

University of New Mexico  
**UNM Digital Repository**

---

Liberal Democracy Nepal Bulletin

Nepal Study Center

---

5-7-2007

# Comparative Study of Federation Proposals for Nepal

Vijaya R. Sharma

Follow this and additional works at: [https://digitalrepository.unm.edu/nsc\\_liberal\\_democracy](https://digitalrepository.unm.edu/nsc_liberal_democracy)

---

## Recommended Citation

Sharma, Vijaya R.. "Comparative Study of Federation Proposals for Nepal." (2007). [https://digitalrepository.unm.edu/nsc\\_liberal\\_democracy/20](https://digitalrepository.unm.edu/nsc_liberal_democracy/20)

This Article is brought to you for free and open access by the Nepal Study Center at UNM Digital Repository. It has been accepted for inclusion in Liberal Democracy Nepal Bulletin by an authorized administrator of UNM Digital Repository. For more information, please contact [disc@unm.edu](mailto:disc@unm.edu).

## **Comparative Study of Federation Proposals for Nepal\***

Vijaya R. Sharma\*

---

*An elected constituent assembly is planned to frame a new constitution of Nepal. This paper argues for a federal system of governance and reviews various federal proposals that have been made so far, some of which suggest territorial subdivision and some suggest cultural subdivision of the country. This paper argues that a cultural subdivision offers a greater promise of durable peace and stability of federation than a territorial subdivision and would also help improve economic efficiency in delivery of governmental services. Further, it proposes a cultural federation of 15 small size states, with directly elected governors in the states and a proportional system of representation in the state assemblies.*

---

*The greater the variety of parties and interests, the smaller the probability that a majority of the whole will have a common motive to invade the rights of other citizens; or if such a common motive exists, it will be more difficult for all who feel it to discover their own strength, and to act in unison with each other.*

James Madison in Federalist No. 10

### **Introduction**

Nepal is passing through a critical stage of history. A constituent assembly (CA) election is planned within 2007. Restructuring of the Nepalese State would be an important issue for the elected CA members to

---

\* A preliminary version of this paper was presented in the First Annual Himalayan Policy Research Conference, organized by the Nepal Study Center in Madison, Wisconsin on October 19, 2006. The author acknowledges heartfelt thanks to Mahendra Lawoti, Keshav Bhattarai, and others who provided their valuable comments on the paper. The author is also thankful to the two anonymous referees who provided valuable comments and thus helped improve this paper. Any remaining shortcoming in the paper is the responsibility of the author only.

\* Faculty, Department of Economics, University of Colorado at Denver, Campus Box 181, P.O. Box 173364, Denver, CO 80217-3364, E-mail: [Vijaya.Sharma@colorado.edu](mailto:Vijaya.Sharma@colorado.edu)

resolve. This task would be happening in the backdrop of the last eleven years of Maoist insurgency, during which period this country incurred huge human and economic costs. More than 13,000 human lives were lost and more than 50,000 persons were displaced from their homes due to insurgency, and all of those displaced have not been able to return home yet (INSEC 2006). Families were forced to give away their sons and daughters to join Maoists' People's Liberation Army. Maoists almost annihilated the political opposition in the areas of their control, by forcefully evicting, brutally torturing, and sometimes even killing the cadres of Nepali Congress (NC), Communist Party of Nepal – Unified Marxist-Leninist (UML), and the Rastriya Prajatantra Party (RPP). Maoists extorted, looted, and collected more than Rs. 5 billion and damaged governmental properties and infrastructures worth about Rs. 300 million during those years (Shrestha 2003). They seized an unknown amount of land and property of landowners and caused economic disruptions through numerous bandhs, strikes, and labor problems in businesses. The cost of doing business escalated tremendously, and there was a breakdown of private property rights system in the areas controlled by Maoists. The political instability caused by insurgency unleashed violent tendencies even among some sections of sociocultural groups, like Limbuwan Liberation Front, Khambuwan Liberation Front, Madhesi Liberation Front, and Newa Liberation Front, to threaten violence to back up their demands for cultural rights and political autonomy.

The Maoists, the Nepal Federation of Indigenous Nationalities, various organizations of Madhesis, and many scholars have now demanded federal restructuring of Nepal to grant political autonomy to states and to have a proportional representation (PR) system for ensuring a fair representation of all sociocultural groups in any future national parliament or legislative assembly. There is an apparent unanimity among all political parties on the issue of PR system, but such unanimity is not visible on federal restructuring yet. NC (both factions) and RPP remain undecided, whereas the Communist Party of Nepal – Maoists (CPN-M), UML, other communist parties, the both factions of Nepal Sadbhawana Party, and Rastriya Janashakti Party have declared support or demanded federal restructuring. This paper attempts to argue why and what federal structure is best suited for Nepal.<sup>1</sup>

### **Why Federal Structure?**

There is a wide disparity in income, education, and participation in political process among different socio-cultural groups and among

different regions of the country, evidences of which shall be presented later in the paper. Many scholars believe that this disparity is a direct outcome of the unitary system of governance, which has given rise to ethnic strife. Ethnic strives aggravated during the democracy period because ethnic protests and rebellions tend to be greater in multi-ethnic countries under democratic regimes than under authoritarian regimes (Saideman et al. 2002).<sup>ii</sup> Advocates of marginalized socio-cultural groups and impoverished regions propose a federal restructuring of the country and political autonomy to constituent states of the federation.

In a federal system, two or three levels of government rule the same land and people: the national or federal government, the state or provincial government, and in some cases also the local government. The each level of government has its autonomous spheres of authority guaranteed and protected by the constitution of the land. It is argued that having separate states in Nepal for different sociocultural groups and/or different regions will allow the marginalized groups and regions to conduct schooling and other businesses in their own language and to freely practice their own culture and tradition and to pursue programs and policies that best suit the needs of the regions.

If not a federal system, what alternative options are available to Nepal? For the sake of argument, one option could be to revert back to autocracy, because ethnic conflicts are generally reported to be fewer in autocratic regimes (Saideman et. al. 2002; see Endnote i also). King Gyanendra used this option through an unconstitutional takeover of executive powers of the state from 2002 to 2006. But, he seriously failed. He faced people's revolt and has now been stripped of constitutional monarchical rights and privileges. Through Janandolan-II, Nepalis have clearly spoken against authoritarianism.

Another alternative to federalism could have been the decentralization of central government's powers and responsibilities to local governments, coupled with appropriate provisions in the constitution on issues related to language, culture, and religion. If such measures were sincerely undertaken in the past, decentralization could have proved an incremental progressive solution for the evolution of democracy and federalism in Nepal. Bolton and Roland (1997) argues that any benefits of federal subdivision of a country may be achieved within a unified nation by replicating the administrative structure with a suitable degree of decentralization of authority to lower level local governments. Such an arrangement is likely to be more cost effective than creating a federal structure. But, in spite of 40 years of history of decentralization efforts in

Nepal, the necessary devolution of power and strengthening of institutional infrastructure associated with a true decentralization were never pursued vigorously by the past governments, including those during the last 12 years (1990 – 2002) of democratic governance (see Gurung H. 2003a). Therefore, decentralization slogan has lost political credibility, and the Maoists successfully substituted this slogan with a slogan of self-determination and autonomy to indigenous nationalities to attract youths from marginalized indigenous nationalities for recruitment as cadres and to expand political support for insurgency among them and in the marginalized regions, especially the mid and far-west hills of Nepal. Maoists have thus heightened the aspirations of marginalized sections of the country, who are now demanding federalism. Recent political events, including the political turmoil in Tarai, have moved past the option of decentralization. The genie of federalism has already escaped, and it would be difficult to bottle it back. Therefore, reforming the political system of Nepal into a federation of autonomous states is the best option available at this juncture of history.

Some may insist to retain the current unitary system of governance because a unified country offers relatively a larger market size, allows opportunities for economies of scale in production, and also allows the cost of providing public good services to be spread over a larger population, thus requiring a smaller tax burden on the citizens. But, these are only one side of the equation of economic efficiency. Economic efficiency is achieved by balancing the demand and supply forces. The above were the supply considerations. On the demand side, federalism subdivides the country into culturally and/or economically homogeneous states with people of similar needs or preferences; thus, it allows state governments to better tailor their services to suit the specific preferences and needs of residents. Thus, there is a higher probability that the largest number of people will find happiness in federalism (Hayek 1945). Also, federalism provides individuals unsatisfied with conditions in their current state of residence the option to move to another state that matches their preferences. For this to happen, the freedom of movement of people and goods across states needs to be guaranteed by the constitution. This option of movement may introduce a healthy horizontal competition among states and may enhance the efficiency of subnational governments, just as increased competition tends to raise the efficiency of a market (Tiebout 1956).<sup>iii</sup>

Even on the supply side, different governmental services tend to have different efficient scales of operation. Fire, public safety, and

ambulance services are best provided at the subnational level, whereas the national defense, large environmental projects that have spillover effects beyond the boundary of a state, and activities with economies of scale are better handled by the national government. Federalism, through its governance structure of multiple layers of government, shall provide the flexibility to optimally allocate governmental functions among national and subnational governments.<sup>iv</sup>

There is one more argument in favor of federalism in Nepal. In the last 12 years of democracy, there were nine changes in prime ministers. Frequent changes in the central government brought political instability, which caused the government in power to remain preoccupied with struggle for survival; consequently, developmental works and delivery of governmental services to people suffered. With multiple layers of government in federalism, the state or provincial governments can keep carrying on developmental works and delivery of services, even when the central government is unstable.

The biggest reason of opposition to federalism is the fear of disintegration of the country (Basnet 2006). When the boundaries of a province within a federation are demarcated to house a culturally or economically homogenous group of people, the fear is whether the people in the province will be tempted to secede through their constitutional right of self-determination (if such a right exists) or through an armed rebellion. Indeed, the probability of secession is relatively higher in a democratic regime than in an autocratic regime, according to Alesina and Spolaore (1997). But, this same study has also argued that a federal system of governance with autonomous states could prove an intervening political structure, an alternative to secession. The argument is based on the finding that, simultaneously with a trend of secession among democratic countries, there is a tendency among small countries to form economic integration among them to recover the loss of economic efficiency arising from smaller market size and smaller scale of operation.

There are 25 countries in this world that practice a federal system, and according to Stepan (1998), all multinational democracies are federal: Switzerland, Canada, Belgium, Spain, and India.<sup>v</sup> In countries where sociocultural, linguistic, and/or religious cleavages exist, many scholars believe that federalism provides a constitutional system to hold the diverse sociocultural groups together by devolving powers to states, especially those powers that relate to culture, tradition, religion, and language. Among a series of papers on why federalism has worked and democracy has survived in India, Varshney (1998) and Manor (1998) have pointed

out that although ethnic conflicts keep breaking out in India imparting a false impression to observers that the democratic system of the country is breaking down, federalism has actually helped to confine most conflicts within individual regions, allowing the rest of India to keep functioning under routine democratic processes. Federalism thus helps to quarantine conflicts in a region, whereas any ethnic conflict in a unitary system can potentially become a national issue, directly aimed at the central government, and can disrupt and challenge the democratic polity of the whole country.

### **Federation Proposals, Issues, and Problems**

Various individuals and political parties have presented a number of federal proposals for Nepal, which mainly fall in two categories. One category of proposals suggests a pure territorial subdivision of the country with no regard to socio-cultural diversity, whereas the other category of proposals suggests a socio-cultural subdivision. Theoretically speaking, a pure territorial federation is best suited to large countries, where the vast physical size makes it difficult to govern the whole country from the center. Australia is the best example of such a federation. Nepal is not a large country; yet, for the purpose of territorial federation one can think of either a topographic subdivision (mountain, hills, and Tarai), or an administrative development-region or zonal-type subdivision (eastern, central, western, mid-western, and far-western regions), or a certain combination of both topographic and regional subdivisions. Table 1 compares the per-capita income (PCI) and human development index (HDI) figures of each of the development and topographic subdivision of the country for Year 2001; these figures have been extracted from UNDP (2004). The PCI figures in the table are presented as percentages of the national average nominal PCI of Rs. 17,722.

If one assumes that longer physical distances from the seat of the government and/or higher altitude terrain cause governance difficulty and thus impede development of an area, and if one likes to propose a territorial governance structure to address these causal factors, then Table 1 suggests the desirability of two territorial subdivision of Nepal: the West Nepal (mid and far-west regions of the country) and the East Nepal (the rest of the country). The most prominent development disparity can be observed between these two parts of the country; especially, the mountain areas of the West Nepal lag behind both in per-capita income and HDI. There is no glaring disparity among the Eastern, Central, and Western Regions of East Nepal.

Let us now examine how the proponents of territorial federation have actually chosen to subdivide the country. Bohara (2003) suggests transforming the current five development regions of the country into five autonomous federal regions. He forwards four reasons for such a proposal. One, such a regional subdivision already exists and requires no redrawing of geographic boundaries. Two, it would give priority to capturing regional sentiment and voice. Three, in his view any ethnic subdivision of country is dangerous and counterproductive for a small and highly diverse country like Nepal. Four, the current regional structure mirrors the major river basins of Nepal and will make development of water resources easier by minimizing hill versus Tarai conflicts in sharing of water resources. As the proposal is to use the existing regional structure for federation, a brief discussion on the history of regional structure would be relevant here. This structure was introduced in 1972 during the autocratic Panchayat regime subdividing the country into four development regions: Eastern, Central, Western, and Far Western. Later in 1982, the Far-Western Region of that time was split into two, Mid-Western and Far-Western Regions, thus making a total of five regions in the country. Such a regional structure was introduced to create a series of north-south growth axes or development corridors to tie-in the economy of Tarai with those of the hills, so as to promote complementarity between the two topographical economies by facilitating movement of trade, labor, and capital (Gurung H. 2005). Thus, the current regional structure was purely a conception of the elite and development experts on the top of the ruling hierarchy; it was not a grass root demand of people. This structure was designed neither for devolution of political power to the people nor for addressing any grievances of the marginalized socio-cultural groups of people. On the contrary, the original proponents of this regional structure viewed cultural and linguistic diversity as potentially destructive to unity of nation and an impediment to economic development of the country (Pradhan and Shrestha 2005). This view continues even now among many elite in the country. For this reason, it is not surprising that leaders of indigenous nationalities and Madhesis (INM) strongly reject any federal proposal that is based on such a north-south regional or zonal subdivision. INM leaders interpret a regional or zonal structure as a deliberate attempt of the State to continue Panchayat's policy of *cultural homogenization*, a policy of pushing citizens of this multicultural society to subdue their individual cultural identities. According to those leaders, the policy of cultural homogenization in Nepal actually began even before Panchayat system and continued during the recent democratic years too. Bhattachan (2003) argues that during the last 238 years since the territorial unification of



Nepal by King Prithvi Narayan Shah, indigenous nationalities, Madhesis, Dalits, Muslims and other religion groups have been victims of domination of one caste – Khas Bahun and Chhetri (KBC), one language – Khas Nepali, one religion – Hindu, and one culture – Hindu. According to Lawoti (2005), the neglected sociocultural groups have been denied cultural and political autonomy to decide on matters relating to their culture, lifestyles, and other issues that affect them. Lawoti further argues that the bias of state institutions in favor of Khas-Nepali language has put non-Khas-Nepali-native speakers in a disadvantaged position and there is no protection of minority rights against the tyranny of the majority. Gurung H. (2003b) asserts that even now the state of Nepal has not emerged as a nation; it is still divided by socio-cultural cleavages and lack of political will to objectively promote national integration.

According to the 2001 Census, KBC constitute less than 29 percent of national population, whereas INM constitute 48 percent (excluding about six percent Newars). Dalits, Muslims, and other similar marginalized groups make up 16 percent in the national population. Disproportionate to their population size, KBCs enjoy a very dominant position in the educational and political spheres, which is not unexpected because the groups that hold *de jure* and/or *de facto* political power in a country choose the nature of political institutions and economic institutions and thus the distribution of resources (Acemoglu et. al. 2004). Eighty-seven percent of all gazetted third class officers of Nepal Government in 2001/02 were KBC, compared to just four percent INM. KBC represented almost 60 percent of all persons with bachelor or higher degree, whereas INM made up meager 16 percent in 2001. KBC filled up 47 percent of the membership of the two houses of parliament and two-third of the central committee members of the three largest political parties – NC, UML, and RPP – whereas, INM had these shares of 40 percent and 26 percent in 1999 (UNDP 2004; see Annexes 3 and 4, p. 171-178). Further, the ethnic breakdown of human development index (HDI) available for 1996 reveals that, except Newars who ranked first with HDI of 0.457, all other sociocultural groups ranked lower than KBC. Khas Bahun's HDI was 0.441, Chhetri's 0.348, Rajbanshi, Yadav, Tharu, and Ahir 0.313, Gurung, Magar, Sherpa, Rai, and Limbu 0.299, and occupational castes, which include Dalits, had HDI of 0.239. Nepal's overall HDI in that year was 0.325 (NSAC 1998).

A brief discussion is also due here about the size of states in a federation. Table 2 compares the federal regions proposed by Bohara for their shares in the national population, GDP, and national government

revenue (information extracted from CBS 2002, UNDP 2004, and FCGO 2004). It is evident from Table 2 that the Central Region will have the most dominant presence in Bohara's proposed federation, with larger than one-third share of national population, 42 percent contribution to national GDP, and 79 percent contribution to national revenue. Such a large population size and economic might may impart an overpowering clout to this region in the national politics and government, which may be used by the region to distort distribution of national resources in its favor.

There appears a general preference among federal countries in the world to have many smaller states, rather than just few large states, in the federation. The United States of America has 50 states and Canada 10 provinces. Nepal's neighbor India initially had 25 states, but has now grown to 28 states. Even Switzerland, a country smaller than one-third of Nepal in area and population, has 26 autonomous cantons in its federation. Belgium, another very small country has 11 provinces. Large states often tend to rub their population size and economic and fiscal might on the central government to influence distribution of national resources in their favor. Experience of Nigeria could be relevant here. According to Ejobowah (2003), Nigeria started as a three-state federation of North, East, and West. North used its political power to break up West into two states to reduce the strength of West, the next bigger state. However, Nigeria later adopted a policy of subdividing the country into a larger number of equal-sized states: 12 in 1967, 19 in 1976, 21 in 1987, 30 in 1990, and 36 in 1996.

Although the constitution of a country may guarantee equal *de jure* power to every state, the *de facto* political power that is generally implicit in the population, economic, and fiscal size of a state can prove overwhelming to the central government to resist political demands of a large state. A state can exert its *de facto* power in various forms. It may use its economic prowess to influence or even buyout favors for the state. It may threaten disruptions in collection of government revenue. Or, it may hire and instigate activists to call bands and strikes to disrupt economic activities. Everything else the same, a larger number of smaller states allows more options to the central government to play the game of divide-and-rule and/or to facilitate or force states to change their interest coalitions, whenever necessary for the stability of the federation. A two-track policy of "carrot and stick" – a policy of willingness to listen to discontents and helping resolve the discontents, combined with a policy of willingness to use the coercive method of fiscal power and/or security force of the central government – is likely to work better with smaller

states than large states. In Nepal where there is a growing practice of violent street demonstrations in support of political demands, which often tend to disrupt economic activities and cause property losses and inconveniences to the general public, the size of constituent states in the future federation warrants very careful consideration.

The last row of Table 2 presents the socio-cultural structure of the population of each region proposed by Bohara. It is evident that KBC would remain the single largest population group in four of the five regions, to the discomfort of INM leaders. To allow a greater participation of INM in the legislative process, Bohara proposes a mixed proportional representation (PR) system for regional assemblies, which may help partially inhibit ethnic conflicts (Saideman et al. 2002). But, the PR system alone is not likely to satisfy the marginalized ethnic groups in Nepal who are demanding ethnicity-based autonomous regions. The decade-long Maoist insurgency with its slogan of autonomous ethnic states has heightened their aspirations. Also, the insurgency has turned the country more violence-prone. In the event that the demand for autonomous ethnic states is denied, it would not be surprising if there begins more ethnic violence and even another insurgency in the future. A precursor is already in sight, in the form of mini-insurgency instigated by the Janatantrik Tarai Mukti Morcha in the eastern Tarai of Nepal, in the form of the recent Madhes-bandh organized by the Nepal Sadbhawana Party that culminated into a serious communal riot in Nepalgunj in December 2006, and in the form of still on-going resistance movement organized by the Madhesi People's Right Forum, which recently turned into a brutal carnage in Gaur. If hill-based indigenous nationalities, like Limbus, Rais, and Newars also wage a similar struggle, ethnic tensions could prove a potentially explosive national issue in future.

Finally, one more point about Bohara's proposal; he extends the argument of ease of harnessing of water resources in support of his proposal. Indeed, inter-state water conflicts have been observed to create problems in harnessing water resources in India, America, and other countries. Protracted inter-state negotiations and delayed agreement over sharing of water can result in inefficient investments in water projects and related agriculture and industrial activities (Richards and Singh 1996). Obviously, Bohara assumes that having hill and Tarai areas of the same river basin under the same regional government would minimize inter-area water conflicts. This could be true; but, in federal Nepal major water projects are likely to remain the responsibility of the central government, because they require huge investments and tend to have international

relation implications. Even in the current unitary system of governance, Nepal has been witnessing problems and disputes related to water resources, for example those with Arun, Melamchi, and Marsyangdi projects. This issue needs more careful consideration in any federation proposal, territorial or cultural, including the need of a constitutionally competent central agency, like a Water Development Board.

Let us now examine other territorial federation proposals. The proposal of Devkota and Gautam (2006) uses the three major river basins of the country as the basis for subdivision of regions. In this proposal, the Koshi region will be carved out of the Koshi basin, which spans from Mechi zone in the east to Janakpur in the west. Similarly, Gandaki region from the Gandaki basin that spans from Narayani zone in the east to Lumbini in the west, but Kathmandu Valley is excluded. Karnali region or basin spans to the rest of the country to the west of Gandaki region. Besides these three river-basin regions, Devkota and Gautam propose a separate Kathmandu Valley Region. The Chief of every region shall be directly elected by the voters of the region, but the Regional Council – the legislative arm of the region – shall consist of the elected chiefs of each local government unit (100 to 150 units) within the region. Thus, there would be no separate election for Regional Council and no direct method of ensuring proportional representation (PR) of various socio-cultural groups in the Council. Instead, Devkota and Gautam propose a mixed PR system for the national assembly. Thus, compared to Bohara's proposal, there is even less consideration paid to the socio-cultural diversity of the country by Devkota and Gautam. Consider the numbers in Table 3. The two issues discussed earlier in the context of Bohara proposal remain valid for this proposal also. One is the issue of whether a country should go for a large number of smaller states or just a few large states. The three basin-states are individually large states. Another is the issue of acceptability of this proposal to INM, given that KBC would remain the most dominant group in three of the four regions of this proposal (see Table 3).

Socio-cultural cleavages of Nepal would not vanish with the creation of a territorial federation. Let us consider a scenario here. How would or should Koshi Region government react to a demand for making Maithili or Hindi an official language of that region? How would or should Kathmandu Valley government react to a similar demand for making Newari or Nepal Bhasa an official language of Kathmandu Valley? If the demands are not met, ethnic tensions may escalate in those regions. Language may become a national issue if other groups like Bhojpuri, Tharu, and Kirat from other regions join the struggle. A

territorial federation simply postpones such problems, it does not resolve them. Socio-cultural and religious cleavages cannot be ignored for long; they keep resurging with bigger force, threatening peace and stability of the country. Just look at what is happening in Sri Lanka!

Unlike the above two proposals, a proposal by Limbu (2003) attempts to partially accommodate the demand of INM through a proposal of *cultural federation within a territorial federation*. Limbu proposes seven autonomous zones in the country – Pallo Kirat, Majh Kirat, Ollo Kirat, Tamuwan, Magarat, Karnali, and Mahakali – instead of 14 zones that currently exist in the country.<sup>vi</sup> He also proposes each zone to have three to 13 ethnicity and/or language-based subunits for individually empowering various language and ethnic groups that reside in the zone. Finally, he proposes a proportional representation system for legislative assemblies in the zones. Table 4 compares the population, economic size, and socio-cultural structure of the proposed seven zones.

There are three issues with Limbu's proposal. First, Ollo Kirat would be a very large state with a potentially domineering role in the federation; its lone contributions to the federation would exceed one-half of national revenue and one-third of national GDP. Second, the proposal of federation-within-federation sounds complex, and it is unclear whether small ethnic subunits within a zone can satisfy the aspirations of ethnic/language groups, especially that of Madhesis who make up a large majority in Tarai and aspire for their own autonomous states. Third, the ethnic names that are attached to zones could be controversial. For example, the Maithili-speaking people who make up the largest population group in Majh Kirat and Ollo Kirat may like to name their states as East Mithila and West Mithila. Similarly, the two biggest population groups of Tamuwan, KBC and Bhojpuri-speaking people may not like the name Tamuwan, as it is identified with Gurungs only. This naming issue points to the wisdom of choosing non-ethnic secular names for states to avoid any controversy.

Let us now discuss the Nepal Sadbhawana Party (NSP)'s proposal for a federation of five autonomous provinces: Eastern Hills, Central Hills, Western Hills, Eastern Tarai, and Western Tarai.<sup>vii</sup> The main objective of this dual-territorial subdivision, a combination of hills vs. Tarai and the east vs. west subdivision, is to secure the rights of autonomy of Madhesis. Table 5 compares the population, economic size, and population structure of the proposed provinces.

True to the objective of the proposal, Madhes-based linguistic and ethnic groups would be the largest population groups in the two Tarai provinces. But, KBC would be the largest group in each of the three hill provinces; so, hill-based indigenous nationalities may not support this proposal. Additionally, the Eastern Tarai would be a very large province in this federation with 30 percent or higher shares in national population and GDP. More formidable would be the combined population, GDP, and revenue strength of the two Tarai provinces (east and west), which may become a matter of great concern to those who already suspect threat of secession with cultural federalism. In other words, to make a federation proposal more palatable to most people it may be advisable to have only small states in the federation.

Above were the territorial federation proposals. There are a number of proposals of another kind, which demarcate states on socio-cultural grounds. Examples are the proposals of CPN-M (2004), Baral (2004), Shrestha (2005), Gurung KB (2005), Neupane (2005), Jha (2005), Chongwang (2006) and Tamang (2005). The shares of major indigenous nationality groups in the national population as of 2001 Census (relative to 15.8 percent Chhetri and 12.7 percent Khas Brahmin) are: Magar 7.1 percent, Tharu 6.7 percent, Tamang 5.6 percent, Newar 5.5 percent, Rai 2.8 percent, Gurung 2.4 percent, and Limbu 1.6 percent (CBS 2002). There are other indigenous nationalities also in Nepal, like Chepang, Dhimal, Satar, and Rajbanshi, but they are either thinly spread around the country or have insufficient population concentration to justify separate states for them. Similarly, the five major languages that are spoken as mother tongue in Nepal are: Nepali 48.6 percent, Maithili 12.3 percent, Bhojpuri 7.5 percent, Tharu 5.9 percent, and Tamang 5.2 percent. Creating states based on ethnicity and/or language is a prominent demand of INM at this transitional period of Nepal when it is embracing to write a new constitution with an elected constituent assembly. For lack of space, it is not possible to present and analyze all cultural federalism proposals; but, a discussion of three such proposals is presented below to illustrate some important facts, issues and problems associated with cultural federalism. Let us begin with the Maoists' proposal of a nine-state federation presented in Table 6 (CPN-M 2004).<sup>viii</sup> Three things may be noted about this proposal:

- a. Because of a large number of states in the federation, individual states are generally small, except the state of Madhes, which is exceptionally large, having 3.5 to 10 times the population of other states, higher than one-third of the national GDP, and about 46 percent contribution to

national revenue. Presence of such a large state in the midst of generally small states may not be conducive to regional balance and stability of the federation.

- b. In spite of ethnic subdivision of states, KBC make up the largest population group in Kirat, Tamuwan, Magarat, and Newa, which have been actually proposed for non-KBC socio-cultural groups. This problem of a target ethnic group not becoming the largest population group in the state intended for them is not unique to the Maoist proposal; this problem is found in other ethnic federation proposals too. In fact, for comparing ethnic group composition in a state, the proponents of cultural federalism separate Khas Bahun and Chhetri into two different groups. But, one can easily anticipate that Bahun and Chhetri will join their political strengths together at the time of negotiation of carving out culture-based states, because both share the same language, the same religion, and the same culture. Therefore, it would be wiser to treat Bahun and Chhetri as one KBC group and to compare their population with the population of other cultural groups, as has been done in Table 6 and in other tables that follow.
- c. The Maoists have given ethnic names to states, except for the two states that consist of 15 hill and mountain districts of Bheri, Karnali, Seti, and Mahakali zones. KBC make up the largest population group in each of these 15 districts; yet, these two states have been named after rivers, instead of KBC-culture-related names. Such a naming practice may be perceived as a policy of *reverse discrimination* of KBC, for the purpose of appeasing INM. Once again, this contradiction in naming states reinforces my earlier argument that it would be wiser to choose non-ethnic secular names for states.

The next is a 14-state proposal of Shrestha (2005); the details of which are presented in Table 7, and about which the following observations can be made.<sup>ix</sup>

- a. As this proposal chooses to have many (14) states, states are more homogenous in size with no domineering presence of any state.
- b. This proposal suggests a separate state – Awadh – for Awadhi-speaking people (ASP). But, Bhojpuri-speaking people, not ASP, become the largest group in that state. In fact, even a quick analysis of population data reveals that it is not possible to create a state where ASP would become the largest group.<sup>x</sup> This is because ASP population is concentrated only in Kapilbastu and Banke, which are separated by Dang where this population is almost non-existent.

- c. This proposal carves out a state Kochilla – consisting of Jhapa, Morang, and Sunsari districts – for the purpose of drawing specific attention to the concentration of few native ethnic groups that reside in this area. They are Dhimal, Rajbansi, Tajpuriya, Satar, and Jhangad. However, even the combined population of these native groups is very small, compared to those of KBC, Maithili, and Tharu.
- d. Like in the Maoist proposal, in this proposal too KBC would be the largest group in the states meant for Limbu, Rai, Newar, Gurung, and Magar. Similarly, it also exhibits reverse discrimination of KBC by naming the two KBC-majority states after rivers: Karnali and Mahakali.

Now, let us examine one more proposal – Gurung KB (2005) – that proposes 11 states in the federation (see Table 8).<sup>xi</sup> The following are the comments on this proposal.

- a. States are generally small, except for the domineering presence of Maithili-Tharu state.
- b. This proposal successfully demarcates a state for Limbus where they indeed make up the largest population group. But, the proposal could not do the same for Rai, Newar, Gurung, and Magar.
- c. Unlike the above two cultural federalism proposals, this proposal names the two KBC-dominated western hill states as West Khasan and Far-West Khasan.

### **Conclusions and Recommendations**

A country has to find the political structure that best meets the aspirations of its people in the particular political and economic context of the country. In the current context of Nepal, a territorial federation may be called a *mechanistic approach* of creating states, because this approach considers physical resources, infrastructure, physical distances, and terrain as more important than the aspirations of cultural autonomy of a sizeable population of marginalized citizens of the country. On the other hand, a cultural federation would be a *humanistic approach* of creating states, because fulfilling the aspirations and demand of the marginalized groups of people would be the most important goal. The first approach attempts to equally subdivide resources and development potential to maximize the potential level of income of each constituent political subunit. But, this approach works best when the population is homogeneous in preferences. In a country of diverse population groups it ignores an important fact that



what individuals look for is not the income but *preference-adjusted or hedonic* income. It should not be surprising if a Maithili-speaking individual of Mahottari district passes an opportunity of earning Rs. 15,000 every month in Manang in favor of earning only Rs. 12,000 in his/her own home district, or if a Tamang of Kavre district makes a similar choice of passing a higher income opportunity in Kapilbastu district in favor of somewhat lower income in his/her own district. Therefore, more important is to find ways of equally subdividing the potential of personal satisfaction of individual groups of citizens than to find ways of equally subdividing the means of production. In this respect, the above-mentioned humanistic approach of cultural subdivision of states in my view offers a greater promise; therefore, it also offers a better prospect of durable peace and stability of federation.

Proponents of territorial federation assume that a mixed or pure proportional representation system of national and provincial legislative assemblies will suffice to dissuade ethnic and linguistic groups of people from demanding cultural autonomy. This is a big assumption. Ethnic tensions will simmer in territorial federation and may explode if various ethnic interest groups of the country find it necessary to act in unison and to pursue violent means to back up their demand of cultural autonomy. The insurgency currently waged by the two factions of Janatantrik Tarai Mukti Morcha in east Tarai, the recent Tarai bandhs first organized by the Nepal Sadbhawana Party and now by the Madhesi People's Right Forum, the communal violence that erupted in Nepalgunj, and the brutal carnage in Gaur are the warning signals of this trend. Cultural federation may preempt this trend by letting ethnic interest groups have cultural autonomy in the states meant for them.

Ethnic groups in Nepal are demanding autonomy only; they are not demanding independence or secession. Also, by subdividing the country into small federal states, secession can be made practically less viable. Experiences of other countries have shown that a cultural federation helps to quarantine socio-cultural tensions within the boundaries of affected states, and the rest of the country can continue to function normally. When states are small, the size of affected masses also will remain small; which shall allow a greater flexibility to the central government to use its fiscal and/or security powers to negotiate, motivate, or coerce the state governments to solve the local problems in the overall interest of the nation. At the time of negotiation of new constitution in the constituent assembly, the coercive power of the central government can be strengthened by making cultural autonomy to states contingent on

acceptance of constitutional emergency powers of the central government to intervene in a state at times of grave threat to communal harmony and territorial integrity of the nation.<sup>xii</sup>

When states are created based on relative cultural homogeneity, state governments shall find it easier to tailor their services to best suit the specific preferences of their residents; this would potentially improve the economic efficiency of governmental services. For example, states that have a large Tharu population can declare “Maghi” as a holiday, whereas states with large number of Muslims can declare Id a holiday. States located in hills can focus on horticulture and animal husbandry and on health problems more prevalent in such areas, whereas the states in Tarai can focus on food cultivation, manufacturing, malaria eradication, and similar other areas of greater concern to the local people. Cultural federalism has a better potential of making more people happier.

Few objective conditions of the country need to be recognized for creating culture-based states. An examination of district-wise distribution of population shows that only KBC, Maithili-speaking people (MSP), and Bhojpuri-speaking people (BSP) have the necessary population concentration to create states where they can have their majority. KBC are in majority in 15 districts, MSP in five districts, and BSP in four districts. Magar, Tharu, Tamang, Newar, Awadhi, and Gurung have majority in one district only, whereas Rai and Limbu have no majority in any district. If a state is proposed for a specific cultural group, say Group A, this proposal can be considered reasonable only if Group A becomes at least the largest of all the cultural groups that reside in that state. To this criterion if we add another criterion that a state must at least be as large as three contiguous districts, we can demarcate 13 states for seven socio-cultural groups (see Table 9 and the enclosed map).<sup>xiii</sup> These groups and the number of states intended for them are: one state (Hills-1) for Limbu, one state (Hills-2) for Rai, six states (Hills-3, 6, 8, 9, and 10 and Tarai-1) for KBC, one state (Tarai-2) for Maithili-speaking people, two states (Tarai-3 and 4) for Bhojpuri-speaking people, one state (Tarai-5) for Tharu, and one state (Hills-4) for Tamang.

It is simply not possible to demarcate states with at least three contiguous districts where Newar, Magar, and Gurung can become the largest cultural group. An alternative is to consider Kathmandu Valley (Hills-5) for Newars where their population (35 percent) would be pretty close to the 36 percent population share of KBC. Similarly, Hills-7 state can be created where the combined population of Gurung and Magar would be at least as large as that of the next competing group of KBC. In

this way, there shall be 15 states altogether in this proposal and all states would be small in size, with no domineering presence of any state.

A unique feature of this proposal is that Chitwan would not be a part of any Tarai state. Not even one percent of population in Chitwan speaks a Tarai language. On the contrary, 40 percent of them belong to KBC group. Therefore, Chitwan has been grouped with Gorkha and Dhading to create a state for KBC. In effect, Chitwan in this proposal ends up dividing Tarai in two parts, to its east there would be three Tarai states and to the west two Tarai states.

In spite of attempts of creating states based on cultural homogeneity, there would still remain a number of cultural groups in sizeable population in almost every state. Therefore, it would be wise to give non-ethnic secular names to states to clearly convey the message that states would not discriminate among cultural groups. For the same reason, it would be advisable to have a proportional representation system for state assemblies and to have an independent cultural board in each state to advise the state government on matters related to the practice of language, culture, and religion in the state.

A system of proportional representation in the assembly often forces politics of coalition, alliances, and compromise, which sometimes can make formation and durability of government difficult. Therefore, a system of directly elected governor or the chief executive of state should be adopted to provide stable state governments. Only three layers of government – national, state level, and the village level – would be needed; the current district structure can be abolished.

This paper concludes that cultural federalism is the best option available for Nepal for maximizing chances of political stability by minimizing ethnic, cultural, and linguistic tensions in the country. Important is to have 10 or more states, with non-ethnic names of states and with no state having a dominant size; to this end the paper makes a 15-state proposal. But, having culturally subdivided states is not sufficient for federalism. Empowerment of states with the necessary constitutional competence, institutional infrastructure, and appropriate fiscal relationships and economic policies will determine the success of federal system; this paper does not delve on those issues. From an empirical analysis of the moments of constitutional founding in 17 west European nation-states between the 18<sup>th</sup> and 20<sup>th</sup> centuries, Ziblat (2005) has concluded that for a country to successfully end up with a federal system of governance two factors should *jointly* be present at the time of founding

of federation: the political ideology of the founders of the new constitution in support of federalism and the existence of supporting institutional structure at the level of political subunits. The first factor is present in Nepal in the form of commitment for federal system expressed by major political parties in the interim constitution. But, the second factor – institutional structure at the proposed state level – is almost nonexistent. Therefore, the path to federalism is difficult and will require cooperation among different political parties and socio-cultural groups for federalism to succeed.

**Table 1: PCI and HDI of Regional and Topographic Subdivisions**

Region	Whole Region		Mountain		Hills		Tarai	
	% PCI	HDI	% PCI	HDI	% PCI	HDI	% PCI	HDI
Eastern Region	92	0.493	98	0.477	81	0.500	96	0.491
Central Region	122	0.490	88	0.425	159	0.547	93	0.451
Western Region	96	0.491	197	0.488	94	0.489	98	0.494
Mid-Western Region	76	0.402	76	0.347	66	0.417	86	0.440
Far Western Region	82	0.404	73	0.355	72	0.403	95	0.450
NEPAL	100	0.471	86	0.386	109	0.512	94	0.478

**Table 2: Population, Economic, and Fiscal Sizes of Regions in Bohara Proposal**

Region	Eastern	Central	Western	Mid-western	Far-western
% population share	23	35	20	13	9
% GDP share	21	42	19	10	8
% PCI	92	122	96	76	82
% revenue share	10	79	8	2	1
Largest population groups (% regional population)	Maithili (25) KBC (21) Rai (10) Limbu (6)	KBC (19) Maithili (18) Bhojpuri (17) Tamang (12)	KBC (30) Magar (15) Bhojpuri (12) Awadhi (8)	KBC (33) Tharu (14) Magar (12) Awadhi (7)	KBC (52) Tharu (16) Magar (2)

**Table 3: River-Basin-Based Territorial Subdivision (Devkota-Gautam Proposal)**

Region	Koshi	Gandaki	Karnali	Kathmandu
% population share	34	36	23	7
% GDP share	29	38	17	16
% PCI	84	104	78	224
% revenue share	12	40	3	45.6
Largest population groups (% regional population)	Maithili (34) KBC (17) Rai (7) Tamang (5)	KBC (26) Bhojpuri (21) Magar (10) Tamang (8)	KBC (41) Tharu (15) Magar (8) Awadhi (4)	KBC (36) Newar (35) Tamang (9) Magar (3)

**Table 4: Population, Economic, and Fiscal Sizes of Zones in Limbu Proposal**

Zone	Pallo Kirat	Majh Kirat	Olo Kirat	Tamuwan	Magarat	Karnali	Mahakali
% population share	13	10	29	15	17	9	8
% GDP share	14	7	36	15	14	7	7
% PCI	104	75	124	106	83	76	86
% revenue share	9.1	0.8	51.4	28.5	7.2	1.8	1.1
Largest population groups (% zonal population)	KBC (26) Maithili (13) Limbu (11) Rai (8)	Maithili (40) KBC (14) Rai (13) Tharu (5)	Maithili (21) KBC (19) Tamang (13) Newar (12)	KBC (29) Bhojpuri (18) Magar (10) Gurung (10)	KBC (32) Magar (18) Bhojpuri (9) Tharu (7)	KBC (35) Tharu (13) Awadhi (10) Magar (5)	KBC (51) Tharu (19) Magar (2)

**Table 5: Population, Economic, and Fiscal Sizes of Provinces in NSP Proposal**

Province	Eastern Hills	Central Hills	Western Hills	Eastern Tarai	Western Tarai
% population share	12	15	25	31	17
% GDP share	8	24	21	30	16
% PCI	83	164	82	95	16
% revenue share	0.7	48.8	1.9	39.0	9.6
Largest population groups (% provincial population)	KBC (28) Rai (16) Tamang (10) Limbu (9)	KBC (33) Tamang (23) Newar (22) Magar (4)	KBC (46) Magar (15) Gurung (5) Newar (2)	Maithili (38) Bhojpuri (19) KBC (11) Tharu (7)	Tharu (25) KBC (23) Bhojpuri (14) Awadhi (14)

**Table 6: Cultural Federalism Proposal of CPN (M)**

States	% population share	% GDP share	% PCI	% revenue share	Largest groups (% state population)
Kirat	9	7	84	0.6	KBC (27), Rai (21) Limbu (12), Tamang (7)
Madhes	39	37	95	45.7	Maithili (31), Bhojpuri (22) KBC (12), Tharu (8)
Tambasaling	11	11	100	3.3	Tamang (31), KBC (31) Newar (9), Magar (6)
Newa	7	16	224	45.6	KBC (36), Newar (35) Tamang (9), Magar (3)
Tamuwan	7	8	105	1.3	KBC (37), Gurung (17) Magar (12), Newar (5)
Magarat	9	6	74	0.4	KBC (41), Magar (28) Newar (2), Gurung (1)
Tharuwan	10	9	90	2.9	Tharu (35), KBC (28) Awadhi (9), Magar (4)
Bheri-Karnali	4	3	71	0.1	KBC (38), Magar (10) Gurung (1)
Seti-Mahakali	5	4	72	0.1	KBC (67), Magar (1)



**Table 7: Fourteen-State Shrestha Proposal**

States	% population share	% GDP share	% PCI	% revenue share	Largest groups (% state population)
Yakthung	4	4	90	0.3	KBC (26), Limbu (23) Rai (17), Tamang (7)
Khambu	4	3	78	0.3	KBC (29), Rai (26) Magar (8), Tamang (7)
Tambasaling	10	10	100	3.3	Tamang (31), KBC (31) Newar (9), Magar (6)
Nepal Mandal	7	16	224	45.6	KBC (36), Newar (35) Tamang (9), Magar (3)
Tamu Gandak	4	4	113	1.1	KBC (36), Gurung (23) Newar (6), Tamang (3)
Magar Gandak	11	9	82	0.6	KBC (42), Magar (28) Gurung (4), Newar (3)
Bheri	5	3	64	0.1	KBC (38), Magar (8) Gurung (1)
Karnali	1	1	79	0.04	KBC (51), Gurung (2) Magar (1), Tamang (1)
Mahakali	4	3	76	0.1	KBC (69), Magar (1)
Kochila	9	10	110	8.8	KBC (26), Maithili (19) Tharu (7), Rai (5)
Mithila	13	9	67	2.2	Maithili (77), Bhojpuri (4) Tharu (4), Tamang (1)
Bhojpuri	9	10	117	27.9	Bhojpuri (61), KBC (10) Tharu (9), Tamang (2)
Awadh	8	7	98	6.7	Bhojpuri (31), Awadhi (20) KBC (16), Tharu (13)
Tharuhat	10	9	90	2.9	Tharu (34), KBC (28) Awadhi (9), Magar (4)

**Table 8: Eleven-State Gurung Proposal**

States	% population share	% GDP share	% PCI	% revenue share	Largest groups (% state population)
Limbuwan	3	3	89	0.2	Limbu (30), KBC (27) Rai (14), Tamang (6)
Khumbuwan	6	5	81	0.4	KBC (29), Rai (25) Magar (8), Tamang (7)
Maithili – Tharu	29	27	92	36.4	Maithili (41), Bhojpuri (20) KBC (9), Tharu (6)
Tambasaling	10	10	100	3.3	Tamang (31), KBC (31) Newar (9), Magar (6)
Newar	7	16	224	45.6	KBC (36), Newar (35) Tamang (9), Magar (3)
Tamu	4	4	113	1.1	KBC (36), Gurung (23) Newar (6), Tamang (3)
Magarat	10	8	82	0.5	KBC (41), Magar (29) Gurung (4), Newar (3)
Tharu – Bhojpuri	10	10	105	9.4	Bhojpuri (24), KBC (21) Awadhi (16), Tharu (13)
West Khasan	6	4	70	0.2	KBC (39), Magar (11) Gurung (1)
Tharuhat	10	9	90	2.9	Tharu (34), KBC (28) Awadhi (9), Magar (4)
Far-West Khasan	5	4	72	0.1	KBC (67), Magar (1)

**Table 9: My Federation Proposal**

State	% population share	% GDP share	% PCI	% revenue share	Largest population groups (% state population)	Districts
Hills-1	3	3	89	0.2	Limbu (30), KBC (27), Rai (14), Tamang (9)	Taplejung, Panchthar, Ilam, Terhathum
Hills-2	4	3	85	0.2	Rai (31), KBC (27), Tamang (7), Newar (5)	Sankhuwasabha, Solukhumbu, Khotang, Bhojpur, Dhankuta
Tarai-1	9	10	110	8.8	KBC (26), Maithili (19), Tharu (7), Rai (6)	Jhapa, Morang, Sunsari
Tarai-2	13	9	67	2.2	Maithili (77), Thrau (4), Bhojpuri (4), Tamang (1)	Saptari, Siraha, Dhanusha, Mahottari, Sarlahi
Hills-3	4	4	75	0.3	KBC (39), Tamang (12), Magar (10), Rai (8)	Dolakha, Ramechhap, Okhaldhunga, Udayapur
Tarai-3	7	8	113	25	Bhojpuri (79), Tharu (8), KBC (2), Maithili (1)	Rautahat, Bara, Parsa
Hills-4	7	8	109	3.2	Tamang (37), KBC (30), Newar (9), Magar (5)	Sindhupalchok, Rasuwa, Nuwakot, Kavrepalanchok, Sindhuli, Makawanpur
Hills-5	7	16	224	45.6	Khas (36), Newar (35), Tamang (9), Magar (3)	Kathmandu, Lalitpur, Bhaktapur
Hills-6	4	5	106	2.7	KBC (35),	Dhading, Gorkha,

*Liberal Democracy Nepal Bulletin, Vol. 2, No. 2, 2007*

					Gurung (11) Tamang (10), Newar (7)	Chitwan
Tarai-4	8	7	98	6.7	Bhojpuri (31), Awadhi (20) KBC (16), Tharu (13)	Nawalparasi, Rupandehi, Kapilbastu
Hills-7	7	7	105	1.3	KBC (36), Magar (23) Gurung (13), Newar (5)	Manang, Mustang, Myagdi, Kaski, Lamjung, Tanahu, Syangja, Palpa
Hills-8	8	5	72	0.3	KBC (44), Magar (23) Newar (1), Gurung (1)	Rukum, Baglung, Parbat, Salyan, Rolpa, Pyuthan, Gulmi, Arghakhanchi
Tarai-5	10	9	90	2.9	Tharu (35), KBC (29) Awadhi (9), Magar (4)	Dang, Banke, Bardiya, Kailali, Kanchanpur
Hills-9	3	2	74	0.1	KBC (54), Thakuri (7) Sherpa (1), Gurung (1)	Dolpa, Mugu, Jumla, Kalikot, Bajura, Bajhang, Humla, Darchula
Hills-10	6	4	70	0.2	KBC (55), Thakuri (9) Magar (7), Gurung (1)	Surkhet, Dailekh, Jajarkot, Achham, Doti, Baitadi, Dadeldhura



## **Endnotes**

---

<sup>i</sup> The very first meeting of the forthcoming constitution assembly shall decide by simple majority whether monarchy shall be abolished or retained in a ceremonial form. Irrespective of the outcome, this paper assumes that Nepal shall enjoy democracy and that the purpose of federalism is to empower people by bringing government closer to them.

<sup>ii</sup> Through a study of 116 countries, which consisted of 264 ethnic groups and for which data were available for a period of 14 years (1985-1998), Saideman et al. (2002) empirically tested and verified their hypothesis that “ethnic protests and rebellion were more likely in democracies than in authoritarian regimes.” Ethnic protest is more likely in democracies than in authoritarian regimes, because the costs of protesting to individuals engaged in such protests are usually less and because politicians are more willing to listen and accommodate to grievances in democracies. Political parties tend to be organized along ethnic fault-lines in democracy, and the nature of democratic competition among political parties in the politics of ballot (compared to the nature of competition in authoritarian regime) also contributes to ethnic protests for leaders to get their messages or voices heard and supported by a larger audience.

<sup>iii</sup> Initiatives or policies that have worked well in one state may be easily adopted by other states. There is an implicit political pressure among state leaders to do at least as well off or even better than other states. But, there could be a downside to this horizontal competition. Fiscal competition among states may lower tax base of higher-tax states, by inducing a capital flight to lower-tax states. This can potentially cause a downward spiral trend of competition among states to reduce tax rates and may severely limit their ability to supply public goods and to undertake redistributive programs. Also, states that lag behind in raising adequate tax revenues may devolve into living off the fiscal transfers from well-off states. Therefore, horizontal fiscal relationships among states and the vertical fiscal relationship between the center and the states need to be appropriately established in the federal constitution.

<sup>iv</sup> A caution is due here. The federal structure is just one piece of the puzzle; it may not improve economic efficiency, unless the various layers of government commit to providing efficient public goods, to not bailing out inefficient public or private programs, and to preserving market incentives (Qian and Weingast 1997). The discussion on these aspects is outside the scope of this paper, as it only focuses on the bare bone structure of federation.

<sup>v</sup> The 25 federal countries are Argentina, Australia, Austria, Belgium, Bosnia-Herzegovina, Brazil, Canada, Comoros, Ethiopia, Germany, India, Malaysia, Mexico, Micronesia, Nigeria, Pakistan, Russia, South Africa, Spain, St Kitts and Nevis, Switzerland, United Arab Emirates, United States, Venezuela, and Yugoslavia (Galtung 2003).

<sup>vi</sup> Mahakali (Bajhang, Darchula, Doti, Dadeldhura, Baitadi, Kaliali, and Kanchanpur), Karnali (Jumla, Kalikot, Mugu, Humla, Bajura, Surkhet, Dailekh, Jajarkot, Achham, Banke, and Bardiya), Magarat (Mustang, Dolpa, Myagdi, Parbat, Baglung, Gulmi, Palpa, Arghakhanchi, Pyuthan, Rolpa, Rukum, Salyan, Rupandehi, Kapilbastu, and Dang), Tamuwan (Manang, Dhading, Gorkha, Lamjung, Tanahu, Syangja, Kaski, Parsa, Chitawan, and Nawalparasi), Ollo Kirat (Dolakha, Sindhupalchok, Rasuwa, Sindhuli,

Ramechhap, Kavrepalanchok, Lalitpur, Bhaktapur, Kathmandu, Nuwakot, Makawanpur, Dhanusha, Mahottari, Sarlahi, Rautahat, and Bara), Majh Kirat (Sankhuwasabha, Solukhumbu, Bhojpur, Okhaldhunga, Khotang, Udayapur, Saptari, and Siraha), and Pallo Kirat (Taplejung, Panchthar, Ilam, Dhankuta, Terhathum, Jhapa, Morang, and Sunsari)

<sup>vii</sup> Eastern Hills include hills of Mechi, Koshi, Sagarmatha, and Janakpur zones; Central Hills include Bagmati zone and Makawanpur; Western Hills include the remaining hill districts of the country; Eastern Tarai includes Tarai districts from Jhapa in the east to Chitwan on the west; and Western Tarai includes Tarai districts spanning from Nawalparasi to Kanchanpur.

<sup>viii</sup> Madhes includes Tarai districts from Jhapa to Kapilbastu, Tharuwan includes the remaining Tarai districts in the west from Dang to Kanchanpur, Kirat includes Mechi, Koshi, and Sagarmatha zones, Magarat includes Lumbini, Rapti, and Dhaulagiri zones, Tamuwani includes Gandaki zone and Mustang, Tamasaling includes Janakpur zone, Bagmati zone, and Makawanpur, but not Kathmandu Valley, Newa consists of Kathmandu Valley, Bheri-Karnali consists of the two zones named, and Seti-Mahakali also consists of the two zones named.

<sup>ix</sup> States and districts in the states are: Yakthung (Taplejung, Panchthar, Ilam, Terhthum, Dhankuta, Sankhuwasabha), Khumbu (Solukhumbu, Khotang, Bhojpur, Udaypur, Okhaldhunga), Tamasaling (Sindupalchok, Kavrepalanchok, Rasuwa, Nuwakot, Dhading, Makawanpur, Dolakha, Ramechhap, Sindhuli), Nepal Mandal (Kathmandu, Lalitpur, Bhaktapur), Tamu Gandak (Manang, Mustang, Gorkha, Lamjung, Kaski), Magar Gandak (Tanahu, Syangja, Parbat, Myagdi, Baglung, Palpa, Gulmi, Arghakhanchi, Pyuthan, Rolpa, Rukum), Bheri (Salyan, Jajarkot, Surkhet, Dailekh, Achham, Kalikot), Karnali (Humla, Mugu, Dolpa, Jumla, Bajura), Mahakali (Bajhang, doti, Darchula, Baitadi, Dadeldhura), Kochila (Jhapa, Morang, Sunsari), Mithila (Saptari, Siraha, Dhanusha, Mahottari, Sarlahi), Bhojpur (Rautahat, Bara, Parsa, Chitwan), Awadh (Nawalparasi, Rupandehi, Kapilbastu), Tharuhat (Dang, Banke, Bardiya, Kailai, Kanchanpur)

<sup>x</sup> Except when a state is created out of just one district

<sup>xi</sup> States and the districts in them are: Limbuwan (all hill districts of Mechi zone and Terhthum), Khambuwan (all hill districts of Koshi zone, minus Terhthum), Tamasaling (all hill districts of Janakpur zone and Bagmati zone, plus Makawanpur, minus Kathmandu Valley), Newar (Kathmandu Valley), Maithili-Tharu (Tarai districts from Jhapa in the east to Rautahat in the west), Tamu (Gorkha, Lamjung, Kaski, Manang, Mustang), Magarat (Syangja, Tanahu, Palpa, Parbat, Myagdi, Baglung, Gulmi, Arghakhanchi, Pyuthan, Rolpa), West Khasan (Salyan, Rukum, Surkhet, Dailekh, Jajarkot, Jumla, Dolpa, Humla, Mugu, Kalikot), Far West Khasan (Achham, Bajura, Bajhang, Doti, Darchula, Baitadi, Dadeldhura), Tharuhat (Tarai districts from Dang to Kanchanpur), Tharu-Bhojpuri (Tarai districts from Chitwan to Kapilbastu).

<sup>xii</sup> The objective is to discourage states from pursuing violent and hateful means to suppress minority ethnic groups or to assert secession. The study of Bolton and Roland (1997) finds that an “opt-out clause” in the constitution that outlines the process for a state to secede actually tends to bolster or bind states more with the Union, by constraining the Union policies to become acceptable to constituent states. Nepal needs to make such a provision in the future constitution to avoid violence or insurgency as the only means to this end. The 1990 Constitution of Nepal left no peaceful avenue to abolish monarchy, and the Maoist insurgency had sympathizers on this score.

<sup>xiii</sup>The criterion of having at least three contiguous districts in a state is motivated by the suggestion of Gurung H. (2003a) that the existing 75 districts need to be reorganized into 25 districts for improving the financial strength of districts to make decentralization meaningful.

### **References:**

- Acemoglu, D., S. Johnson, and J. Robinson. 2004. Institutions as the fundamental cause of long-run growth, a working paper prepared for the *Handbook of Economic Growth*, eds. P. Aghion and S. Durlauf, published in 2005.
- Alesina, A. and E. Spolaore. 1997. On the number and size of nations. *The Quarterly Journal of Economics* v. 112, no. 4, p. 1027-1056.
- Baral, B. 2004. *Esto hunuparcha rajya-ko sanrachana* (a book in Nepali language), Swayatta Shashan Sarokar Mancha, Nepal.
- Basnet, L. 2006. Sanghatmak Byawastha Bikhandankari, an article published in Nepali Daily *Kantipur Dainik*, August 25, 2006, Kathmandu, Nepal.
- Bhattachan, K.B. 2003. Civil society and protection of diversity in Nepal, published in *Nepal Tomorrow: Voices and Visions*, ed. D.B. Gurung, Koselee Prakashan, Kathmandu, p. 32-62.
- Bohara, A.K. 2003. Empowerment crisis: regional governance and the mixed proportional representation system of election. published in *Nepal Tomorrow: Voices and Visions*, ed. D.B. Gurung, Koselee Prakashan, Kathmandu, p. 86-101.
- Bolton, P. and G. Roland 1997. The breakup of nations: a political economy analysis. *The Quarterly Journal of Economics* vol. 112, no. 4, p. 1057-1090.
- Central Bureau of Statistics (CBS). 2002. Population Census-2001: Caste/Ethnicity, Mother Tongue & Religion (District Level).
- Chongwang, H. 2006. Bahujatiya margachitra, published in vernacular Nepali daily newspaper *Kantipur Dainik*, June 29, 2006. Kathmandu.



- Cohen, F.S. 1997. Proportional versus majoritarian ethnic conflict management in democracies, published in *Comparative Political Studies* vol. 30, no. 5, p. 607-630.
- CPN-M (Communist Party of Nepal-Maoists). CPN-Maoist-ko jatiya neeti ra prastaw, extracted here from Bhawani Baral's book (see above): *Eesto Hunuparchha Rajya-ko Sanrachana*, 2004, p. 105-110.
- Devkota, S.R. and S. Gautam 2006. Model of federal system, Published in eKantipur.com on July 25, 2006.
- Ejobowah, J.B. 2005. The new political economy of federal preservation: insights from the Nigerian federal practice, *Working Paper*, Wilfrid Laurier University, Canada.
- FCGO (Financial Comptroller General Office), Government of Nepal. 2004. Comparative District-wise Government Revenue, available at the website <http://www.fcgo.gov.np/documents/pdf/18-Comparative%20Destruct-wise%20Government%20Revenue.pdf>.
- Galtung, J. 2003. Federation as peace structure: the case of Sri Lanka, TRANSCEND: a network for peace and development, [www.transcend.org](http://www.transcend.org).
- Gurung, H. 2003a. Fragile districts, futile decentralization. Published by Society for International Development, Nepal Chapter, Kathmandu.
- Gurung, H. 2003b. Nepali nationalism, published in *Nepal Tomorrow: Voices and Visions*, ed. D.B. Gurung, Koselee Prakashan, Kathmandu, p. 1-13.
- Gurung, H. 2005. Nepal regional strategy for development. Working Paper Series No. 3, Nepal Resident Mission, June 2005, Asian Development Bank.
- Gurung, K.B. 2005. Adivashi janjati adhikar ra rajya-ko pun-sanrachana (in Nepali language), published in *Nepal-ko Sandarva-ma Rajya-ko Pun-sanrachana*, ed. Seetaram Tamang, Samana Prakashan, Nepal.
- Hayek, F.A. 1945. The use of knowledge in society. *American Economic Review* v. 35. p. 519-530.
- INSEC, 2006. Human Rights Yearbook 2006. Informal Sector Service Center. Kathmandu, Nepal.

- Jha, A.N. 2005. Sanghiya shasan byawastha-ko adhar-ma rajya-ko pun-sanrachana (in Nepali language), published in *Nepal-ko Sandarva-ma Rajya-ko Pun-sanrachana*, ed. Seetaram Tamang, Samana Prakashan, Nepal.
- Lawoti, M. 2005. Towards a democratic Nepal: inclusive political institutions for a multicultural society, Sage Publications, New Delhi.
- Limbu, K.T. 2003. Nepal-ko sandarv-ma sanghiya Awadharana ra jatiya swayattata-ko sawal, an article originally published in Nepali weekly magazine *Bijayapur* year 9, issue 12, extracted here from Bhawani Baral's book (see above): *Eesto Hunuparchha Rajya-ko Sanrachana*, 2004, p. 79-82.
- Manor, J. 1998. Making federalism work. *Journal of Democracy* Vol. 9 No. 3, p. 21-35.
- Neupane, G. 2005. Bahujatiya sanghatmak rajya ra samaveshi loktantrik shasan-pranali (in Nepali language), published in *Nepal-ko Sandarva-ma Rajya-ko Pun-sanrachana*, ed. Seetaram Tamang, Samana Prakashan, Nepal.
- NSAC (Nepal South Asia Center). 1998. Nepal Human Development Report 1998, prepared for the United Nations Development Program, Kathmandu, Nepal.
- Pradhan, R. and A. Shrestha. 2005. Ethnic and caste diversity: implications for development. Working Paper Series No. 4, Nepal Resident Mission, June 2005, Asian Development Bank.
- Qian, Y. and B.R. Weingast. 1997. Federalism as a commitment to preserving market incentives. *Journal of Economic Perspective*, v. 11, no. 4, p. 83-92.
- Richards, A. and Singh, N. 1996. Water and Federalism: India's institutions governing inter-state river waters, a working paper published by the Department of Economics, University of California, Santa Cruz. June 1996.
- Saideman, S., Lanoue, D., Campenni, M., and Stanton, S. 2002. Democratization, political institutions, and ethnic conflict: a pooled time-series analysis, 1985-1998. *Comparative Political Studies* v. 35, no. 1, p. 103-129.

- Shrestha, C.B., 2003. The Maoist insurgency, published in *Nepal Tomorrow: Voices and Visions*, ed. D.B. Gurung, Koselee Prakashan, Kathmandu, p. 208-236.
- Shrestha, R. 2005. Rajya-ko pun-sanrachana ra samaweshi loktranta-ka adhar-haru (in Nepali language), published in *Nepal-ko Sandarva-ma Rajya-ko Pun-sanrachana*, ed. Seetaram Tamang, Samana Prakashan, Nepal, p. 9-56.
- Stepan, A. 1998. Federalism and democracy, a lecture delivered at George Washington University, as a part of a series called “The Democratic Invention,” available at [www.ned.org/events/deminvention/stephan.htm](http://www.ned.org/events/deminvention/stephan.htm).
- Tamang, K.Y. 2005. Nepal rajya-ko pun-sanrachana ra loktantra-ko samaveshi dhancha (in Nepali language), published in *Nepal-ko Sandarva-ma Rajya-ko Pun-sanrachana*, ed. Seetaram Tamang, Samana Prakashan, Nepal, p. 137-168.
- Tiebout, C. 1956, A pure theory of local expenditures. *Journal of Political Economy* v. 64, no. 4, p. 16-24.
- UNDP (United Nations Development Program). 2004. *Nepal Human Development Report 2004: Empowerment and Poverty Reduction*. Kathmandu, Nepal.
- Varshney, A. 1998. Why democracy survives. *Journal of Democracy* Vol. 9 No. 3, P. 36-50.
- Ziblat, D. 2005. The federal/unitary divide: the origins of unitary and federal governance on seventeen West European nation-states. *Forthcoming – Harvard Center for European Studies Working Paper 2005*