than urban areas (10%). Majority of people in Nepal do not have access to formal sources of finance to generate regular source of income. As a result, the poor people became more vulnerable. The commercial banks, rural microfinance development banks, saving and credit cooperatives societies, financial intermediary – non government organisations (FI-NGO) are working in Nepal (Dhakal, NH 2007). Even though, the outreach of financial services is not sufficient.

Abbreviation:United people's front (UPF); Communist party of Nepal-Verma (CPN-V); Democratic (D); Nepal workers and peasants party (NWP); Nepal Rastriya Jan (NRJ); Mukti Morcha- CPN (MM); Janta Dal (Social Democratic) (JD); Communist party of Nepal Amatya (CPN-A); Nepal Rastriya Jan Party (NRJP); Rastriya Janta Party (RJP); Bahujan Janta Dal (BJD); Janabadi Morcha Nepal (JMN); Nepal Conservative Party (NCP); Akhil Nepal Sarbapakshiya Rajnitik Ekta Party (ANSREP); Dalit majdur Kisan Party (DMK)

Poverty in Nepal is an outcome of social exclusion and political crisis. Social exclusion creates a wider gap between rich and poor. The Social exclusion in Nepal is classified in three categories, First spatial exclusion which was created via geographical remoteness, for example western and far western regions of Nepal

were neglected by government in terms of social and economic development. The human development index in those regions are significantly lesser than other region (Murshed & Gates 2005) Secondly, gender based exclusion derived from societal value given to men, for instance, male dominated societies. Thirdly, Caste ethnicity based exclusion created from caste and ethnic background, for example, touchable and untouchable (Dalit), lower and upper caste system (Murshed & Gates 2005; Poverty Alleviation Fund Nepal 2007) . Those exclusions restrict opportunities for majority of poor people and leads towards poverty. Moreover, political crisis create conflict within a political parties and affect the plan and policies related with poverty alleviation. As a result, the trend of poverty increased rather than decrease.

Table 1: 1991 elections' result

Party	Seats contested	Seats won	% of total seats	% of total vote
NC	204	110	53.7	37.75
UML	177	69	33.7	27.98
NDP-Chanda	154	3	1.5	6.56
NDP-Thapa	162	1	0.5	5.38
UPF	69	9	4.4	4.83
NSP	75	6	2.9	4.1
CPN (D)	75	2	1	2.43
NMP	30	2	1	1.25
NRJ	50	0	0	0.47
MM,CPN-V	36	0	0	0.23
JD	15	0	0	0.08
NRJP	6	0	0	0.08
CPN-A	14	0	0	0.07
RJP (H)	28	0	0	0.06
RJP (Nepal)	9	0	0	0.06
NCP	6	0	0	0.04
BJD	1	0	0	0.03
JMN	14	0	0	0.02
ANSREP	1	0	0	0
DMK	1	0	0	0
Independents	291	3	1.5	4.17

Source:(Hutt 1994, p. 78)

The consequences of poverty are severe which adversely affect the social and economic situation of poor people. For example, poor people do not have enough income to support their children at school. The literacy rate in Nepal is 38% of the total population (Devkota 2007). As a result of social exclusion, the literacy rate varies significantly among gender and region. The literacy rate in the urban area is considerably higher than rural area (64% compared with 36%). Similarly, the male literacy rate is higher than female (52% compared with 24%) (Central Bureau of Statistics 2005). In addition, the living standard of poor people is critical. For example, they do not have enough access to health facilities, sanitation, drinking water, food and shelter.

Do & Iyer's (2007) research findings showed that violence and political unrest is highly correlated with lack of employment opportunities, high level of illiteracy and low economic growth. Lower economic growth

and violence were the results of political instability and corruption (Mauro 1995). Socio-economic development is highly relied on political stability, peace, security and good governance. Since, 1996 the socio economic environment of Nepal has been bust from unstable politics and corruption, which is discuss in following paragraph.

Political Instability and Corruption

The term political instability refers to the trend of change in executive power via different means (Ake 1975; Alesina et al. 1996). In this research, Nepalese political instability refers frequent changes occurred in government formation and the governments are short lived due to fight among intra and inter political parties conflict.

The term corruption refer as a use of government property for personal benefits of leaders and their political supporters, providing government contracts to certain parties by taking bribe, misuse of government funds and hiring official who are their relatives, friends or supporters even though they do not hold appropriate qualification to work (Hachhethu 2002b; Pokharel 2006). The weak government who could not operate the rules and regulation in a democratic manner increase the trend of corruption (Shleifer & Vishny 1993). Corruption is a major problem of developing countries so as Nepal. It restricts economic activities within certain group of people rather than helping poor and marginalised people. As a result, the gap between rich and poor is widening. The level of corruption increases rapidly and affects the performance of hospitals, educational institutions, financial institutions and Corporations.

After restoration of democracy in 1990, people had a great hope from democracy (United Nations Development Programme 2004). They believed that the democracy will help them to develop their economic and social situation, for example education for their children, food for hunger, health services for unwell, employment for unemployed but their hopes turn into frustration because of dirty politics (Panday 2005). During 1990- 2010 more than seventeen governments were formed and their average operation was nine months as shown in Table 2. The two major political parties are the Nepali Congress (NC) and the United Marxist and Lenin (UML) parties both of which often combined with the National Democratic Party (NDP) to form a government when they did not have an elected majority. Both major parties expressed concern for economic and social sustainability. The NC were elected as the government in 1990, promulgating the slogan “peace, stability, democracy and development”, but were replaced by the UML in 1994 (Hachhethu 2002a) which reworded the focus more specifically in terms of “bread for the hungry, work for the unemployed, land for the landless and shelter for the homeless”. However, both parties failed to address the commitments underlying their slogans.

In the parliamentary history of Nepal From 1990-2004, political parties in Nepal enjoyed power and privilege to satisfy their party needs rather than focus on national development (Hachhethu 2002b;

Pokharel 2006; Sharma, S 2007; Whelpton 2005). In addition, the parties in power were typified by weak governmental structures which in turn set the stage for increasing levels of corruption. Consequently, governments failed to implement their plans and policies effectively (Dawn Media Group 2010; Panday 2005; Parajulee 2010; Seddon & Hussein 2002). Economic growth was completely hampered by political instability (see Table 2), corruption and civil war (Hofmann & Grossmann 2005; Seddon & Hussein 2002; Sharma, S 2007). This was typified by the first elected government of the NC not even lasting for its five year tenure because of conflict within their party (Hachhethu 2000; Parajulee 2010). Throughout the past two decades, destructive intra party conflict and unhealthy inter party rivalry created political unrest (Hachhethu 2000; Parajulee 2010). This is consistent with observation that a weak party system is a major problem for a country when democracy is first introduced (Mainwaring 1998). This weakness motivates politicians to exercise unethical power, corruption and even civil war (Hachhethu 2002a) as evidenced by the dispute between UCPN-Maoist and the major political parties (NC and UML) regarding establishing republic nation in 1996.

Before 1990, the far western and western region of Nepal were neglected by Nepalese government in terms of infrastructure development and providing social benefits to people because of remote location and geographical difficulties (Murshed & Gates 2005; Pfaff-Czarnecka 2004; United Nations Development Programme 2004). The trend has been continued by elected government after 1990 as well. The government mainly focused their activities in urban and developed areas (Chhetry 2001; Gurung 2005; Sharma, S 2007). The gap between rich and poor and urban and rural areas were widening (Murshed & Gates 2005; Sharma, P 2006; Wagle 2010). The political governance was becoming weaker and weaker. As a result, Maoist party started the war between rich and poor and have and have not via mobilising those poor who lives in those regions. Maoist desire is to establish republican nation and change the constitution. They claimed that they were fighting for welfare of poor people. The system implemented within a country is different and country is suffered from corrupt governance and lead towards violence

Table 2: Nepalese Governments during 1990- 2010

Commencing Dates	Duration	Participating political parties	Prime minister
19/4/90	13 mths	NC and Left wing	Krishna Prasad Bhattarai
26/5/91	43 mths	NC majority	Girija Prasad Koirala
30/11/94	9 mths	UML	Mana Mohan Adhikari
12/9/95	18 mths	NC, NDP and NSP Coalition	Sher Bahadur Deuba
12/3/97	6 mths	NDP- Chanda,UML and NSP Coalition	Lokendra Bahadur Chand
7/10/97	6 mths	NDP-Thapa and NC Coalition	Surya Bahadur Thapa
15/4/98	12 mths	NC and ML coalition	Girija Prasad Koirala
31/5/99	5 mths	NC, UML and NSP Coalition	Krishna Prasad Bhattarai
22/3/2000	9 mths	NC	Girija Prasad Koirala
26/7/2001	14 mths	NC	Sher Bahadur Deuba
4/10/2002	7 days	Ruled by king	
11/10/2002	7 mths	NDP- Chanda (King appointed)	Lokendra Bahadur Chand
5/6/2003	12 mths	NDP-Thapa (King appointed)	Surya Bahadur Thapa
3/6/2004	8 mths	NCD	Sher Bahadur Deuba
1/2/2005	14 mths	Direct Rule by King	
25/4/2006	25 mths	NC	Girija Prasad Koirala
28/5/2008	2 mths	NC-Acting	Girija Prasad Koirala
18/8/2008	9 mths	UCPN-Maoist Coalition with others	Pushpa Kamal Dahal
25/5/2009	ongoing	UML, NC and other parties	Madhav Kumar Nepal

Abbreviations: Months (mths); Nepali Congress (NC); Nepali Congress- Democratic (NCD); United Marxist & Lenin (UML); Marxist Lenin (ML); Nepal Democratic Party (NDP); Nepal Democratic Party Thapa Faction (NDP-Thapa); Nepal Democratic Party Chanda Faction (NDP-Chanda); Unified Communist Party of Nepal (Maoist) (UCPN-Maoist); Nepal Sadbhabana Party (NSP); Communist Party of Nepal (CPN)

Majority of rural areas were operated by Maoist via their act and regulation between 1996 -2006. The country is operating through dual law (Government and Maoist) and create problem to implement government policies and legislation. Maoist destroyed governments infrastructure worth more than 4 billion (Seddon & Hussein 2002; Shrestha 2006) and looted a government's money. In addition, armed conflicts between government and Maoist killed more than 13,000 people (Do & Iyer 2007; Hofmann & Grossmann 2005; Sharma, S 2007). During civil war, the conditions of poor people were worse because the family lost their father, mother and guardians who took care of them. In their absence, they became more vulnerable.

Better infrastructure (Roads, transportations, irrigations communications, Schools, Hospitals), and facilities are crucial to uplift living standard of poor people via increasing their income level. A central level government commitment (Policy formulation and effective implementation) are essential to create economic opportunities for socially excluded poor and marginalised group (Dalit, and women) (Stern 2003). The role of economic program is vital to improve social and economic sustainability of poor. However, the effective implementation of economic program in Nepal was hampered by political volatility. Various economic program introduced by governments and external parties and their efficiency are discuss in following section in relation with turbulent political environment.

Economic Program

Majority of people are living in extreme poverty in Nepal. They are powerless, vulnerable, illiterate, do not have access on formal source of finance, unemployed, highly relied on agriculture but agriculture output is not enough to sustain their lives. Therefore, economic programs are essential to fulfil their basic needs and reduce the level of poverty. The major constraint of poor people to improve their living standard is lack of access to formal source of finance and education. Various economic programs are implemented by government in Nepal however those programs are not sufficient to meet the demand of poor people (Majorano 2007). Still 65-70% of poor people do not have access on formal source of finance (Central Bank of Nepal 2008). Therefore, it is essential to accelerate financing and education service to them. Providing small amount of loan to poor people without collateral to create regular source of income via entrepreneurial activities are essential to eliminate extreme poverty.

Involvements of government in economic activities are imperative to enhance better quality of life to poor and needy people. Since 1956 government introduced Five year development plan in every five year to develop countries economic and social status. Each and every plan of the government is focus on poverty reduction. Early 1990 political restoration introduced eighth five year development policy and focused on sustainable economic growth, poverty alleviation and minimise regional disparities. The emergence of multi party political system provides sovereignty to democratically elected government. As a result, government introduce liberal economic policies which allow market force and private sector to involve in banking, industry and other sectors. The government was focused on economic including trade and investment, fiscal and monitoring policies, financial and capital markets and other economic and social sectors. Those reforms bring some positive changes in other sectors however failed to improve the productivity in agriculture sector as majority of people live and rural area and substantially relied on agriculture (The Government of Nepal 2000). Various rural development program designed by government were failed to address economic disparities (Gurung 2005; Sana Kisan Bikas Bank 2010b; United Nations Development Programme 2004). The government is keep introducing different sort of programs and institutions to win the faith of poor people but failed to achieve social and economic development because of political turbulence.

Unstable politics have negative impact on economic growth (Alesina et al. 1996). For example, development expenditure of government was declining because government spend more money to control civil war (Baral & Heinen 2005; Parajulee 2010). The development expenditures between 2005-2009 were decline by 4.2% resulted in 8.3% loss on total gross domestic product (GDP) growth, If the conflict intensifies and development expenditures decline by 8.4%, total GDP growth lost will be 10.3% (Ra & Singh 2005). The unstable politics and governments do not have strong commitment to implement the program and policy initiated by previous government. The government initiated funds and programs are misused by political parties to fulfil their personal and party needs (Panday 2005; Pokhrel 2007; Sana Kisan Bikas Bank

2010b). Most of the government initiatives and plan were limited in paper and politician did not show genuine interest of implementation (Dahal, D, Uprety & Subba 2002).

The government introduce various instrumentalities alone and in partnership with development agencies to uplift social and economic standard of deprived people. Those instrumentalities are describing in next section.

Priority sector lending policy

As mentioned previously, majority of poor people are living in rural area of Nepal. The marginalised, poor and socially excluded group were not serve by formal financial institution as they are consider as less creditworthy. The financial services provided to poor people in Nepal are insufficient because the government initiated program is not enough to reach towards poor people. Realising those facts, Nepal Rastra Bank (NRB- central bank of Nepal/ Government Bank) introduced priority sector and deprived sector lending program in 1974 to provide formal source of finance to poor people. NRB instructed commercial bank to invest 5% of their deposits in small sector namely agriculture, cottage industries and services on the basis of collateral (Banking with the Poor Network 2007; Dhakal, NH 2008; Hotelnepal.com 2010; Pant 2009; Sana Kisan Bikas Bank 2010a). The interest charged to poor people is significantly low (Demetriades & Luintel 1996). Even though, the program failed to address the poverty because of political influence towards loan disbursement and payment. It was modified in 1981 as an Intensive Banking Program. Within Priority Lending Policy commercial bank need to invest 7 % of their fund on priority sector on the basis of group guarantee rather than collateral (Banking with the Poor Network 2007; Pant 2009). If bank provide loan on the basis of collateral, rural poor will never get loan as they do not hold worthy collateral. In 1990, the provision was increased up to 12% and this compulsion was phased out in 2007 because of poor financial sustainability of project, political interfere and less interest of Central bank to implement this policy (Demetriades & Luintel 1996; Ferrari, Jaffrin & Shrestha 2007; Pant 2009; Upreti 2004). Eventually, the program failed to improve the living standard of poor people.

Introduction of Small Farmer Development Program

Formal financial institution neglected poor farmers to provide financial service because they are considered as less credit worthy. As a result, Poverty alleviation rural base program emerged via small farmer development program (Mosley & Dahal 1985). Small Farmers Development Program (SFDP) was introduced in 1975 with collaboration of Agriculture Development Bank Nepal (ADB/N) with assistance of Food and Agriculture Organisation and United Nation Development Project (UNDP) to uplift the living standard of poor farmers by providing agricultural input credit (Banking with the Poor Network 2007; Dhakal, NH 2008; Ferrari, Jaffrin & Shrestha 2007; Pant 2009; Rural Microfinance Development Centre Ltd 2009; Sana Kisan Bikas Bank 2010b). This program was controlled by ADB/N. It was perceive as welfare activities by farmers rather than a commercial program (Bhatta 2001; Dhakal, NH 2008). Therefore, the program failed to

achieve its goal. Focus on credit, political pressure to sanction loan and overdue of significant amount of loan and interest deteriorate the performance of SFDP (Banking with the Poor Network 2007; Bhatta 2001; Centre for Microfinance 2009; Dhakal, Narahari 2010; Ferrari, Jaffrin & Shrestha 2007; Pant 2009; Sana Kisan Bikas Bank 2010b; The World Bank 2002). The government of Nepal invited private sector to improve the economic growth of Nepal As a result, German Agency for Technical Cooperation (GTZ) showed its interest to involve in SEDP. Later on this loss making public sector program was modified and conducted via Cooperative approach to provide better sustainability (The World Bank 2002).

Conversion of Small Farmer Development Program to Small Farmers Cooperative Ltd

The conversion project was supported by GTZ via institutional development program. SFDP was converted into Small Farmer Cooperative Limited (SFCL) at early 1990 to provide self reliant and sustainability to the program (Marcus & Acharya 2005). It is autonomous federation of small farmers and managed by community members for their own benefits (Ferrari, Jaffrin & Shrestha 2007). Therefore, its performance is better than SFDP. The results showed that SFCL is consider as a sustainable institution than SFDP because of low administrative costs, significant member savings and members commitment (Chris 2004; The World Bank 2002). SFCL can get wholesale fund from Small Farmer Development Bank (SFDB) if it meets the lending criteria of SFDB. This program is continuing to operate and provide services to poor farmers via community involvement. However, the performance and security of SFCL is negatively affected by Maoist violence and political instability (Hofmann & Grossmann 2005; The World Bank 2002). SFCL performance showed that the exclusion of direct involvement of government (Politics) and active involvement of members is critical success factor of SFCL. The SFCLs are successful than other government initiated program, for example, Bisheshwor with poor, Build your village yourself and priority sector lending program.

There are few programs introduced by government alone to alleviate the poverty through political motivation which are mention in following paragraphs.

Politically motivated, Government Initiated Program

As an economic reform various government in different period of time introduce and adopt different sorts of plans and policies to bring change in socio-economic condition of poor people. All plans and policies are welcome by each and every government who came in Power but manipulate those program in their favour rather than poverty alleviation (Hachhethu 2002b; Pokhrel 2007). Following program are introduced by different governments at different period of time.

1. Build your village yourself scheme

This program was introduced by United Marxist & Lenin (UML) government in 1995 with intention of develop a rural area of Nepal. Under this program government provide NRS 300,000 for development of

village according to their need. The program itself is not bad but the political debates among political parties make it worse. The NC party was against this program as it did not benefit their supporters because it was controlled by majority of Local communist government (Whelpton 2005). This program was failed because of political meddling. The fund was used to support their political supporters rather than improving the living standard of poor people (Dahal, DR 2001; Hachhethu 2002b; Pokharel 2006).

2. Bisheshwar with Poor

This program was introduced by NC government in 1999 as opposed to Communist government program in 1995. Those program were ran by government to benefits poor people however the corruption and politicisations encouraged leaders and their supporters to use fund for their own welfare rather than poor's welfare (Dahal, DR 2001; Hachhethu 2002b; Pokharel 2006). This program was also criticised by Communist government as opposed by NC government to their program. This program was fail too because of political conflicts.

The government is keep introducing different instrumentalities to address poverty and to improve the living standard of poor people who suffer from poverty.

Establishment of Regional Rural (Grameen) Development Bank

Under sponsorship of Government and NRB via replicating Grameen Bank model of Bangladesh, five Rural Regional Development Bank (RRDBG) were established during 1992-1996 (Bhatta 2001). Those banks are popular as Microfinance institutions (MFIs) MFIs aim is to provide financial assistance to rural households to alleviate poverty. Private sector run MFIs are sustainable and profitable however the performance of RRDB is in loss in aggregate due to inefficiency and political unrest. Therefore, NRB decided to privatise those banks (Agrawala & Carraro 2010). One of the RRDB (Western RRDB) was insolvent because of mismanagement and political overwhelmed (Sana Kisan Bikas Bank 2010b; The World Bank 2002). The outreach and performance of RRDB was highly affected from political corruption in terms of staffing and target area of operation (Ledgerwood & Development Project Centre Nepal 1997). The performance of RRDB is significantly lower than the performance of private and non government sector MFIs (Swabalamban Bikas Bank Ltd, Nirdhan Utthan Bank Ltd, Chhimek Bikas Bank Ltd and Deprosc Development Bank Ltd) in relation to financial sustainability. The government sector performance was mostly affected from political meddling and resulted for poor performance (Sarup 2007).

Poverty Alleviation Fund (PAF)

The Social exclusion creates a wider gap between rich and poor. Therefore, government introduce PAF to minimise the gap via income generation activities. The concept of PAF was recognised by National planning commission in 1992 However, it did not come into implementation until 2003 because of political instability and lack of commitment. The tenth government plan (2003-2008) realised the need of PAF to advance the

living standard of poor people. The main intention of the program is to enhance living standard of marginalised and disadvantaged poor household who are socially excluded (Povert Alleviation Fund Nepal 2007). The short term goal is to assist them for income generation activities. In long run, the project is targeting for social transformation. The major financial supports came from World Bank but it is implemented by government. The PAF fund was misused by political leaders to satisfy their personal and party need rather than improving the living standard of poor (Arthakoartha.com 2010; Kantipur Reporter 2010). However, this program is effective than other government initiated program. Many research showed that the accountability towards fund provider forced program to implement effectively.

After 1990, the number of NGO and cooperatives are increased in the field of Microfinance (MF) as a result of political liberalisation and democracy. Those institutions are operating in grass root level to improve the living standard or poor and marginal people who live in rural area. Those institutions could not operate their activities effectively because of lack of financial resources. The following instrumentalities were introduced by government to provide wholesale funds to NGOs and cooperatives who are working to improve the social and economic status of poor people.

1. Rural Self reliance Fund

In 1991, Rural Self Reliance Fund (RSRF) was introduced by the government (Cabinet decision) to provide wholesale funds to NGOs and cooperatives which are dealing with MF (Banking with the Poor Network 2007; Ferrari, Jaffrin & Shrestha 2007; Sana Kisan Bikas Bank 2010a). At initial, government supported Nepali Rupees (NRS) 10 million and extra 10 million in 1999 in RSRF to robust economic activities among poor people. Central bank of Nepal manages this fund and provides its services to more than 100 NGO but still the outreach is very minimal because of political instability and lack of government commitment to implement program. RSRF fund is focus on providing long term credit to farmer who involve with tea and Cardamom plantation. Even though the program is ineffective, the governments are continuing this program. During 2010, political parties are failed to form a government, As a result, the economic situation of government initiated program are becoming more vulnerable.

2. Rural Microfinance Development Centre

Rural Microfinance Development Centre (RMDC) was established in 1998 from assistance of Asian Development Bank and NRB to provide wholesale funds to MFIs (Banking with the Poor Network 2007; Sana Kisan Bikas Bank 2010a). The main aim of this institution is to improve socio-economic standard of rural poor and marginalised people through financial assistance and income generation activities. This program provides fund to ADB/M funded rural microfinance project. This institution is less affected from political influences because it is manage by external parties and the decision of RMDC is free from political meddling (Majorano 2007) .ADB/M has given RMDC “Exemplary Performance Award” for four times since its establishment.

3. Small Farmer Development Bank

In 2001, Small Farmer Development Bank (SFDB) was introduced by government with involvement of ADBN and commercial banks, according to development bank act 1996 to provide wholesale funds to SFCL (Banking with the Poor Network 2007; Hotelnepal.com 2010). It provides financial and non- financial services (Training, capacity building program and technical assistance) to SFCL members to operate their institution. As mentioned previously, SFDB's operation is effective because of effectiveness of SFCL and away from political intervention (Banking with the Poor Network 2007)

There were six major donor funded microfinance project in Nepal. Their major goal is to provide skill, finance, training and other facilities to rural poor, marginalised women and indigenous people who are deprived from their basic need. Those programs are focused on income generation activities to advance living standard of poor people. Those programs are discussed in following section.

1. Production Credit for Rural Women

Production Credit for Rural Women (PCRW) program was conceived in 1992 as a pilot project and lunched in 24 districts (International Fund for Agriculture development 2010). This program was supported by IFAD (International fund for Agriculture Development- a specialised agent for United Nation) and collaborated with UNICEF (United Nations Children's Education fund) to meet financial needs of rural poor women. The program was executed by women development division of government through integrative approach of MF (Providing financial and non financial assistance) (Tilakaratna 1996) . It provided loan to its clients on the basis of project viability rather than collateral (Bhatta 2001; Pant 2009). The program was benefited by poor and marginalise women to uplift their living standard. In addition, the government introduced Intensive Banking Program and linked with PCWR to improve the efficiency of program Even though, the program was delayed at initially, the overall performance of PCRW was better than the government initiated program because it is well managed and directed by international organisation (Ledgerwood & Development Project Centre Nepal 1997). The international organisation and women development division put commitment on project even though the political situation was unstable (International Fund for Agriculture development 2010). It showed that the accountability towards donor institution and less involvement of political interest assisted project to achieve their goal (Thapaliya 2010). This project was completed in 1997. Those women groups performed better and now they are continuing their operation via saving and credit organisations (International Fund for Agriculture development 2010)

2. Micro Credit Project for Women

Micro Credit Project for Women (MCPW) was initiated in 1994 by Ministry of Local Development in Coordination with NRB and Rastria Banijya Bank (RBB- Government owned commercial bank). This project received financial assistance from Asian Development Bank/ Manila (ADB/M). This program was

implemented through participation of NGO. This project was completed in 2002 and utilise 90% of fund for income generation and socio- economic development of rural area of Nepal. In 2001, this project was awarded as an ADB run best project in Nepal. This program was successful because it was not meddling with politics. In addition, the accountability towards ADB/M. led the project toward success (The World Bank 2003)

3. Poverty Alleviation Project in Western Terai

Poverty Alleviation Project in Western Terai (PAPWT) was introduced in 1997 and fund was supported by IFAD to provide financial and technical assistance to rural poor who lives in Terai districts of Nepal. It is executed by ministry of local development. This project utilise 80% of fund and completed in 2004. This project was effective because of accountability towards fund provider and did not mix with politics (Thapaliya 2010)

4. Third Live Stock Development Project

Third Live Stock Development Project (TLDSP) was established in 1996 from financial assistance of ADB/M. The Department of Livestock, Ministry of Agriculture and Cooperatives executed the program through participation of NRB. The main aim of the project was to generate income via production and improvement of live stock. It provides financial and technical assistance to poor and marginalise people to carry out their livestock business. This program performance was significant and awarded by ADB/M as a best project in 2000,2002 and 2003 (Nepal Rastra Bank 2008). This program achieved a targeted goal and increased the income of rural poor (Asian Development Bank 2006). There was no political interference to implement the project. The major factor to its success is accountability towards ADB/M.

5. Community Ground Water Irrigation Sector Project

Community Ground Water Irrigation Sector Project (CGISP) was emerged in 1999 to uplift the economic standard of a poor people who live in Eastern and Central region of Terrain. This program assisted to improve the agriculture productivity through shallow tube well irrigation system. NRB is worked as an implementing agency. The project was executed by Department of irrigation. The financial support was received from ADB/M and technical support was received from Canadian International Development Agency.

6. Rural Microfinance Project

Rural Microfinance Project (RMP) was operated from 1999-2005. This project was financially supported by ADB/M and credit part was managed by Rural Microfinance Development Centre (RMDC). The main goal of this project was to improve socio-economic conditions of poor women via providing financial supports to generate income. This project utilised only 30 % of ADB/M funds. RMDC blame that it was conservative attitudes to view MFIs.

In conclusion, it reflects that after 1990, several programs and projects are formulated to address the poverty of rural people in Nepal. However the program introduced by government were fail to achieve their goal due to lack of political stability and political commitment to continue the plan and policy formulated by previous government (Gautam 2007; Sharma, S 2007; United Nations Economic and Social commission for Asia and the Pacific 2010). Development plans and activities of government were used by all political party as a mean of getting popularity and winning an election (Hachhethu 2000). Government is failed to implement their basic duties towards project and program (Centre for International Studies and Cooperation 2007). The public fund was able to win support of their supporters but failed to uplift a living standard of poor people (Bhattarai 1993; Pokhrel 2007).

On the other hand, the civil war started by Maoist within a country appeared as a barrier for government to implement its plan, policies and programs in rural area of Nepal especially in western and Far-western region of Nepal. Maoist parties destroyed infrastructure and did not allow development organisation to run their activities (Hofmann & Grossmann 2005; Sharma, K 2006). In this regard, government initiated programs are highly affected than NGO's program because Maoist are against government activities (Joras & Swisspeace 2008; The World Bank 2002).

The involvement of private sector and NGO/INGO significantly contributed to uplift social and economic conditions of rural poor but those service could not reach to more poor's because of political instability and civil war (Shrestha 2006; Sinha 2000; The Government of Nepal 2000). The performance of NGO to create awareness and participation are very effective after ceasefire in 2006 (Sharma, S 2007). In addition, they are very successful to design a sustainable development tools in comparison to governments involvement (Ledgerwood & Development Project Centre Nepal 1997; Sharma, P 2009; Sinha 2000; The World Bank 2002). In contrast, the increased corruption within governments and fight among political parties to come into power worsen the efficiency of economic program.

Conclusion

The Nepalese people expected that the democracy introduce in 1990 will contribute to bring positive change in the life of poor people especially in relation to the alleviation of poverty and increase in employment. However, this expectation of sustainable prosperity was ignored by the corrupted political government who came in power from 1990-2010. It demonstrates that the most successful programs were those sponsored by outside parties who were not subject to political meddling and misdirection of financial resources.

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