International Development

ISSN 1470-2320

Working paper Series 2013

No.13-137

Social Welfare Policy – a Panacea for Peace?

A Political Economy Analysis of the Role of Social Welfare Policy in Nepal's Conflict and Peace-building Process

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Published: January 2013

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Abstract

This paper explores the idea that social welfare policy can buy peace in conflict-affected societies. Challenging this popular view, the paper emphasizes the mixed blessings of the "politics of social welfare". These have largely been neglected in previous research. To test the ideas, a quantitative-qualitative analysis of Nepal's welfare programs during the "Peoples War" is undertaken. First, in a district-level regression-analysis the paper finds positive, but vague evidence of a welfare-peace relationship. The reasons behind the vagueness are then qualitatively explored and attributed to local power-dynamics that distort well-intentioned policies. Overall, the paper calls for broadening the research-agenda to include a political perspective.

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1. Introduction

Social welfare policy has emerged as a new hope in the peace-building community. By using the public purse to address peoples' needs for social well-being, it is assumed that war-torn governments can pacify sources of violence, build strong states and hence buy peace (Taydas and Peksen 2012; Babajanian 2012; Boyce and O'Donnell 2007).

Yet, this novel interest in social welfare is somewhat puzzling given the prevailing wisdom that conflict-torn states are too weak to provide social services. As expressed by Harvey and Holmes, the paradox is that: "the greater the need for social protection, the lower the capacity of the state to provide it" (Harvey and Holmes 2007, 7). Moreover, the literature on social policy in developing countries warns about the ambiguous role that "politics" can play, stressing how elements of fraud, clientilism and political manipulation often distort the expected benefits of social welfare (Hickey 2007; Niño-Zarazúa et al. 2012). This provokes the question: Is social welfare policy really a panacea for peace?

Still, there is little systematic research on this area. On one hand, one finds a substantial literature about social policy in developing countries, but this has hardly been applied to war-affected societies. On the other, there is a rich body of research on peace-building, but little treatment of welfare policy within it. While case studies are emerging, evidence is still anecdotal (Harvey 2007). This has led Taydas and Peksen to call for more theorizing and empirical testing of the welfare-peace relationship (Taydas and Peksen 2012, 284).

This paper takes up their call through a combined quantitative-qualitative study of the social welfare-peace nexus in Nepal. Nepal is a noticeable case for this endeavour, as welfare policies were implemented throughout the Maoists insurgency from 1996 to 2006. Moreover, after the peace accord in 2006 social welfare has figured on the policy agenda as the core tool to overcome social exclusion and ensure peace (Koehler 2011, 10). Yet, the social policies are also accused for misuse of funds and of being skin-deep programs, promoted by shifting governments to buy votes (Bhusal 2012, 51–52). This controversy comined with the policy belief in social welfare's role for peace, makes Nepal an interesting case.

The aim of this paper is threefold: First, it seeks to *investigate the literature to identify causal stories on how social welfare is expected to bring peace*. Moving from theory to evidence, the paper secondly aspires to analyse *to what extent social welfare promoted peace in Nepal* and thirdly, *whether political factors influenced this welfare-peace connection*. While former analyses of social wel-

fare in Nepal have been mainly policy-oriented and technical (Armon et al. 2004; Holmes and Uphadya 2009), this paper aims at analysing the politics of distribution, the question of who gets what and why - and how this impacts on the peace-agenda.

The paper's empirical aspiration calls for a combined quantitative and qualitative methodology. First, the quantitative section uses a multiple regression analysis across Nepal's 75 districts to assess whether districts that spent more on social welfare did better in reducing violence all things equal. The within-country approach is novel in conflict studies, and in Adam and Dercon's words it allows for more "empirically convincing work" (Adam and Dercon 2009, 178). Nevertheless, statistical analysis is inadequate to capture causality. Hence, a political economy analysis is undertaken to trace causal links and unravel the politics of social welfare.

A word on terminology: definitions of social welfare[1] are contested (Gentilini 2009, 149–150). Following Taydas and Peksen, this paper understands social welfare as a package of health, education and social security (Taydas and Peksen 2012, 274). For the purpose here, such a broad definition makes sense, as the focus is on overall relationships not particular policies.

The remainder of this paper is structured as follows: the next chapter sets off with a review of the literature, in order to identify causal links between social welfare and peace, and learn how these might be distorted by politics. Next, a presentation of the methodology based on mixed methods follows. After a brief introduction to Nepal's conflict, the analysis folds out over two chapters, first quantitatively assessing the effects of social welfare on peace - then qualitatively scrutinizing the causal links and the politics affecting them. Finally, the paper concludes and provides suggestions for further research.

[1] "Social welfare" is in this paper used interchangeably with social policy, welfare, social spending etc.

2. Literature: Identifying Links from Social Welfare Policy to Peace

The scholarly interest in peace-building mainly evolved after the Cold War parallel with the increasing employment of international peace-building missions. While the field is still dominated by case studies and practitioner experiences (see Paris (2004) for an overview), there has recently been efforts to develop theoretical generalizations and cross-country empirical analyses of factors explaining sustainable peace (Collier et al. 2008, 462).

As these studies grow out of the vast literature of the causes of conflict, there is a natural overlap in the factors seen to *originate* conflict and *continue* conflict after an initial peace (Carmignani and Gauci 2010, 19). This paper therefore treats the two realms as interconnected and draws on insights from both fields. Nevertheless, it is acknowledged that pre-conflict causes are exacerbated by conflict and hence more problematic in post-conflict situations (Bigombe 2000, 325–328; Collier et al. 2008, 474). This matches the established finding that peace is fragile: around half of civil wars are post-conflict relapses (Collier et al. 2008, 462).

In the scholarly search for sustainable peace-building approaches, only few have engaged directly with the impact of social welfare policy on peace (Babajanian 2012; Taydas and Peksen 2012). While indebted to those few, the paper also aspires to add new inputs to their existing frameworks. In order to so, it combines findings from two distinct theoretical fields: From the social policy literature justifications for welfare are detected. These are then linked to the conflict-literature's findings on peace-building. Out of this exercise emerge two stylized stories on how welfare promotes peace, through economic wealth and inclusive state-policies.

2.1 Story 1: The Link via Economic Wealth

The first story identifies a positive link from social welfare policies via risk reduction and needs fulfillment to economic wealth and through that to peace.

While scholars disagree about the channels, the most established finding in the conflict literature is the positive relationship between **economic wealth** and peace. Collier and Hoeffler's pioneering articles first argued that per capita GDP is crucial for peace, as it lowers the opportunity costs for rebellion by providing alternative livelihoods (Collier 1998; Collier and Hoeffler 2004). Later this idea was formalized in the "feasibility hypothesis", where Collier and collaborators concluded that conflict occurs where the level, growth and structure of the

economy allows it (Collier et al. 2009, 24). In contrast to this argument, Fearon and Laitin are occupied with the causal path from low economic income to a weak government which, in turn, is not capable of fighting rebels (Fearon and Laitin 2003). Miguel et al. use rainfall variations across 41 African countries as instrument for growth to show that economic shocks are significantly related to conflict no matter how rich, democratic or ethnically diverse a country is (Miguel et al. 2004). While this quantitative literature has been critiqued for omitted variable bias and reverse causality (Thoms and Ron 2007, 681), the conclusion is also widely supported in case studies. For instance, Uvin shows how economic crisis triggered the Rwandan genocide (Uvin 2000, 195) and Theidon describes how lack of economic opportunities drove Columbian men into paramilitary forces (Theidon 2008, 14–15) . Moreover, economic deprivation is regarded as a reason behind Nepal's conflict (Einsiedel et al. 2012, 9). Hence, despite controversy about the channels, there remains consensus about the importance of economic development for peace.

Social welfare policy, in turn, is believed to facilitate economic development (Burgoon 2006, 179; Taydas and Peksen 2012, 277). Although some argue against the productive effects of "overly large" government spending (Barro and Lee 1993) and against the extensive time horizons needed to see any growth-inducing effects (Gentilini 2009, 152), the balance of evidence suggests that welfare spending promotes economic development. This can be drawn from endogenous growth models, which contrary to the Solow-model's exogenous explanatory framework, allow for a role for public policy in spurring productivity and growth. While generalizing about the precise macro-economic effects of welfare programs is difficult due to variations in type, segments, targeting etc., Barrientos uses impact evaluation studies to show that on household-level the evidence is clear: social welfare has productive effects (Barrientos 2012). Similarly, Mehrota's study of 10 high-achieving developing countries highlights social public investments in education and health as the key to their success (Mehrotra 2000).

The wealth-spurring effect of welfare is further established in the social policy literature. Two common social policy justifications are the risk-management and needs-fulfillment frameworks, respectively associated with the World Bank and the United Nations (Munro 2008). While they emerge from different starting-points, they supplement each other in shedding light on how social policy promotes wealth. With roots in neoclassical economics and Bentham utilitarianism, the risk-argument takes it's point of departure in the typical mar-

ket failures (e.g. information asymmetries, public goods, externalities etc.) that are acknowledged to exist as a deviation from the perfect market model in poor countries (Stiglitz 2000). These failures explain why poor people are underinsured by the private market and why, in utilitarian terms, public social spending is reasonable to cope with temporary shocks (Barrientos and Hulme 2009, 441). Moreover, it is argued that managing risk will allow for risk-averse and productive investments in land, children, enterprises etc. (Shepherd et al. 2005, 9).

In contrary to the risk-based logic, the needs-justification holds that fulfilling people's basic needs combats poverty and brings human capital, innovation and skilled workforces (Mkandawire 2007). Consequently, it enhances growth-opportunities. Originally, the needs-argument derives from sociological frameworks, primarily Sen' capability approach (Sen 2001). From this multidimensional perspective of development, needs-proponents pitch the idea that social policy must be regarded as an investment, not consumption, with positive externalities for the entire economy (Munro 2008, 35–36).

Together these arguments constitute the first story of how social policies through risk-reduction and needs-fulfilment contribute to economic prosperity and hence peace.

2.2 Story 2: The Link via Inclusive State Policies

In the second story social welfare is believed to promote peace by symbolically and effectively addressing social grievances (Taydas and Peksen 2012, 276–277). This suggests a look at the scholarly debate about the inequality-conflict nexus and the role of inclusive state-policy.

While the idea that inequality causes societal discontent and conflict seems intuitive, quantitative studies exploring this link have been inconclusive and inconsistent (Østby 2008, 145). Following Stewart, an analytical distinction between vertical and horizontal inequalities is useful, distinguishing between income inequality between individuals and inequality based on religion, ethnicity or other group variables (Stewart 2001). Collier and Hoeffler's models exemplify the vertical inequality literature, which generally concludes that inequality measured by the Gini-coefficient has no significant relationship to conflict (Collier and Hoeffler 2004, 572). For similar results see Fearon and Laitin (Fearon and Laitin 2003, 85). Østby however criticizes this literature for neglecting the effects of political, social and psychological group inequalities (Østby 2008, 145). Based on data from demography and health surveys across 39

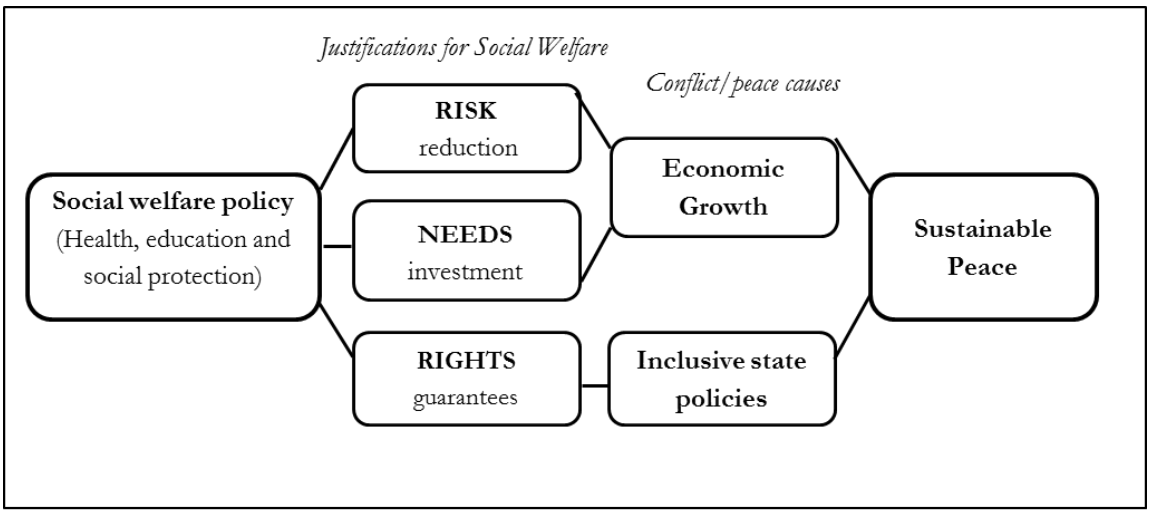
countries, she demonstrates that unequal access to economic and educational opportunities do increase conflict-risk (Østby 2008). Gurr likewise shows the potential explosiveness of structural group-difference based on data from the "Minorities at Risk" database (Gurr 2000). An insight emerging from the case-based literature is that horizontal inequalities do not inevitably result in conflict, but are useful for conflict-entrepreneurs to mobilize public discontent (Brown and Langer 2010). Examples are Turton's analysis of how group-based grievances between Hutus and Tutsis were used to spark Rwanda's genocide and De Waal's study of politicization of Sudan's North-South divide (Turton 1997; De Waal 2007).

While the discussion highlights the danger of especially horizontal inequality, Sobek critiques this "rebel-centric" literature for failing to capture how states can mitigate inequality and prevent rebellion (Sobek 2010). This suggests a look at the concept of state capacity. While there since Weber's seminal definition has been much attention to the coercive dimension of state capacity, scholars today acknowledge the multidimensionality of the concept, including administrative, political and social aspects (Di John 2008, 3–4). To obtain sustainable peace, the state must provide inclusive policies, thereby addressing grievances, buying legitimacy and preventing the motivation to rebel. For this purpose, welfare policies become useful as a visible way to signal that a government cares for its people (Taydas and Peksen 2012, 275).

Overall, this story draws on rights-based justifications for social welfare. This goes beyond managing risks and providing for people's needs to assume that governments have binding legal obligations to respect, protect and promote human rights equally for all citizens (Munro 2008, 31). Though there are diverging views on whether human rights originate from natural law, international legislation or claim-based negotiation (Dean 2002; Fraser and Honneth 2003), it is exactly their binding nature that is essential. In this way, post-conflict governments can signal a strong commitment to building a new social contract between state and people (Taydas and Peksen 2012, 276).

The figure below sums-up on the review by illustrating how the two causal stories link social welfare to peace. The terminology "stories" is used to recognize that the narratives are somewhat simplified. Clearly, there is no one-way causal relationship between welfare and peace. Moreover, the two causal logics interact with other peace-building agendas, not discussed here. However, the stories are a first move towards unraveling the causal links.

Figure 2.1: Causal Stories between Social Welfare and Peace



Author's own model based on Burgoon (2006) and Munro (2008)

2.3 Critiques of the Two Stories: Bringing in Politics

If we zoom out to take a critical look at the entire social welfare literature, Hickey has criticized it for neglecting a systematic perspective on the "politics of social welfare" (Hickey 2007, 1). The concern arising from this is that political factors disrupt the two causal stories. The critique contains a global and a local dimension. While this paper mainly engages with the local, a few words on the global are in place.

From a global structural position, the recent turn to social policy is discharged as the neoliberal paradigm's attempt to add a "human face" to structural adjustment (Gore 2000, 795–796). International donors' piecemeal and symbolic welfare efforts are regarded as a subtle way to expand liberal norms and ensure Western security (Miklian et al. 2011, 302). This argument is also evident in Duffield's Foucault-inspired analysis of the biopolitics of humanitarian assistance (Duffield 2007). In the same spirit, neo-Marxist and postmodern writers claim that the welfare agenda is implemented by the global capitalist class to exploit labour, as it benefits from a strong workforce (Dean 2002, 63). The implication of these power-based critiques is that, whatever the relationship between social welfare and peace, it is determined by structural interests outside the reach of local peace-builders.

Turning now to the second criticism, it has been noted that idealistic post-conflict plans often fail when getting caught-up in local power dynamics (Keen 2008; Di John and Putzel 2009, 18). Applying this critique to social policy, Feng and Gizelis argue that "welfare pro-

grammes do not necessarily target the most needy segments of the population, but, rather, the ones critical for the regime's political survival" (Feng and Gizelis 2002, 220).

To understand the consequences of such political factors, Hickey first emphasizes the role of formal political institutions (Hickey 2007, 3–4). Especially, the role of democratic institutions and elections are regarded as important for the impulse and shape of social policies. Following a public choice logic, it is argued that democratic leaders have incentives to provide welfare in exchange for votes and power (Hickey 2007, 4). Evidence for this argument is found in studies of political cycles and social spending, showing a positive correlation between elections and welfare spending (Niño-Zarazúa et al. 2012, 170).

This argument is in tune with new institutional economics, which claims that formal institutions structure incentives and hence, that "institutions matter" for development (North 1990, 12; Przeworski 2004, 527). In a critique of this, historical political economy shifts attention to the distributional consequences of institutions on wealth and power. As articulated by Di John and Putzel (2009), this approach is occupied with the concepts of political settlements, understood as "the balance or distribution of power between contending social groups and classes, on which any state is based" (Di John and Putzel 2009, 4). This extends the focus from public choice models to capture how all regimes and potential welfare reforms are a result of elite bargains, power constellations and buying-in of constituencies.

The political economy approach also incorporates a better understanding of "institutional multiplicity", the co-existence of formal and informal institutions (Di John 2008, 33). In this regard, it is a common wisdom that informal patronage and patron-client relationships distort the distribution of welfare (Mkandawire 2005, 4; Hickey 2007, 4). Another useful concept in this line is North's "limited access orders", illustrating how elites limit access to valuable functions as welfare to generate own rent (North et al. 2007). Altogether, these political economy ideas indicate how the two causal logics risk distortions, when social policies get interwoven in political bargains and agendas.

2.4 Summing-up on the Literature

This chapter has identified two stories of how social welfare through risks, needs and rights contribute to economic wealth and inclusive states and hence to peace. Yet, the theory also indicates how global and local politics can alter the stories. The little empirical engagement with this matter motivates the next chapters' empirical journey into Nepal's peace-process.

3. Reflections on Methodology: Mixing Methods

Despite enduring mutual criticism between quantitative and qualitative scholars, there is a gradual move towards greater integration of methods. It is argued that through methodological triangulation the shortcomings of each method are reduced and analytical depth and breadth are gained simultaneously (Creswell and Plano Clark 2007, 9).

For the two-headed empirical aim here integrating methods is particularly advantageous. While a quantitative large-N analysis can show the average effect of social welfare on peace, it falls short when having to unravel the complex web of causes and explain whether correlations are also reflecting causality. Here a qualitative study is superior, tracing the channels from welfare policy to peace, and particularly how politics impact on that. Such triangulation has been suggested as a viable way forward in conflict-research to enrich the findings from econometric studies with depth from cases (Stewart 2000, 2–3; Collier et al. 2008, 474). While doing this however, it needs to be born in mind that it not only involves combining data and research strategies, but also marrying two methods that epistemologically tend to polarize between positivism and constructivism (Morgan 2007, 70–71). Consequently, a concern in the literature is how to combine the two (Wolf 2010, 151–153). As suggested by Tarrow, this paper sequences the analysis by first applying a regression-analysis to get an overview of the empirics, but then using in-depth investigation to put "qualitative flesh on quantitative bones" (Tarrow 1995, 473).

The quantitative analysis first tests whether there is empirical backing for the claim that social welfare promotes peace. This analysis takes the cross-country conflict-literature down to cross-regional level in Nepal. Such within-country quantitative analyses are still relative rare (Do and Iyer 2010, 735). They do however provide a unique opportunity to investigate whether mechanisms identified in the cross-country literature are also present within specific countries. Furthermore on a methodological note, the within-country approach mitigates several of the drawbacks of cross-country regressions. Firstly, conflict-specific factors which vary across countries (for instance political system, culture, goal of insurgents etc.) and which are difficult to control for are more likely to be similar within a country (Adam and Dercon 2009, 178). Though this reduces endogeneity problems, it doesn't eliminate them as uncontrolled differences across districts still can be influential (Macours 2010, 20). Secondly, it becomes possible to use more nuanced data of conflict

intensity based on conflict-related deaths instead of the usual dummies for onset of conflict (Do and Iyer 2007, 2). Despite these benefits, within-country analysis is still no magical cure to the methodological complications essentially related to the lack of a counterfactual in real-life observational data (Winship and Morgan 1999, 662–666). As will be shown, the analysis is affected by risks of spurious relations, reverse causality and uncertain proxies. It is thus prone to the usual critiques against econometric conflict-research (Keen 2008, 27–31). Notwithstanding these limitations, the quantitative method is useful as an entry-point to the study.

The second part of the analysis traces the causal links expected by the theoretical stories. By applying a political economy approach inspired by Di John (2008) and Di John and Putzel (2009), specific consideration is given to the formal and informal political institutions and settlements forming the welfare-peace stories. As the rules of the political game in Nepal vary greatly between the central policy-level and the local level, the study will be sub-divided into a political economy analysis at macro-level and micro-level.

4. A Brief Introduction to the "People's War" in Nepal

The so-called "People's War" was waged by Maoists activists against the state in 1996[2]. The insurgency lasted until the signing of the Comprehensive Peace Accord in November 2006 after a decade of violence that cost more than 13000 lives. Starting in the Western districts of Rukum and Rolpa, the revolt spread to cover 73 of Nepal's 75 districts in its most violent phases in 2002-2004. The history of the Maoist insurgency is intertwined with Nepal's nascent democratization process. While a transition from monarchy towards democracy had already taken place in 1991, implementation was weak and left-wing parties felt marginalized. As a consequence, members of the Communist Party of Nepal-Maoist (CPN-M) abandoned their role in parliament to lead a guerrilla war from the jungle. Their objectives were to abolish the Monarchy, setup a peoples' republic and write a new constitution that would be inclusive to marginalized groups[3].

The conflict escalated in 2001 in light of increasing political instability. In 2005 King Gyanendra, who had become king after a mysterious royal massacre in 2001, seized power and dismissed the government for not being able to halt the Maoist surge. This provoked new rounds of peace-talks and a peace-deal by November 2006, after the King had given up absolute power. An interim government consisting of the Maoists and a seven-party coalition guided the country to the first Constituent Assembly Elections in 2008, where a Maoist-led coalition gained power under Prime Minister Pushpa Kamal Dahal, aka Prachanda, the Maoist insurgent leader. However, tensions related to the reintegration of Maoist fighters into the army forced this government to resign after less than a year. A new coalition led by the Communist Party of Nepal-Unified Marxist Leninist (CPN-UML) took over. Since then, political life has been unstable with shifting government coalitions and political deadlocks mainly due to disputes about the new constitution (Jones 2012, 244).

Referring to the "greed-grievances" debate in conflict-theory, the insurgency in Nepal is often applied as a case of a grievance-caused war, sparked by structural poverty and group inequality (Murshed and Gates 2005). Indeed, with a per capita GDP of only 200 US$ before the conflict and with 42% of the population living below the poverty line, Nepal did belong to the poorest countries in Asia (Einsiedel et al. 2012, 8). Paradoxically, overall poverty decreased to 31% (Macours 2010, 1), and BNP per capita increased to $340 during the

[2] This paragraph builds on Einsiedel et al. (2012). For another account of the Maoist war see Hutt (2004)
[3] See Lawoti and Pahari (2010: 327) for a compilation of the Maoists' 40 point manifesto 1996.

conflict-decade (Do and Iyer 2010, 736). However, the economic progress went hand in hand with increasing horizontal inequality along Nepal's multiple cleavages between urban and rural areas, between different castes and ethnicities, between landowners and landless and between gender (Jones 2012, 242). The literature tests how these multiple inequalities spurred the conflict. Murshed's and Gates' much-cited spatial analysis identifies regional deprivation between rural districts and Kathmandu as conflict cause (Murshed and Gates 2005). Deraniyagala's investigation likewise points to economic deprivation across and within districts, but also emphasizes the unequal impact of the 1990s structural adjustment programs as a proximate cause (Deraniyagala 2005). Providing further insights into the grievance-argument, Macours shows how not only absolute or relative inequality, but also the perception of increasing inequality contributed to the Maoists' recruitment-success (Macours 2010). These conclusions are furthermore supported by interviews with Nepali villagers (Saferworld 2011, 6).

In contrast to the above, some do relate the insurgency to more than grievances. Thapa questions an automatic link between exclusion and conflict by illustrating how the Maoists were skilled to manipulate and exploit peoples' grievances to mobilise support (Thapa 2012, 50–54). Acharya furthermore maintains that peoples' decision to support the Maoists was driven by a rational calculus of economic opportunities and survival (Acharya 2012, 265). Nonetheless, private economic gains from the insurgency are usually seen as minor. The Maoists had little external support, few opportunities for conflict-trade, and their limited finance derived from hard-won land taxation and robbery of government offices (Einsiedel et al. 2012, 19). Hence, while greed and grievances were both at play and intertwined, deprivation and exclusion seem to have been the centre of the conflict.

The Maoist struggle, despite its high human costs, did succeed in shaking old exclusive institutions and promoting a new agenda of social equality (Lawoti 2005, 58–60). Already in the midst of the conflict, policy-discourse started to acknowledge deprivation and lack of social infrastructure as a problem. Even more after the peace-accord in 2006, a window of opportunity opened up for social reform. This brought about a plethora of social transfers to excluded groups (Koehler 2011, 10) and a gradual ideological shift from private, user-fee paid social services towards a dedication to public, free provision (Jones 2012, 252). Whether these social policies contributed to peace is the concern in the following.

5. Quantitative Analysis: the Social Welfare-Peace Link

This chapter empirically assesses the optimistic expectation and hypothesis *that social welfare policy reduces conflict and hence promotes peace* in Nepal. It follows in the methodological footsteps of recent studies that have taken the conflict literature down to within-country and cross-regional level in Nepal (Do and Iyer 2010; Macours 2010; Murshed and Gates 2005; Acharya 2012). More specifically, the analysis applies the model and data used in Do and Iyer (2010)[4]. But while Do and Iyer evaluate an array of hypotheses on conflict causes, their model does not consider the impact of social welfare policy or any other public policy. Adding this factor to the analysis will be the modest contribution here, while it at the same time allows for a preliminary test of the paper's core hypothesis of social welfare policy and peace.

5.1 Empirical Specification and Data

Following Do and Iyer (2010), the paper tests the correlates of Nepal's conflict through a multiple regression analysis based on the following model:

$$Conflict_i = a + b_1X_{1i} + b_2X_{2i} + \cdots b_mX_{mi} + e_i$$

Here, $Conflict_i$ measures the numbers of conflict-related deaths per thousand in each district *i*, *a* is the constant term, *e* the error-term capturing uncontrolled factors in each district and the range of X_{is} are the district-level explanatory factors that the analysis tests and that are discussed in details below.

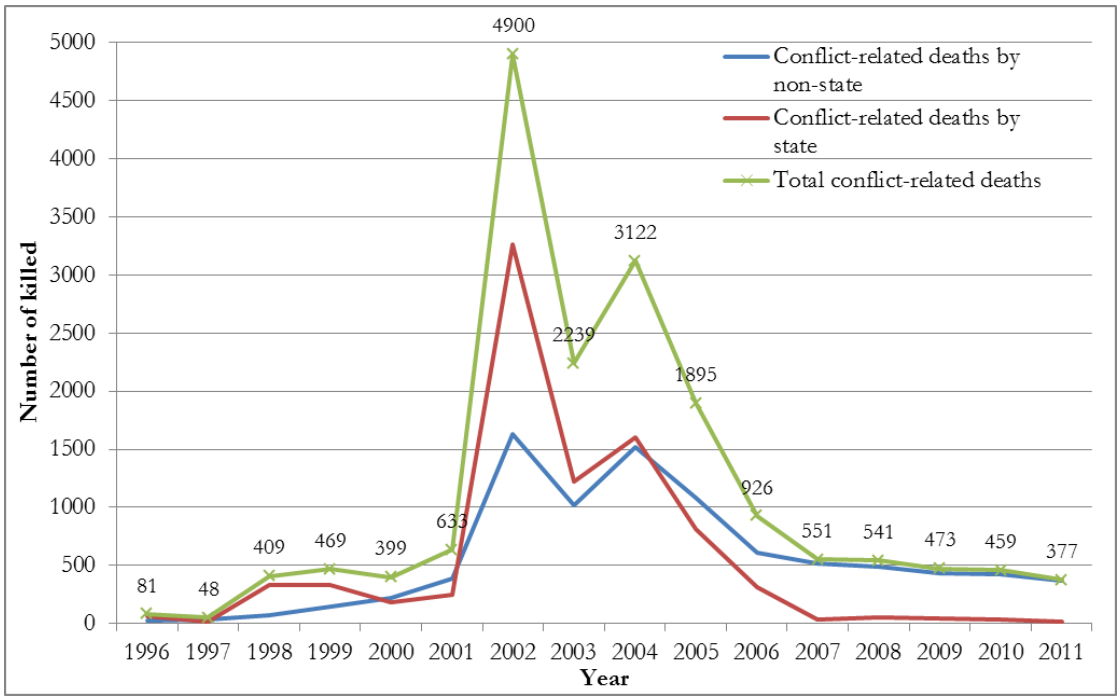
The dependent variable is conflict intensity. Compared to cross-country studies, the analysis benefits from detailed district-level data of the number of conflict-related deaths per 1000 district population from 2001-2011. This data is collected and compiled yearly by the human rights organization, INSEC, and is generally regarded as the most reliant and comprehensive measure of conflict intensity in Nepal (Interdisciplinary Analysts 2011, 16). Nevertheless, it still suffers from the critique uttered from human security scholars that "conflict-deaths" alone do not capture the manifold faces of conflict such as domestic violence, subjective fear etc. (Beebe and Kaldor 2010, 109). However, as perception-studies of insecurity

[4] The data is available at http://prio.no/jpr/datasets.

in Nepal are only available on sampled districts at present (Saferworld 2011), INSECs data is still the best available option for cross-regional analysis.

Compared to Do and Iyer's analysis, covering the decade 1996-2006, the paper studies the period from 2001 to 2011. This time-frame has been chosen out of two reasons. First, as the focus is on peace-building, this later timeframe coincides with the period where the conflict was realized as a challenge and where peace-promoting initiatives were taken (Einsiedel et al. 2012, 18–24). Moreover following Keen (2008), it is acknowledged that there is no clear cut between conflict and peace. Consequently, the periods before and after the peace accord in 2006 are of equal interest. Secondly, as many of the explanatory variables discussed below are from 2001, measuring the dependent variable after 2001 is necessary to avoid reverse causality. However, this timeframe risks biasing the result if previous violence (1996-2000) affects following conflict intensity as well as social welfare allocation - in which case there is a spurious relation. Yet, the fact that violence mainly escalated after deploying the army in 2001 (Einsiedel et al. 2012, 19), gives confidence that this is less the case. Moreover, the effect of previous conflict intensity is tested in a robustness-test and found insignificant (see appendix 8.2). Figure 5.1 shows the evolvement of the conflict in terms of conflict-related deaths.

Figure 5.1 Conflict-related Death 1996-2011



Source: Compiled from INSEC (1996-2011)

Now turning to the independent variables:

Social Welfare Policy: Following the literature review, it is expected that conflict intensity is lower in areas where the government provides more social welfare. The main caveat of the analysis is that it has not been possible to get hold of district-wise data of public expenditures on social welfare (i.e. health, education and social security)[5]. Lack of expenditure-data is likewise a major impediment for cross-national studies (Taydas and Peksen 2012, 274). While Taydas and Peksen cope with it through statistical methods that replace missing variable, this paper tries to find alternative proxies. Two variables are used as proxies for social welfare: First, per capita public development expenditures in 2001 capture the presence of the state and its willingness to support development on district-level. Secondly, the Health Institution Density Index captures the number of health institutions per district population, normalized to account for differences in area-size and distance to health institutions. While none of these two variables are optimal (the first captures more and the second less than the social welfare package), they are the best available proxies. Data is compiled from Nepal District Profiles (Central Bureau of Statistics 2003).

In line with the literature discussed above, the paper adds several variables to control for the major alternative explanations of conflict:

Poverty: It is expected that poorer districts show greater intensity of violence, either because the opportunity costs of rebellion are lower (Collier 1998) or the state is weaker (Fearon and Laitin 2003) or a combination of these factors. Poverty is measured by the proportion of poor below Nepal's poverty line in 1995, using data from Do and Iyer (2010).

Geography: Rough terrain is expected to be conducive of rebellion, as it allows for guerilla-war. This is proxied by the maximum elevation ('000 meters) from Do and Iyer's data.

Social groups: Following the case-specific literature on Nepal, the analysis uses Do and Iyer's indices for caste and linguistic polarization to test whether social diversity impacted on the conflict. Based on Montalvo and Reynal-Querol's technique for measuring polarization, the two indexes capture diversity between major castes and language groups. The index ranks from 1, when society consists of two equal-sized groups with high conflict potential, to 0 when society is completely homogenous or heterogeneous (Do and Iyer 2007, 10).

[5] Expenditure data has its own drawbacks in evaluating social welfare. See Van de Walle (1998) for a critique.

Inequality: Finally as argued, there is wide support for the hypothesis that horizontal inequality strengthened the Maoists. Acknowledging Nepal's multiple lines of inequality, the analysis here relies on the central dimensions of land inequality, measured as the percentage of marginal households (<0,5 hectares) per district, normalized according to the proportion employed in agriculture. Data is from the Central Bureau of Statistics (2003).

Other factors that are usually highlighted in the cross-country literature, but that are not included here are the negative impacts of total military expenditures (Collier and Hoeffler 2006), the debate on the risks of democratization (Mansfield and Snyder 2007; Fearon and Laitin 2000) and the ambivalent role of diasporas (Collier and Hoeffler 2004, 575). All these factors are constant for Nepal and can thus not be captured in a district-wise analysis. Further alternative explanations as natural resource and oil occurrence (Collier 1998), lootability and obstructability of resources (Ross 2003) or previous conflict occurrence are regarded as less essential, as Nepal has few natural resources and the Maoist insurgency is the first major internal conflict (Do and Iyer 2010, 739). See summary statistics for variables below and in appendix 8.1.

Table 5.1: Summary Statistics

Variables	*N*	*Mean*	*S.D*	*Min*	*Max*
Measure of Conflict Intensity					
Total conflict-related deaths per 1000 district population (2001-2011)	75	0,87	0,60	0,13	3,49
Measures of Social Welfare Policy					
Per capita development budget expenditure in Nepali rupees (2001)	75	1271,79	2032	307	16532
Health Institutions Density (2001)	75	2,69	1,00	0,89	6,23
Measures of development/poverty					
Poverty rate (1995-96)	72	0,42	0,23	0,00	0,92
Human Development Index (2001)	75	0,45	0,07	0,30	0,65
Measures of geography					
Maximum elevation ('000 meters)	75	4,08	2,71	0,19	8,85
Measures of caste and language diversity					
Linguistic polarization (2001)	75	0,59	0,28	0,03	0,93
Caste polarization (2001)	75	0,53	0,14	0,24	0,78
Measures of inequality					
Percentage of marginal farm households (2001)	75	36,22	13,45	15,14	66,34

See appendix for description and sources for all variables. All measures are district-level

5.2 Results: Does Social Welfare Policy Promote Peace?

The main results are summarized in table 5.2 below[6]. The clearest message from these results is a reconfirmation of the conclusions obtained by Do and Iyer (2010). In model 1, Do and Iyer's core analysis is repeated confirming their finding that poverty and geography explain most of the variation in conflict intensity. Both variables are significant, at respectively the 1 and 5% level. These findings seem to hold, even if the dependent variable under scrutiny here is conflict intensity from 2001-2011 (compared to 1996-2006). This implies that initial poverty and geography not only explains the conflict intensity from 1996-2006, but also the 2001-2011 period. As in Do and Iyer, this finding is robust to the inclusion of the caste-polarization variable, signalling limited impact of social diversity.

Moving to the core questions under scrutiny: In models 2 and 3, the social welfare variables are added to the analysis. While the picture gets murkier, there still seems to be a significant negative relationship between both per capita development expenditures and conflict-intensity (model 2) - and health institution density and conflict-intensity (model 3). Since the models control for the major alternative hypotheses of poverty, geography and social diversity, the results reflect an *independent* effect of social welfare policy. Substantially interpreted, the results mean that a doubling of the public development expenditures per capita results in a 21% decline in conflict-related deaths. Likewise a 1-unit improvement on the Health Institutions Density index implies a 10% reduction in conflict-intensity. To exemplify, a comparative look at Okaldhunga and Salyan is insightful. While Salyan used 515 rupees on development expenditures per capita, had a 2,72 rating on the health institution density index and experienced a violence level of 276 persons or 1,26 per thousand district-population, Okaldhunga used almost double for development (909 rupees per capita), ranked 1,5 points higher in health institution density index (4,32) and experienced only 108 conflict-related deaths or 0,8 per thousand district-population. This confirms the expectation that social welfare policy can reduce conflict.

[6] Following Do and Iyer (2010), Rukum is excluded as an outlier. Moreover, conflict-related deaths and development expenditures are LN-transformed.

Table 5.2: Ordinary-Least-Squared Analysis of Social Welfare Policies and Conflict Intensity

	Dependent variable: LN Conflict-related deaths per 1000 district-population (2001-2011)				
	Do and Iyer (2010)	Including social welfare		Testing Inequality	
Independent variables	(1)	(2)	(3)	(4)	(5)
Ln Development Expenditures per capita (Rps)		*-0,210**(0,098)*		*-0,133(0,090)*	
Health Institution Density Index			*-0,102*(0,060)*		*-0,114*(0,058)*
Poverty rate (proportion below poverty line)	*0,776***(0,268)*	*0,603**(0,273)*	*0,564**(0,277)*	*0,582**(0,273)*	*0,479*(0,280)*
Maximum Elevation ('000 metres)	*0,058**(0,025)*	*0,061**(0,024)*	*0,062**(0,025)*	*0,047*(0,027)*	*0,031(0,026)*
Caste Polarization Index	*0,530(0,497)*	*0,953*(0,523)*	*0,615(0,511)*		
Proportion of Marginal Households				*0,011*(0,006)*	*0,014**(0,006)*
R^2	*0,269*	*0,32*	*0,289*	*0,326*	*0,342*
Number of observations	71	71	71	71	71

Notes: *** is significant at the 1 percent level, ** at the 5 percent level and * at the 10 percent level

Numbers in brackets show standard deviations. The district Rukum is excluded. Constant not shown here.

Sources Do and Iyer (2010), INSEC (2001-2011) and Central Bureau of Statistics et al. (2003)

In models 4 and 5, the correlation between social welfare and conflict intensity is tested with the addition of inequality, measured as the proportion of marginalized landholdings. This complicates the picture. While the size of the relationship between the social welfare variables and conflict-intensity is similar (doubling of per capita development expenditures leads to 13% conflict-reduction and a 1-unit health index advance to 11% conflict-reduction), the findings are less significant. This suggests that deeply entrenched inequality is a stronger explanatory factor than social policies. However, it could also be taken as evidence of the mechanism in the second theoretical story where social policies mainly contribute to peace by addressing inequalities. If this is the case, we would exactly expect the social welfare variables to turn insignificant as here. But certainly and most of all, the results are a reminder – with a critical look back to figure 2.1 – that mapping causal relationships between welfare and peace is challenging, as the links are interacting in multiple ways.

Overall, while one should be careful not to read too much out of the results due to the before-mentioned data shortcomings and the usual endogeneity suspects in quantitative work, the analysis seems to confirm the theoretical expectation of a positive relation between social welfare and peace. To test the robustness of the findings, the regression is rerun with potential candidates for omitted background variables and alternative data-specifications. See appendix 8.2 for results. Overall, the conclusion remains the same: welfare policies correlate with lower violence. Yet, the correlations turn insignificant in several models. First, the paper tests the two hypotheses of impact of previous violence (as measured by conflict-deaths from 1996-2000) and impact of Maoist affiliation (as registered by the Home Ministry). In both cases the social welfare-peace relationship holds, though less significantly. Next, alternative specifications of social diversity using language polarization and of poverty using the Infant Mortality Rate are tested, giving similar conclusions. As an alternative to the proxies for social welfare, the district-wise Human Development Index (HDI) is included. Although HDI echoes numerous factors and cannot be taken as outcome solely of social policies, the strong correlation with conflict/peace in this model emphasises the importance of welfare. Finally, a separation of the dependent variable into conflict-deaths caused by the state and by non-state actors leads to the same conclusion on the state-variable, though results are blurred on the non-state variable (Do and Iyer 2010, 740). While testing these extra specifications is no guarantee against spurious relations, omitted variables and data-quality, the consistency of results across models still gives better trust in social welfare-peace finding.

5.3 Summing-up on the Quantitative Analysis

The quantitative study confirms the expectation of a positive relationship between welfare policies and violence reduction. Yet, the results are fragile and the brief analysis must be taken as tentative. The core variables are uncertain proxies for the real-life phenomena of social welfare. Moreover, the results are marked by low significance in several model-specifications. Hence, while the analysis preliminarily confirms the social welfare-peace nexus, the uncertainty of the results call for further scrutiny.

6. Qualitative Analysis: the Politics of Social Welfare Policy

There are two main reasons to supplement the analysis hitherto with an in-depth-study of Nepal's social welfare policies. First, the literature revealed that the causality between welfare and peace is empirically unexplored and that political distortions are plausible. Second, while the quantitative study did identify positive correlations between welfare and peace, the conclusions were dubious. Moreover, the statistics did not provide insight in to *how* the causality flows and whether the causal mechanisms identified in theory are present. This calls for a qualitative analysis of the causal links in the social welfare-peace nexus and the political factors at play.

6.1 Political Discourses about the Social Welfare Policy-Peace Link

After the conflict, social policy emerged on Nepal's political agenda as a popular initiative to build peace (Koehler 2011, 9–13). Arguments in line with the two causal stories of economic wealth and inclusive state policy were common in the public discourse.

Especially the *inclusive state story* has figured in the debate. This is not surprising given the role of relative deprivation in spurring the conflict. Already in the midst of the conflict, when formulating Nepal's 10th Five Year Plan 2002-2007, exclusion was identified as a reason for the violence. Though the plan failed to present realistic solutions, the mere acknowledgement of horizontal inequality marked a change from previous policies (Bennett 2005, 23). This tendency continued after the peace agreement. The objective of the interim government was to make society "equitable by reducing the existing regional, class, caste/ethnicity and other disparities and discriminations" (Nepal Planning Commission 2007, 77). Making a clear case for the inclusive state argument, the Interim Constitution framed social policy in a rights-based language, where the state's responsibility to protect and promote universal rights was regarded as crucial to avoid a conflict relapse (Jones 2012, 245–252). In an explosion of welfare programs, initiatives were tailored to address different groups' grievances and give them a stake in the peace: child grants, free health care for the poor, education scholarships for Dalits, pensions for the old, district grants for remote communities and protection for vulnerable ethnicities (Koehler 2011, 10). In sum, the second causal story appears to be a good reflection of the "government's post-conflict commitment to a more inclusive society" (Holmes and Uphadya 2009, 27)

While less prominent, the *economic wealth story* has also figured in several peace-building initiatives. The first post-conflict Three-Year Development Plan (2010-2013) was conceptualized in an "inclusive growth" language, focusing at how to create employment-led growth by building human capital (Koehler 2011, 9). Drawing on interviews with key policy-makers, Holmes and Uphayda likewise find evidence of a political attitude towards social cash transfers as "economic growth boosters" with multiplier effects in local communities (Holmes and Uphadya 2009, 23–24). Bhuzal's public perception study furthermore supports this conclusion with 46% of the interviewees seeing social spending as an investment for growth and peace (Bhusal 2012, 55). That the economic wealth story has received less attention and is usually followed by buzz-words of "inclusive growth" can be understood from the historical fact that the insurgency happened in a period of stable, but unequal economic growth (Deraniyagala 2005, 58–59)

From this brief review of the political post-conflict rhetoric, there seems to be evidence of an acknowledgement in policy-makers discourses of the causal connection between social welfare and peace as suggested by the theory. Yet, several sources document, what Bennett critically terms an "implementation gap" (Bennett 2005, 42) or what in Koehler's words is described as a "disconnect between aspiration and delivery" (Koehler 2011, 17). Drawing on the political economy literature, the paper next seeks to decipher the role of politics in explaining this disconnect. It is a conventional understanding amongst scholars writing on Nepal that the state suffers from a gap between the central, urban world and the village-life in the periphery (Lawoti 2010, 21). Consequently, the paper considers the political economy at central *macro*-level and decentralized *micro*-level in turn.

6.2 Political Economy at Macro-level: Democratization and Change

Any attempt to analyse the politics of social welfare in Nepal must start with the democratization process and its opening of political space. This shook long-established political settlements and brought new ideologies into politics.

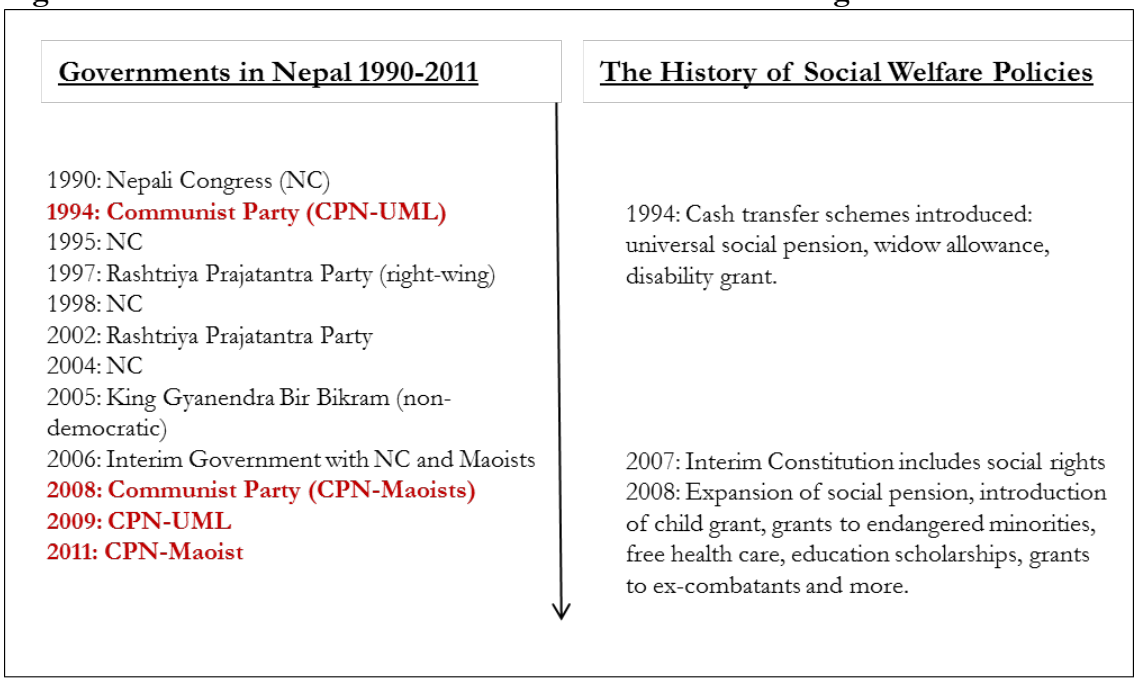
Especially relevant for the trajectory of welfare policy has been the arrival on the political scene of the left-wing party movement and its ideology of social equality (Jones 2012, 243–245). The two dominant left-wing actors[7] are the CPN-UML (Communist Party of Nepal,

[7] By 1991, the original Communist Party had split into 20 competing fractions (Sharma 2004, 38)

Unified Marxist-Lenist) and CPN-Maoist (the Maoist). While using different means - the CPN-UML has remained within the formal political framework, whereas the CPN-Maoist has been on an exodus via a people's war before returning to parliament - both parties have been drivers of the welfare agenda (Jones 2012, 243). Already during the insurgency, the Maoists' support to welfare was evident in the fact that health posts were largely left undestroyed while all other symbols of government were targeted (Jones 2012, 249). In the peace talks and after the war, the Maoists' ideology of social welfare provided by the state was brought to the political mainstream.

Evidence of the role of ideology for the social welfare agenda is found in the overlap between the expansion of social programs and the presence of Communist-led government-coalitions, as illustrated in figure 6.1. The first welfare programs, mainly the social pension scheme, were initiated under Nepal's CPN-UML government in 1994. A second wave that expanded the social package to cover a multitude of excluded groups flourished after the first Maoist-led government coalition gained power in 2008 (Koehler 2011, 9–13).

Figure 6.1 Communist Governments and the Social Welfare Agenda



Sources: (Own compilation from Thapa 2012, 55; Holmes and Uphadya 2009, 13–14)

An alternative look at the popularity of welfare programs follows Hickey's institutional angle to analyse how Nepal's new democratic institutions have changed the rules of the

game for politicians. Of importance is here the new democratic context of fierce political competition and coalitional instability (Jones 2012, 244). In the 20 first years of democracy alone, Nepal has had 17 governments; many only in power for less than a year (Thapa 2012, 55). Along the lines of the public choice argument discussed in the literature, the constant electoral and coalitional pressure in post-conflict Nepal made a case for the use of social welfare to buy peoples' support and uphold power (Babajanian 2012, 36). Further supporting this institutional logic, is the observation that the welfare agenda evolved largely without international involvement (Holmes and Uphadya 2009, 10). This legitimates a focus at the local political economy rather than global structures, although Jones holds that global actors as the World Bank still had strong blocking power (Jones 2012, 250).

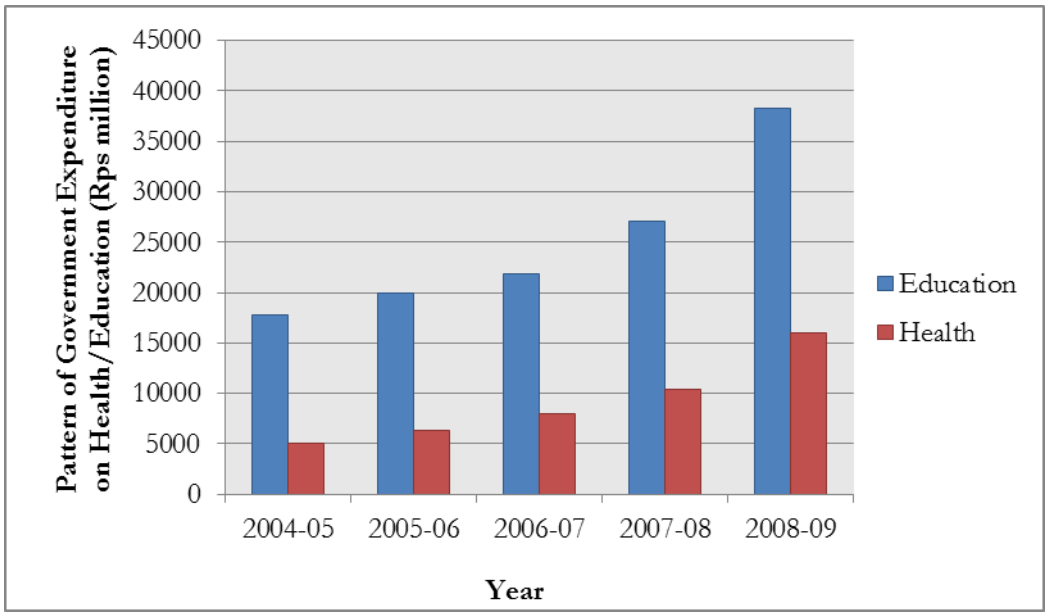
The many patchy social programs implemented after 2008 can be taken as symptomatic evidence of how the Maoists after winning the elections needed to fulfil promises given to multiple supporting constituencies in rural areas. An example is "the allowance for endangered ethnic minorities" that reflects the support from indigenous groups in the insurgency, while it also seeks to mitigate the poor representation of indigenous groups amongst the Maoist political elites (Jones 2012, 247). This finding supports the lesson emerging from political economy studies, that a government's ability to penetrate the country-side (as the Maoists did) enhances prospects for reform (Di John and Putzel 2009, 13).

While political competition hence seems to have supported the rise of social policy, potential negative impacts of these dynamics are also noted. From a critical angle, Jones highlights that the coalitional bargaining prevents a stable social contract from emerging due to the short-sightedness of governments (Jones 2010, 11). Bennett exemplifies this by illustrating how a "High Level Committee" for affirmative action towards women, Dalits and ethnic groups was disbanded shortly after it started due to a shift in government (Bennett 2005, 36). The change of civil servants and the use of privileged positions for patronage has further become a problematic feature of democratic Nepal, preventing coherent long-term plans (Adhikari 2012, 276).

Yet despite these critiques, this paper argues that the shift towards inclusive state policies cannot be regarded as irrelevant out of two reasons. First, in accord with Barrientos and Hulme's contention about the electoral danger of withdrawing social services, the welfare programs once in place have been supported across the political scale and continued by successive governments (Jones 2012, 251; Barrientos and Hulme 2009, 451–452). In the

2008 election, all 25 competing parties thus included free health in their political manifestos (Jones 2012, 250). In that way, the Maoist's have indeed caused a far-reaching change in the political agenda – something that is regarded as a positive outcome of the insurgency (Lawoti 2005, 58–59). Secondly and as illustrated in figure 6.2, the actual expenditure pattern of post-conflict governments has demonstrated a real commitment in form of doubling expenditures on health and education. This cannot be neglected as simply discourse.

Figure 6.2 Government Expenditures on Social Sector



Sources: Compiled from UNICEF 2010, 17–19

Overall then, the above dynamics of political bargains on macro-level do not seem to challenge the causal stories of how social policies lead to peace. On the opposite, this paper finds that democratization, the integration into politics of new actors and the constant political bargain has brought social welfare to the forefront of the peace-building agenda.

6.3 Political Economy at Micro-level: The Legacy of Local Patronage

While the public choice logic above explains the motivation behind welfare commitments, it has less to say on the implementation of these policies. This instead takes us down to the decentralized government level, where most welfare programs are delivered through the local District Development Committees (DDCs) and Village Development Committees (VDCs) (Holmes and Uphadya 2009, 18; ADDCN 2010, 11–13). Here Pfaff-Czarnecka

draws attention to the insulated nature of politics at decentralized level, and consequently, the need to scrutinize these subnational power dynamics (Pfaff-Czarnecka 2004, 172).

To understand local power dynamics, a brief excursion into Nepal's history as an extractive state is necessary. Since unification and throughout all its regimes from the Royals Ghorkas (1769-1846), to the Rana oligarchy (1846-1951), to the Panchayat that followed a decade of democratic opening (1960-1991) and till democratization in 1991, state-society relations have been characterized by a predatory centre ruling over a rural periphery (Einsiedel et al. 2012, 4–7). Drawing on Olson's bandit-theory, Riaz and Basu emphasize the legacy of this extractive system, arguing that "although geographically speaking over time the Nepali State had become "stationary", it essentially remained the "roving bandit" (Riaz and Basu 2007, 130). This legacy is regarded as a barrier to service-provision (Pfaff-Czarnecka 2004, 175).

Joshi provides further insight into the local political settlements behind the extractive state. Historically, village heads were responsible of tax collection for the centre, and gradually became influential landlords and strongmen with formal power to negotiate between peasants and the central state and informal power to protect, give loans and provide emergency assistance for rural poor (Joshi 2010, 95). That this relationship was characterised by informality and patron-client dependency is evident in Joshi's description of it as "multifaceted, diffuse, face-to-face and based on personal ties, not written contacts" (Joshi 2010, 98).

With democratization, civil servants and elected politicians emerged as new power brokers, but Pfaff-Czarnecka describe how these soon united with old power holders in "distributional coalitions" that overall kept the old system intact (Pfaff-Czarnecka 2004, 179). Nonetheless, the devolution of public service provision strengthened the patronage power of civil servants as they came to play a role as "gate-keepers" with control over public distributions. By creating scarcity or delays in provision, they are able to manipulate the allocation of services or limit it to those willing to pay private contributions (Pfaff-Czarnecka 2004, 175–176). This description mirrors North's concept of "limited access orders".

Lawoti makes the convincing case that the Maoists' success was related to their ability to abandon these old power systems and take the weak peasants' side (Lawoti 2010, 15–16). While the Maoist built egalitarian Peoples' Communes in several villages, these parallel governance-systems were dismantled as part of the peace agreement (Lecomte-Tilouine

2010). This left the districts in power vacuums or returned old power constellations. Moreover, local elections have not taken place since 2002, contributing to the lack of accountability and insulation of local powers (Holmes and Uphadya 2009, 5). From these accounts, it seems fair to support Miklian et al.'s observation that "going down to the village level alone does not erase power dynamics but further consolidates them (Miklian et al. 2011, 292).

From the above discussion the following characteristic features of the decentralized Nepali state can be drawn: its extractive nature, its insulation from the center and the informal patron-relationship between power holders and citizens. This raises two issues in relation to the social welfare-peace nexus.

First, if social welfare programs get intertwined in informal power dynamics and not distributed rightly to eligible candidates, this obviously distorts the two causal stories. Particularly the inclusive state argument does not hold under conditions of misuse of funds, as citizens will see the state as predatory instead of rights-based and inclusive. Furthermore, the economic wealth story is punctured under conditions, where public funds are used for rents rather than reducing risks and building human capital. Drawing on the few existing evaluations of social welfare in Nepal, there is evidence of what is called "disbursement bottlenecks" (Holmes and Uphadya 2009, 19). These bottlenecks are partly related to weak administrative capacity in VDCs and DDCs, but intentional distortion cannot be excluded (Holmes and Uphadya 2009, 18–19; Palacios and Rajan 2004, 23–24). Local civil servants have more or less un-checked control over social welfare resources. There are no accountability mechanisms to keep track on the distribution of social funds (Holmes and Uphadya 2009, 17–20). Moreover, the funding mechanisms starts from the VDCs, who request funds from the central Ministries based on their local registers over eligible candidates for social programs. In line with North's limited access-orders and Pfaff-Czanerca's critique of public "gate-keeping", this financial mechanism gives scope for manipulation, for delaying requests and for using periodic unavailability as excuse for holding payments back (Jones 2012, 246). Exemplifying that such dynamics are in place, Palacios and Rajan provide evidence of manipulated registers, fees to proceed applications and unannounced delays in delivery of Nepal's pension fund (Palacios and Rajan 2004, 21–23).

Secondly and following from the above is a concern with *who* gets access to welfare programs and how this impacts on the peace-building process. That there is no simple answer

to this distributional question is clear from Bennett's comment that Nepal's social policies interact with a "dense network of informal systems of behaviour and values based on relations of kinship, party affiliation, business interests, caste, ethnicity and gender" (Bennett 2005, 42). Like Joshi's description of the multifaceted patron-client relationship above, the access to social programs is thus spun into a complex, informal network of connections.

A particular concern is whether allocations get systematically distorted according to horizontal inequalities. Though disaggregated data on social groups is not available, some anecdotal evidence confirms this suspicion. Ayala's study of education scholarship finds that Dalit children received smaller benefits than what they were entitled to (Ayala 2009). Similarly, only 2/5 of eligible women received their cash incentive after childbirth in the Safe Motherhood Program, discriminating against the illiterate and poor (Holmes and Uphadya 2009, 19). Obviously, discrimination against groups that are already relatively deprived is directly contrary to the political discourses of building an inclusive Nepali state. Hence, it simultaneously distorts the peace-building effects of social welfare. Confirming this critique, Holmes and Uphadya find it uncertain that social programs will contribute to peace, when there is a feeling of "distrust and low level of expectation from the citizenry to the state in Nepal" (Holmes and Uphadya 2009, 18). A further concern is that the categorically targeted social transfers can even "reinforce existing group identities and become instrumentalised by identity politics" (Koehler 2011, 15). In that way, social welfare programs do not manage to contribute to peace.

To sum up: This chapter started from the vague quantitative results combined with a theoretical suspicion that politics might alter the social welfare-peace nexus. Looking into the political economy of welfare on a macro-level showed that democratic politics has been a positive impulse for welfare and peace-building. If moving down to micro-level however, a different story emerges. Here, in the absence of local elections and accountability, the welfare programs get caught in an entrenched system of patronage. This finally explains why the results from the quantitative analysis were not more convincing. The mere existence of health institutions and distribution of development funds is not enough to invoke the two causal stories. When funds are used for personal enrichment and distributions discriminate against certain groups, the hope of a social welfare-peace connection seem less likely.

7. Conclusion and Perspectives

This paper was motivated by the paradox that social welfare policies are suggested as a new hope for peace-building, while previous research warn about the political manipulation and distortive effects of such policies in weak states. Puzzled by this contradiction, the paper aspired to assess the true role of social welfare in peace-building.

This endeavour was undertaken through a combined quantitative-qualitative analysis of the welfare policies implemented in Nepal during the "People's War" from 1996-2006. Given the Maoists strong support for social policies and the window of opportunity for social reform that opened through the conflict, this was deemed an interesting case.

The conclusion emerging from many pages of theoretical considerations, statistical technicalities and empirical inquiries, is that while intending to contribute to poverty elimination and social inclusion, the social welfare policies get absorbed in a web of local power-dynamics that drastically limit their positive effect on peace.

The paper's three-fold query raises considerations and perspectives for further research: First, in light of the limited theorizing on causal pathways from welfare policy to peace, the two stories identified here could be theoretically enriched by deeper examination of the causal mechanisms, the stories' relative importance and their interplay with other peace-building agendas. Moreover for policy purposes, a move from the paper's general focus at "social welfare" to particular programs, e.g. universal versus targeted, cash versus in-kind, conditional versus unconditional, could be useful. Yet, by far the most crucial finding emerging from the theory and confirmed by the empirics is the need to include "politics" in any study of social welfare and peace.

Secondly, an honest judgment of the paper's quantitative part would emphasize the need to rerun regressions with better data and more advanced estimation models, if possible using time-series data and instrument variables to overcome endogeneity bias. Despite these limitations however, the conclusion emerging from the empirics is that district that cared more for social welfare also experienced less violence. The trust in this finding was strengthened by applying a within-country regression-analysis which more effectively than cross-country research deals with statistical shortcomings. It would be intriguing to repeat the analysis, when better district-wise social welfare data becomes available, perhaps via the Nepali Living Standards Survey 2010/2011 or the recent, but not yet public population census 2011.

Thirdly, the paper proved the promises of using mixed-methods in conflict-research. It was not before arriving at a micro-level political economy analysis that the open ends and puzzles emerging from the theory's scepticism and the statistics' uncertainties found an explanation. Here it became clear *why* and *how* well-intentioned macro-political policy promises end up in diverted directions when interacting with the century-old face of an extractive, clientilistic and insulated local state. This has significant policy-implications for what one could term "the social-democratic" peace-building agenda of welfare policies: as has been bitterly learned before, it is too costly for peace-builders to neglect the role of politics and power.

While concluding in this critical spirit, the paper does not imply a total abolishment of the social welfare agenda in peace-building. The paper did both find theoretical reasons in form of the two causal stories and empirical evidence from Nepal to believe in positive effects of social welfare. Furthermore, some politics and political settlements, as the case of the Maoist under democratic institutions show, can actually drive the social agenda forward. Moreover, compared to the slowness of alternative peace-building agendas of regime change, reintegration of ex-combatants or liberalization policies, altering public budgets and using peace-dividends on social policies indeed seems more manageable. In that way, post-conflict governments can signalize that "they care" for people and peace. But while signalling is powerful in the first stages of a fragile peace, it must at some point channel into real change to avoid unfulfilled expectations and backlash.

8. Appendices

8.1 Overview over Data Sources

Variable	Data description and Source
Conflict-intensity	Measured as conflict-related deaths out of 1000 district-population Data kindly shared by the Informal Sector Service Centre (INSEC) and partly available at www.inseconline.org District Population Data from Population Census 2001, available at www.cbs.gov.np
Health Institution Density Index	Measured as number of health institutions per 1000 district-population, divided by population distance (where population distance is measured as $\sqrt{\frac{Area}{Population}}$) Data and calculations from Central Bureau of Statistics (2003) publication "Districts of Nepal", available at www.cbs.gov.np
Per Capita Public Development Expenditure	Measured as the total development budget expenditures in Rps divided by total population Data and calculations from Central Bureau of Statistics (2003) publication "Districts of Nepal", available at www.cbs.gov.np
Poverty	Measured as the poverty head count ratio (proportion of households below the poverty line) Data from Do an Iyer (2010) based on Nepal Living Standards Survey 1995-1996
Geography	Measured by Maximum Elevation in '000 metres Data from Do and Iyer (2010)
Social Diversity (Caste and Language polarization index)	Calculated as $4\sum_{Si}^{2}(1-s_i)$ where s_i is the proportion of (caste or linguistic) group *i* in the population. Only castes and language groups that constitute more than 1% of district population is included, in all 76 castes and 13 language categories. Data and calculations from Do and Iyer (2010)
Inequality (Percentage of Marginal Farm Households)	Measured as percentage of farm households with agricultural landholdings <0.5 ha out of total households multiplied by the agricultural labour force (the ratio of usually economically active population engaged in agriculture to the total usually economically active population). Data and calculations from Central Bureau of Statistics (2003) publication "Districts of Nepal", available at www.cbs.gov.np
Further variables used in the Robustness Test: Human Development Index, Maoist Affiliation, Infant Mortality Rate and conflict-related death by state/non-state	Human Development Index (HDI) from UNDP (2004) Classifications of Maoist Affiliation by Home Ministry from Sharma (2004) Infant Mortality Rate from Do and Iyer (2010) Conflict-related deaths by state and non-state from INSEC (1996-2011)

8.2 OLS-analysis and Robustness Test

Table 8.2: Robustness checks for Social Welfare Policies and Conflict Intensity

	Dependent variables:						
	Conflict-related deaths per 1000 district population (2001-2011)					Conflict-related deaths by state	Conflict-related deaths by nontate
Independent variables	(7)	(8)	(9)	(10)	(11)	(12)	(13)
LN Public Development Expenditures	*-0,143(0,093)*	*-0,135(0,092)*	*-0,138(0,093)*	*-0,192**(0,090)*		*-0,209(0,139)*	*-0,112(0,092)*
Health Institution Density							
Human Development Index					*-3,309***(1,139)*		
Maximum Elevation	*0,077***(0,023)*	*0,073***(0,023)*	*0,079***(0,023)*	*0,055**(0,023)*	*0,025(0,335)*	*1,472***(0,382)*	*0,132(0,256)*
Poverty Rate (1995-1996)	*0,799***(0,262)*	*0,768***(0,256)*	*0,912***(0,311)*		*0,035(0,026)*	*0,152***(0,033)*	*0,032(0,023)*
Total deaths per 1000 district population 1996-2001	*-0,139(1,904)*						
Maoist affiliation of district		*0,159(0,118)*					
Language Polarization Index			*0,167(0,251)*		*0,424(0,510)*		
Infant Mortality Rate				*0,008***(0,002)*			
Proportion of Marginal Households					*0,006(0,006)*		
R^2	*0,286*	*0,291*	*0,291*	*0,324*		*0,404*	*0,055*
Number of observations	71	71	71	74	71	71	71

Notes: *** is significant at the 1 percent level, ** at the 5 percent level and * at the 10 percent level

Numbers in brackets show standard deviations. Rukum is excluded. Constant not reported

Sources Do and Iyer (2010), UNDP (2004), INSEC (2001-2011) and Central Bureau of Statistics et al. (2003)

9. Acknowledgements

I would like to thank everyone who has contributed to this dissertation with advice and assistance. A special thanks goes to the following: INSEC for sharing detailed data on violence, DFID Nepal for providing useful background information, Paul Harvey and Richard Mallet from the Secure Livelihoods Research Consortium at the ODI for initial inspiration and drawing attention to Nepal as a relevant case and finally, Dr. Lok Nath Buzal who specialises on the political economy of poverty measurement and reduction in Nepal for contributing with important insights about Nepal's social welfare regime. Though inspired by the above, all opinion and statements in this dissertation are of course my own.

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