



# PRIVATE SECTOR AND PUBLIC SECURITY IN NEPAL

Perceptions and responses

Rebecca Crozier, Canan Gündüz and DB Subedi

Working paper

August 2010

### **About International Alert**

International Alert is a 25-year old independent peacebuilding organisation. We work with people who are directly affected by violent conflict to improve their prospects of peace. And we seek to influence the policies and ways of working of governments, international organisations like the UN and multinational companies, to reduce conflict risk and increase the prospects of peace.

We work in Africa, several parts of Asia, the South Caucasus, the Middle East and Latin America and have recently started work in the UK. Our policy work focuses on several key themes that influence prospects for peace and security – the economy, climate change, gender, the role of international institutions, the impact of development aid, and the effect of good and bad governance.

We are one of the world's leading peacebuilding NGOs with more than 155 staff based in London and 15 field offices. To learn more about how and where we work, visit [www.international-alert.org](http://www.international-alert.org).

© International Alert 2010

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without full attribution.

Layout by D. R. ink

Front cover image: © Erik Törner, IM Individuell Människohjälp [www.manniskohjalp.se](http://www.manniskohjalp.se)

# Private sector and public security

Perceptions and responses

## Author Profiles

### Rebecca Crozier

Rebecca Crozier is Country Manager for International Alert's Nepal Programme, based in Kathmandu. International Alert in Nepal seeks to ensure that national and international discussions related to justice and security sector reform (JSSR) are informed by local-level needs and realities. Rebecca has been working with civil society, private sector and government stakeholders in Nepal since 2007, building capacities to inform and influence JSSR debates. Rebecca holds a degree in Political Science and International Studies from Birmingham University.

### Canan Gündüz

Canan Gündüz is a Senior Programme Officer with International Alert's Peacebuilding Issues Programme, where she works on a number of issues ranging from private-sector investment in conflict-affected countries, and conflict-sensitivity of development interventions, to mediation. Her work includes research and analysis; advisory work with private and public bodies; and capacity-building through training. Canan has been working on private sector peace initiatives in Nepal since 2006. Previously, she worked for UK DfID's Conflict and Humanitarian Affairs Department; and the UN Office for the Coordination of Humanitarian Affairs. She is a trained mediator with an MA in Mediation from the University of Viadrina; and holds an MSc in Development Studies from the London School of Economics.

### DB Subedi

DB Subedi is a Senior Programme Officer with International Alert's Nepal programme. DB leads Alert Nepal's thematic programme on Business, Economy and Peace, involving undertaking research and analysis aimed at understanding the role of the domestic private sector in the consolidation of peace in Nepal. DB's work involves coordinating and facilitating dialogue between the private sector, the relevant public sector and civil society, in order to generate awareness of the importance of economic recovery for sustainable peace. DB also leads two other new initiatives in Nepal: building strategies for future programmes that seek to engage youth as a prominent constituency in peacebuilding; and exploring opportunities for engaging the private sector in support of Maoist ex-combatant rehabilitation. DB holds an MA in Social Anthropology from Central European University Budapest and an MA in Sociology from Tribhuvan University Nepal.

# Contents

Acronyms	4
Executive summary	5
1. Introduction	7
2. Public security: Why business cares	8
3. The context: Key security concerns	9
4. Impacts of insecurity on economic growth	11
5. Private sector responses to insecurity	12
6. Implications and recommendations	13

## List of acronyms

CA	Constituent Assembly
CPA	Comprehensive Peace Accord
CRVs	Control Room Vehicles
CSR	Corporate social responsibility
DDC	District Development Committee
FNCCI	Federation of Nepalese Chambers of Commerce and Industry
NGOs	Non-governmental organisations
PLA	People's Liberation Army
SSR	Security sector reform
VDCs	Village Development Committees

## Executive summary

This short briefing paper forms part of International Alert Nepal's working paper series 'Equitable economic recovery for peace' (see below). It highlights key security concerns for the Nepali private sector and explores the role business can play in contributing to and mitigating insecurity. It identifies entry points from which various stakeholders, including the private sector, government, civil society and the international community, may seek to encourage improved public security in the country.

### Working paper series: Equitable economic recovery for peace

This paper is part of International Alert Nepal's working paper series 'Equitable economic recovery for peace', which seeks to share research and stimulate debate on the key conditions, barriers and opportunities for peace through equitable development in Nepal. For more information on this and the rest of Alert's work in Nepal, see [www.international-alert.org/Nepal](http://www.international-alert.org/Nepal)

Equitable economic recovery and improved public security are both key requirements for consolidating peace in Nepal. Economic deprivation of various groups and regions, elite control of productive resources and decades of low development have fed both poverty and multiple conflicts in the country. The private sector is deeply affected by insecurity: increasing criminality, forced donations, strikes, shutdowns and labour unrest stifle production, limit access to raw materials, prevent goods going to market and undermine investor confidence. At the same time, irresponsible and sometimes illicit business practice further fuels this cycle of public insecurity, resulting in yet more economic hardship. Breaking this cycle therefore has to be in the interest of responsible business leaders across Nepal.

This paper presents key security concerns at the district level, as well as business responses, and presents the following recommendations:

#### To the private sector:

- Move beyond ad hoc “fire fighting” efforts to tackle insecurity and invest time in initiatives that tackle the root causes of insecurity systematically and systemically.
- Demonstrate integrity and commitment to responsible business practices, including transparency, to avoid fuelling insecurity.
- Reach out to other stakeholders such as wider civil society, government and security service providers for dialogue, partnership and joint advocacy.
- Strengthen ongoing efforts at social dialogue at the national level between employers and employees, with similar efforts at the level of individual enterprises.

#### To the government of Nepal:

- Reach out to and engage business when undertaking public security policy reviews and reforms.
- Convene multi-stakeholder dialogue forums at the local level, including with the private sector and civil society, to discuss local security needs and the potential for implementing joint solutions.
- Initiate efforts to improve the integrity and accountability of public tendering processes, so as to reduce corruption and interference.

### To the political parties:

- Recognise the long-term detrimental effect of political interference in the security sector on public security and economic development, and take steps to address it.
- Publicly recognise and communicate the importance of economic growth for sustainable peace and the impact of insecurity on the economy to youth wings and sister organisations.
- Consider cross-party dialogue on how political participation and activism (e.g. strikes) can be ensured without impacting negatively on economic activity.

### To the international community in Nepal:

- Support the private sector and civil society to jointly identify and prioritise key public security problems, and develop capacity to advocate for solutions to these problems at both local and national levels.
- Involve and seek input from the private sector as well as civil society when designing and implementing programmes that seek to address public security concerns.
- Support the private sector, trade unions and civil society to develop skills and implement initiatives that seek to improve business practices and workplace cooperation, such as dispute resolution and mediation skills, and corporate social responsibility (CSR) initiatives.

# 1. Introduction

This short briefing paper highlights key security concerns for the Nepali private sector and explores the roles business plays in contributing to and mitigating insecurity. It identifies entry points from which various stakeholders, including the private sector, government, civil society and the international community, may seek to encourage improved public security in the country.

It is the result of interviews and focus group discussions in the districts of Bara, Dang, Kailali, Morang, Parsa and Sunsari from November 2009 to February 2010. Interviews and discussions were held with representatives from the private sector, civil society, political parties, trade unions and local communities in and around urban centres and selected village development committees (VDCs) in each district. The contents were subsequently verified through meetings and discussions with private sector leaders, the international community and civil society leaders in Kathmandu and Itahari in March 2010.

## 1.1. Background – provision of security and justice in Nepal

The accessible and accountable provision of security and justice is one of the main requirements for a peaceful society and sustained social and economic development. Security provision and access to justice are regarded as essential public services; fundamental building blocks in promoting good governance; and critical for the creation of a secure environment at both the local and national level.

In the wake of the Comprehensive Peace Accord (CPA) and the Constituent Assembly (CA) elections in 2008, there have been ongoing discussions in Kathmandu on security and justice issues (sometimes termed security sector reform (SSR)). These discussions have covered issues such as police effectiveness, civilian oversight of the army and the legal framework of the security sector as a whole. More contentious questions concern the ‘right’ size of the Nepal Army, the integration of the People’s Liberation Army (PLA) into the national army and how to engage with the increasing number of militant youth groups. As the deadline for completion of the constitution approaches, the political scene is one of ongoing deadlock between the major parties over a solution to this ‘integration’ issue in particular.

The political parties, through the CA, have committed to addressing many of the security and justice issues. However, for improvements to be sustained in the long term, any changes in this sector need to be considered and discussed across Nepal, considering the needs of and implications for diverse constituencies. Institutions and processes in Kathmandu will benefit from more information about security challenges and needs across Nepal for different sectors of the population. Equipped with this understanding, any future policy reform decisions are more likely to meet these diverse needs and gain traction with the wider Nepali public.

## 2. Public security: Why business cares

Equitable economic recovery is a key requirement for consolidating peace in Nepal. Economic deprivation of various groups and regions, elite control of productive resources and decades of low development have fed both poverty and multiple conflicts in the country. Public expectations of ‘peace dividends’, especially economic opportunities, remain high. The perceived failure of the peace process to meet these expectations thus far is fuelling increased frustration, particularly among young people.

Weak law and order and lack of public security pose one of the biggest challenges to the much-needed economic growth and recovery. This is particularly the case at the district level. Law and order are therefore key issues that need tackling in order to support both sustained economic recovery and the consolidation of peace.

The private sector is deeply affected by insecurity. Increasing criminality, forced donations, strikes, shutdowns and labour unrest stifle production, limit access to raw materials, prevent goods going to market and undermine investor confidence. Weak security provision means that businesses increasingly rely on private security for their individual safety, as well as protection of property and assets. This increases the cost of doing business, ultimately reflected in higher retail prices. Business people are also key targets for groups seeking to extort money and kidnapping for ransom, particularly across the Terai. For all these reasons, the private sector therefore has a clear interest in a return to peace and security. Business groups also have considerable influence at the political level through personal connections and professional networks.

### 3. The context: Key security concerns

Insecurity and weak law and order were considered the primary hindrance to economic growth by the vast majority of interviewees, across all districts and in Kathmandu. Other hindrances included political instability, power shortages and labour disputes. The following are the key security concerns expressed by private sector representatives in the districts covered.

#### **Increased number of criminal gangs, many of them armed**

Respondents from Terai districts felt that growing criminal activity was often fuelled by the open border with India. Criminal gangs were reported to be colluding with underground groups and sometimes even major political parties, for example to gather monetary support and to use force in bidding for construction tenders. Criminal groups were also accused of extortion and abduction of business people for ransom.

#### **Extortion and forced donation**

Business people and their families were the primary target for extortion demands and abductions by criminal gangs and for forced donations from many of the major political parties, in particular the UCPN-Maoist. Extortion demands come via mobile phones, often Mero Mobile, Indian or international numbers.

#### **Increasing theft and petty crime**

Smaller businesses felt increasingly at risk of petty crime, such as acts of vandalism during periods of political unrest, break-ins and theft of goods. It was felt that this crime was largely opportunistic, with criminals exploiting the preoccupation of an overstretched police force with public order control. Very few small businesses are insured and even small incidents such as a broken shop-front window are extremely difficult to absorb with tight profit margins.

#### **Political interference in the security and justice sector**

Private sector representatives in all districts covered by the research, as well as in Kathmandu, recognise the extent to which political interference weakens the provision of security and justice and reduces public trust in security and justice service providers.

#### **Poorly resourced police force**

A lack of public trust is further weakened by the fact that the police are visibly under-resourced, in terms of personnel, equipment and infrastructure.

#### **Frequent bandhs and violent protests**

An estimated 700 different bandhs were called during 2009, the vast majority of them occurring in the Terai. The Federation of Nepalese Chambers of Commerce and Industry (FNCCI) estimates that a day's bandh costs the industrial sector 680 million Nepali rupees (around US\$9 million).<sup>1</sup> Transport strikes prevent access to raw materials and stop produce going to markets. Small businesses and agricultural producers, with already tight profit margins, are perhaps hardest hit by bandhs.

#### **Over-politicisation of trade unions and labour disputes turning violent**

All medium and large businesses cited 'over-aggressive' trade union activity as a major hindrance to doing business in Nepal. In many cases, it was felt that politically affiliated unions were more

---

<sup>1</sup> 'FNCCI sticks to "No Work No Pay" policy', NepalNews.com, 22 December 2009.

Available from <http://www.nepalnews.com/main/index.php/business-a-economy/3024-fncci-sticks-to-no-work-no-pay-policy.html>

concerned with recruiting as many members as possible than the actual issues related to labour relations. Unions were reported to be vying with each other to make the highest demand from the employer, with the result that many employers who could not meet these demands would decide to contract or close their business.

### Increased youth engagement in criminal groups or political party youth wings

Business people recognised that the current lack of employment opportunities for young people was fuelling youth engagement in alternative means of earning a livelihood. Political party youth wings and criminal groups are reported to entice new members with the promise of economic gain, alongside a political voice (in the case of the political youth wings), security and status.

### Political mobilisation of groups along lines of ethnic identity

The arming of groups to fight for an ethnic cause was a concern for business people in Dang, Morang and Sunsari districts in particular. There was concern among businesses in Morang and Sunsari about the potential for violence if the country was divided into federal states along ethnic lines.

### Capturing of land by politically backed groups

In Dang, Kailali, Morang and Sunsari, business people cited land capture and conflicts over land as major security issues. In Kailali, confrontations between Maoist-backed landless settlers, including freed Kamaiyas, and the state were of concern. In Morang and Sunsari the main issue cited was violent disputes over land in the context of fast-rising land prices. Real estate agents, considered to make large profits overnight, were reported to be a major target for extortion.

In addition, private sector representatives in all of the districts concerned underlined the importance of political stability at the national level for security at the local level. Business people spoke about the need for a ‘strong’ government, i.e. one that can not only recognise insecurity as a major problem but also act to improve the effectiveness of public security provision.

Private sector leaders in Kathmandu also expressed concern about the discharge of the 4,008 disqualified Maoist ex-combatants and the possibility that a significant proportion of the disqualified may be recruited by gangs, political groups or armed outfits to support illegal fundraising activities, such as the extortion of business people.

**Table 1**

District/Area	Key security concerns for the private sector
Bara/Parsa	<ul style="list-style-type: none"> <li>• Extortion, abduction and killings by armed groups</li> <li>• Open border and impunity of criminal groups, smuggling of goods</li> <li>• Over-politicised trade unions and violent labour disputes</li> </ul>
Dang	<ul style="list-style-type: none"> <li>• Extortion by criminal gangs, political parties and their youth wings</li> <li>• Bandhs and road blockages</li> <li>• Increased visibility of armed groups, such as the Tharuhat Liberation Army</li> </ul>
Kailali	<ul style="list-style-type: none"> <li>• Land capture and disputes between land-owners and politically backed settlers</li> <li>• Conflict between investors and communities</li> <li>• Extortion by criminal gangs, political parties and their youth wings</li> </ul>
Kathmandu	<ul style="list-style-type: none"> <li>• Bandhs and road blockages</li> <li>• Over-politicised trade unions and labour disputes</li> <li>• Extortion, abduction and killings by armed groups</li> </ul>
Morang/Sunsari	<ul style="list-style-type: none"> <li>• Extortion, abduction and killings by armed groups</li> <li>• Open border and impunity of criminal groups, smuggling of goods</li> <li>• Over-politicised trade unions and labour disputes</li> </ul>

## 4. Impacts of insecurity on economic growth

### Closure, relocation and contraction of businesses and industries

Labour problems, strikes and extortion demands have caused many industries in Nepal to close down completely. Private sector representatives from Biratnagar claim that, out of 250 industries on the Morang–Sunsari industrial corridor, only 30 are currently in operation. Those that can have migrated across the border to India, such as multinational Colgate-Palmolive, which ceased operations in Nepal in 2009 citing chronic labour shortages as the major reason. Others are simply scaling down operations or not taking on new business, for fear of attracting heightened union demands or the eye of the extortion rackets. It should be noted here that closure for larger businesses is extremely complicated and often expensive, involving the need to get ministerial approval and to pay considerable compensation to workers. This makes it extremely difficult to negotiate with trade unions, who know that closure will be an absolute last resort and means that many businesses continue to operate at a loss.

### Missed opportunities

While existing businesses are closing or contracting, would-be entrepreneurs are discouraged from investing in business ventures largely due to the security situation. In all districts visited, private sector representatives felt that they were still in ‘wait and see’ mode regarding new investments and had been for the past 12 years or so. Instead, those who have money, including returning migrants, are opting to invest in land, causing land prices to rise dramatically.

### Safety and security concerns halt Rs 1 billion investment

In November 2009 Varun Beverages Nepal Limited, bottlers of PepsiCo in Nepal, announced plans to establish a state-of-the-art bottling plant in the Terai, an investment worth 1 billion Nepali rupees. By December 2009 the company announced it had cancelled plans for the new plant, citing impunity and militant unionism. As a senior representative of RJ Corp, promoters of Varun Beverages, explained in a statement: ‘safety and security of senior officials made me take this decision’. In addition to the loss of a potential 1 billion rupee investment, the cost to Nepal of this decision was also the loss of many potential jobs for people around the proposed site of the plant.

### Youth migration leads to shortages of skilled labour

Youth unemployment was recognised by most business people as a key driver of insecurity. Conversely, high out-migration of youth is believed to be causing skilled labour shortages, which businesses address by hiring labour from India, reportedly at a higher cost to the business than hiring similarly qualified Nepali staff. Trade unions, however, accuse the private sector of hiring labourers from India to circumvent Nepali labour laws.

### Development activity halted and budgets misused

Tendering processes, including those of the District Development Committee (DDC) and other government line agencies, are seen as a key trigger of localised violence, particularly between youth wings of political parties. Business people believe that they cannot compete in tender processes unless they engage in underhand practices, such as colluding with political or criminal groups to win contracts. The use of VDC budgets by political parties and other powerful groups was also seen as a source of conflict. Business people in Sunsari in particular also reported that development activities by government and non-government agencies had almost ceased in VDCs south of the highway. Non-governmental organisations (NGOs) working with Koshi flood victims in the district are reportedly not able to operate unless they have links to armed groups.

## 5. Private sector responses to insecurity

The research also set out to understand the current role played by the private sector in terms of mitigating (or contributing to) causes of insecurity. Findings highlighted a dual role of the private sector in this regard.

In a negative sense, certain private sector actors are perceived as contributing to and benefiting from insecurity by engaging in illegal practices, such as cross-border smuggling, evasion of taxes and collaboration with political actors and other groups, for example to compete for construction tenders. Unethical and irresponsible business practices, fuelled by a lack of state oversight and weak governance, have contributed to negative public perceptions of the private sector, whereby businesses are not seen to benefit local communities or the consumer. Examples include the adulteration of petroleum products, foreign employment agencies overcharging and misleading applicants, and lack of employee accident insurance schemes.

Although extortion of business people is clearly a major problem, the research shows that in many cases businesses involved in illegal practices (such as cross-border smuggling of goods or tax evasion) are more at risk of what is essentially blackmail from various wings, mostly led by young people and affiliated with political parties as well as criminal groups. In Kailali, it was reported by more than one respondent that PLA cadre were setting up check points on roads outside cantonments and ‘fining’ drivers that were found to be driving overloaded buses or trucks, or driving without correct permits.

In a positive sense, the private sector is viewed as an effective partner in the promotion of peace and security. For example, in both Sunsari and Parsa districts, the Chambers of Commerce have collaborated with the police to set up a stand for Control Room Vehicles (CRVs) and establish a police Special Task Force respectively. In Kailali, a strong and enthusiastic Chamber of Commerce has been involved in district-level mediation efforts (most recently during clashes between landless settlers and the police in Dudejhari VDC in the district), and in leading a national-level advocacy and lobbying campaign to eradicate the practice of truck syndicates. It was felt that the chamber had been able to play this mediation role effectively due to the fact that the private sector is taken as an impartial stakeholder in such issues and therefore has the power to convene conflict parties in specific instances.

In general, the Chambers of Commerce and Industry in the districts visited were proactive and held in high regard by government representatives, security and justice providers and other civil society actors alike. Chambers were generally open to working with local government, police and civil society to improve the provision of security, as the examples given above demonstrate.

## 6. Implications and recommendations

The research highlights that business is impacted by public insecurity but is also in a position to make important contributions to tackling it. In many instances, it is already feeling compelled to act and has responded to security challenges in innovative ways.

This type of business involvement can and should be scaled up to make meaningful contributions to the discussions, strategy planning and policy development in Kathmandu among government officials, donors and civil society. The following recommendations are intended to outline the steps needed from each stakeholder for the private sector to become more actively involved in public security debates and initiatives.

### To the private sector:

- Move beyond ad hoc “fire fighting” efforts and invest time in initiatives that tackle the root causes of insecurity systematically and systemically. For example, support employment schemes that include the promotion of marketable skills, especially for young people. This will bring more young people into constructive employment and address skilled labour shortages.
- Demonstrate integrity and commitment to responsible business practices, including transparency, to avoid fuelling insecurity. This could be done by developing guidelines for good business practice in Nepal, agreeing on and upholding sector-wide minimum standards regarding employer–employee relations, product quality, insurance systems and socially inclusive recruitment practices.
- Reach out to other stakeholders such as wider civil society, government and security service providers for dialogue, partnership and joint advocacy. Chambers of Commerce could host regular discussions on key security issues and potential solutions, and work with the media to raise awareness of the costs of insecurity for the Nepali public.
- Strengthen ongoing efforts at social dialogue at the national level between employers and employees, with similar efforts at the level of individual enterprises, to tackle workplace disputes systematically and in good faith.

### To the government of Nepal:

- Reach out to and engage business when undertaking public security policy reviews and reforms, so that security policy and implementation may reflect and respond to the specific risks and challenges faced by the business community.
- Convene multi-stakeholder dialogue forums at the local level, including with the private sector and civil society, to discuss local security needs and the potential for implementing joint solutions. Such an approach could also be an opportunity to communicate the capacity and responsibility of the state to meet local security needs and outline where support from actors such as the private sector is needed.
- Initiate efforts to improve the integrity and accountability of public tendering processes, so as to reduce corruption and interference.

### To the political parties:

- Recognise the long-term detrimental effect of political interference in the security sector on public security and economic development, and take steps to address it.
- Publicly recognise and communicate the importance of economic growth for sustainable peace and the impact of insecurity on the economy to youth wings and sister organisations,

including the trade unions. In particular, recognise the long-term detrimental effect of the use of trade unions as a political tool.

- Political protest is part and parcel of the political landscape in Nepal and plays an important role in urging and realising political change. However, all political parties need to be aware of and sensitive to the high social and economic costs that frequent bandhs and strikes cause to the Nepali economy, including business, workers and consumers. Political parties should consider a cross-party dialogue on how political participation and activism can be ensured without impacting negatively on economic activity.

#### To the international community in Nepal:

- Support the private sector and civil society to jointly identify and prioritise key public security problems, and develop capacity to advocate for solutions to these problems at both local and national levels.
- Involve and seek input from the private sector as well as civil society when designing and implementing programmes that seek to address public security concerns.
- Support the private sector, trade unions and civil society to develop skills and implement initiatives that seek to improve business practices and workplace cooperation, such as dispute resolution and mediation skills, and corporate social responsibility (CSR) initiatives.







**International Alert-Nepal**

Bakhundole, Lalitpur, P.O.Box: 24118, Kathmandu, Nepal  
Tel +977 1 4268471, Email [nepal@international-alert.org](mailto:nepal@international-alert.org)

**National Business Initiative**

Email [info@nbinepal.org.np](mailto:info@nbinepal.org.np)

**International Alert.**

346 Clapham Road, London SW9 9AP, United Kingdom  
Tel +44 (0)20 7627 6800, Fax +44 (0)20 7627 6900, Email [general@international-alert.org](mailto:general@international-alert.org)  
[www.international-alert.org](http://www.international-alert.org)