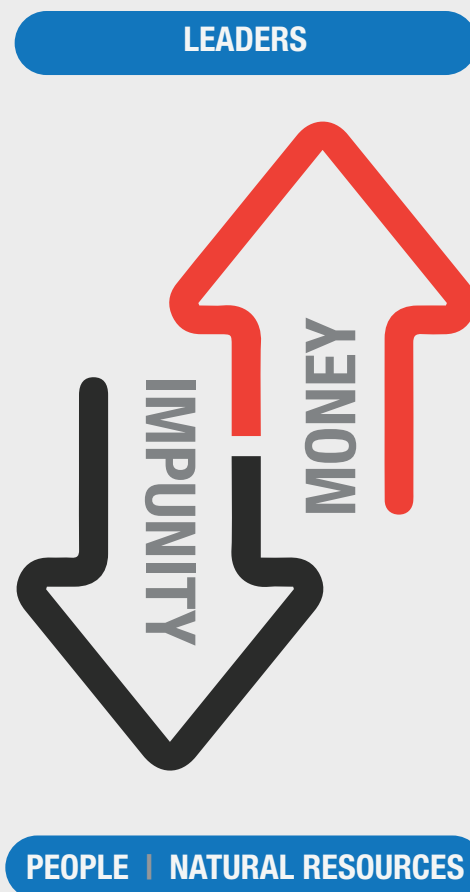




NEPAL'S KLEPTOCRATIC NETWORK



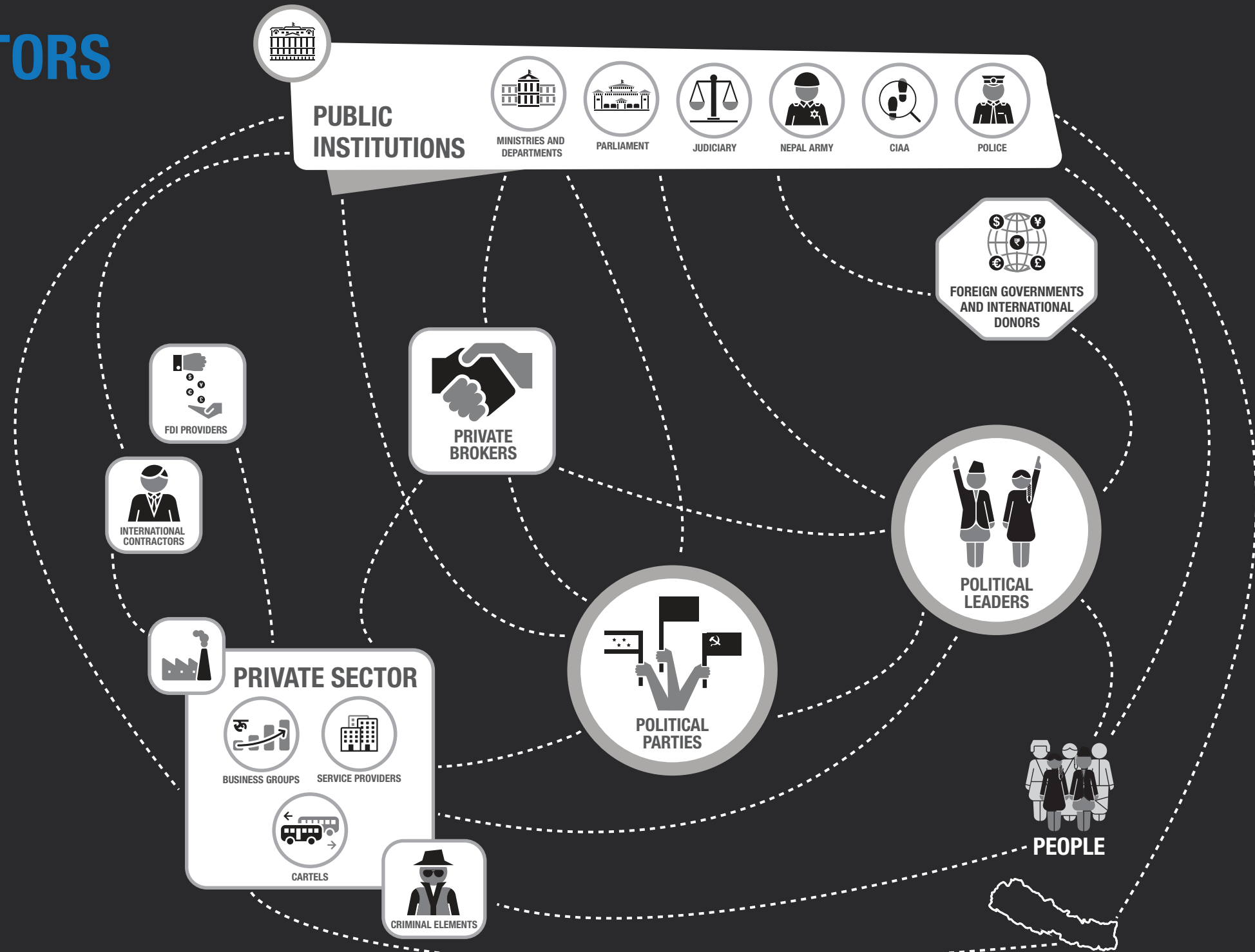
CORRUPTION in Nepal is not a series of disjointed, individual acts. Instead, a range of stakeholders spanning public, private, and criminal spheres operate as one to steal money from the people and ensure impunity thrives.

This kleptocratic network is made up of shifting alliances, which span multiple communities that are inter-connected by several powerful businesspersons acting as brokers.

The network is vertically integrated. Money flows upwards through the hierarchy while impunity and benefits flow downward.

Its strong horizontal linkages across sectors of society enables the network to capture important revenue streams, facilitate the flow of illicit funds through the state apparatus and across borders, and ensure network members are protected.

ACTORS



ACTIONS

This diagram describes Nepal's kleptocratic network, depicting the connections between its various public, private, political, and criminal sectoral players. These actors play a number of different and complementary roles, which are pictorially depicted as three kinds of 'action'.



Placement of network members refers to the process by which the network positions its members within key institutions, ensuring that they fall under its control.



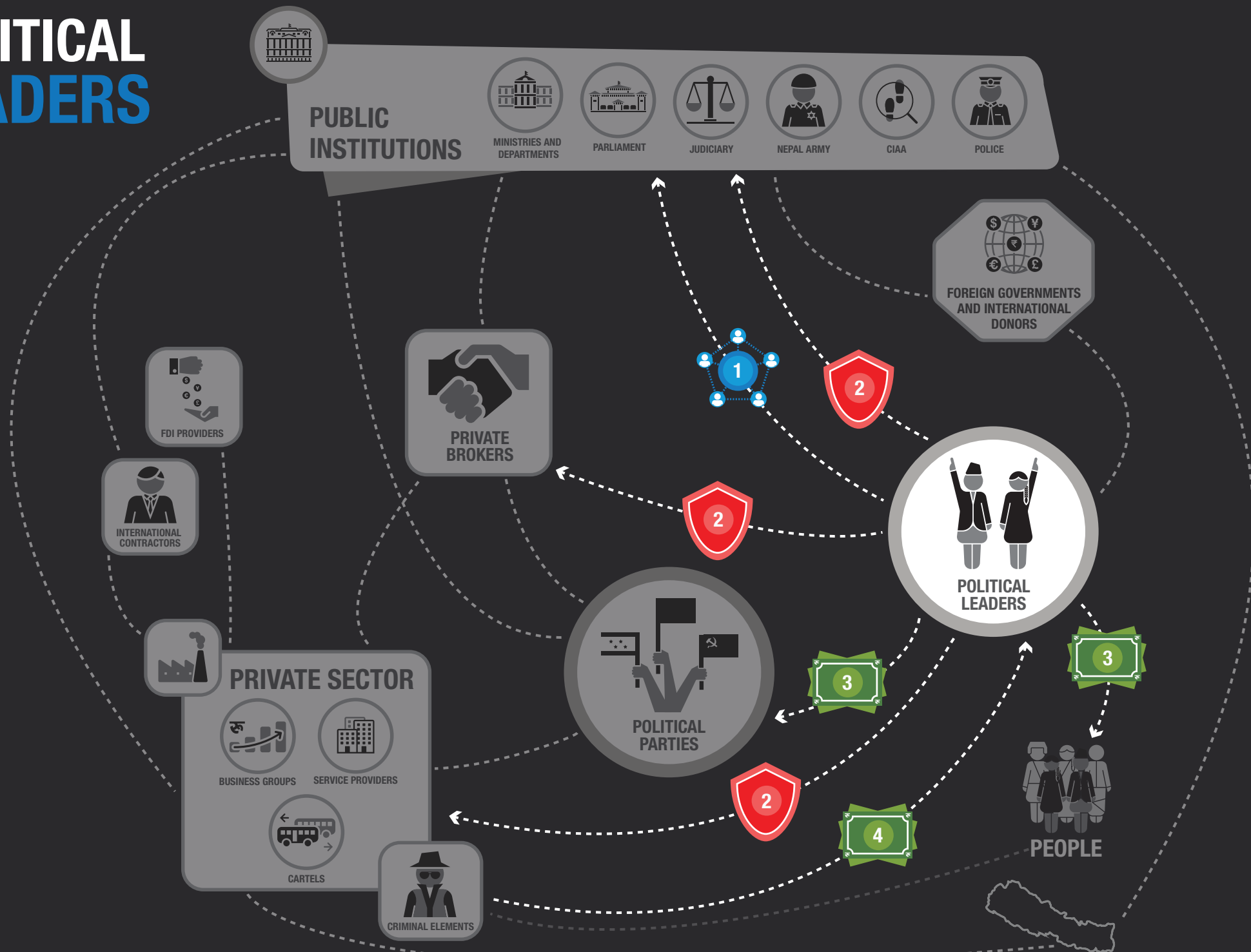
Flow of finances shows the ways in which revenue is captured and moved throughout the network.



Provision of impunity represents the protection given to network members to ensure that they are able to evade accountability.

The diagram is designed to be read alongside the explanatory narrative text. The numbers accompanying each 'action' will assist the reader to locate the action's corresponding content.

POLITICAL LEADERS



POLITICAL LEADERS



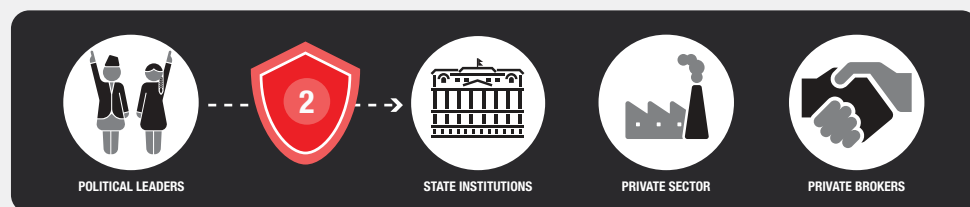
Nepal's political leaders are the patrons of the vertically integrated kleptocratic network.

In the last decade, corruption has so much pervaded the governance system that an organic link has developed between the major political leaders and the lowermost arms of the state. What once used to be street-level extorted bribes by officials acting independently is now linked to the kleptocratic system of patronage where the spoils have to be shared upwards within the hierarchy.



By applying political pressure and influencing appointments, the leaders play a central role in placement of network members within state institutions (see also 13 on page 15; 16 on page 17).

This results in the weaponizing (where network members are positioned to directly corrupt the actions of the institution) and hollowing out (where individuals who are either incapable or hamstrung are placed to compromise effective functioning) of the state's key legal entities (see also 6 on page 9).



From their publicly elected offices the leaders oversee government ministries and departments and other core state entities. Through their influence these bodies are further distorted and weakened, preventing them from functioning independently and democratically. From their position of leadership, the leaders are able to ensure impunity for the network's corrupt actors (see also 7 on page 9; 17 on page 17).



The leaders establish their influence through typical political clientelism. They gain electoral support by diverting development projects and funds to their electoral constituencies using threats and influencing voters by buying out community leaders through, for example, political appointments.

They accumulate power within their party through formation and participation in close-knit cliques. Party cadre provide loyalty and votes to the leader in return for public recognition, the receipt of funds or other benefits, promotion within the party or state hierarchies, and the provision of security for their political careers.



Control over political finance has become the primary means by which leaders are able to accumulate and maintain power. Electoral funding comes from private sector actors, in return for which leaders promise policy capture (see also 5 on page 7; 12 on page 15; 18 on page 17). Finance is also acquired through the connections that the leaders cultivate with external enablers (see also 22 on page 21).

For the most part, political finance runs through individual leaders and not the party organisation. Leaders work to weaken alternative party funding mechanisms so as to sideline potential competitors within the party. This also ensures that leaders are much more powerful than the party institution itself.



PLACEMENT OF
NETWORK MEMBERS

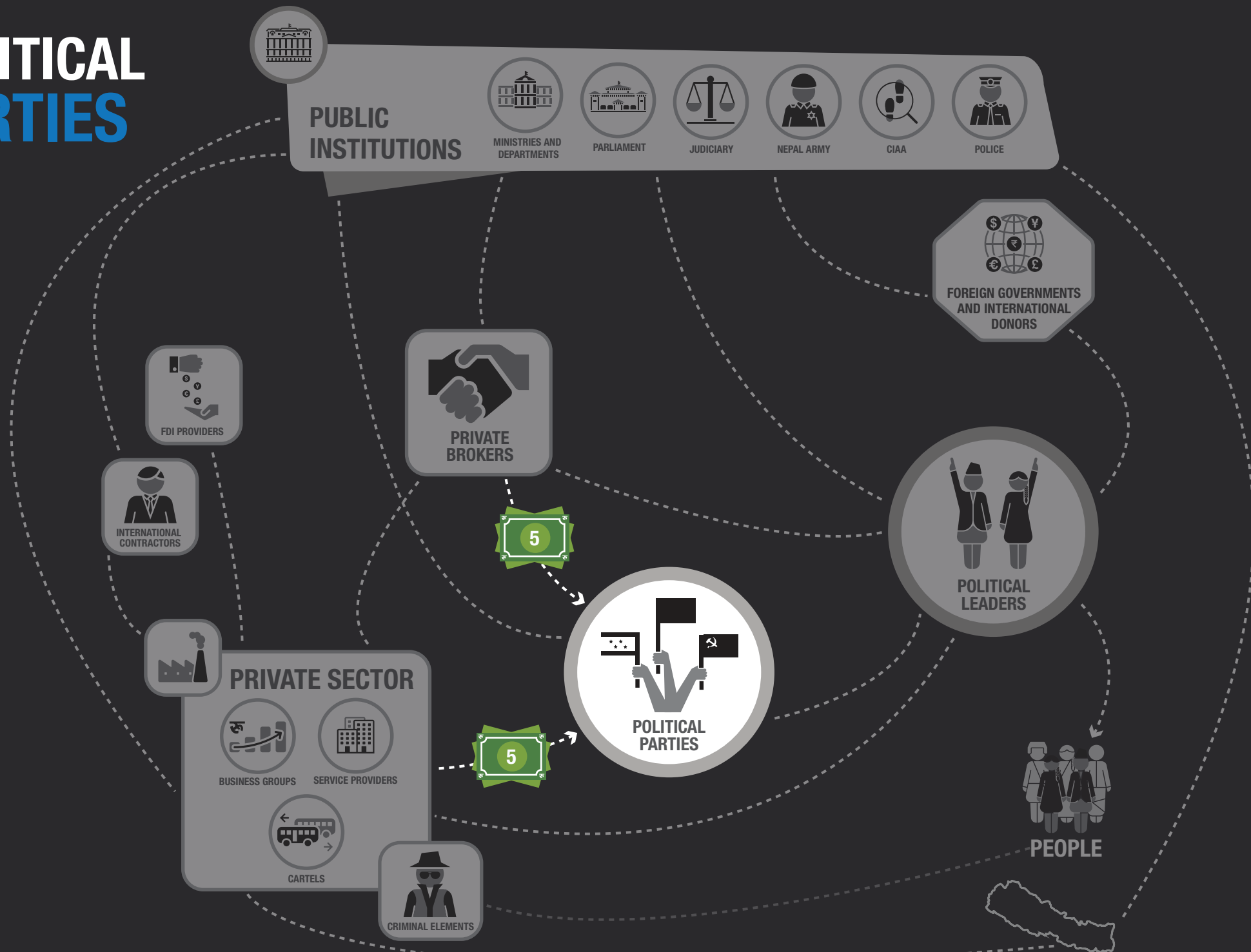


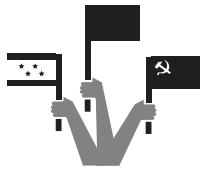
FLOW OF
FINANCES



PROVISION
OF IMPUNITY

POLITICAL PARTIES



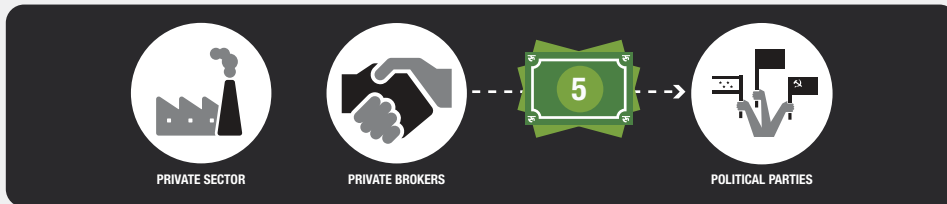


POLITICAL PARTIES



Political parties have become centrepieces in Nepal's story of political corruption. Oppositional politics, which should have checked corrupt activity, is virtually non-existent. Rather, a culture of collusion, which hides behind the notion of 'consensus' politics, has ensured that the spoils of government are divided among the parties and corruption thrives.

One of the goals of Nepal's move toward federalism was to increase political accountability through political devolution, bringing government closer to citizens. However, the change in structure may actually facilitate some forms of corruption. Subnational representatives will potentially have increased access to illegal funds that are channelled through political parties.



Political parties have an important relationship with private brokers and other private sector investors. Business groups, cartels, and brokers invest in politicians and political parties in return for illicit benefits such as policy corruption, the awarding of government contracts, and protection of individuals implicated in financial crime (see also 4 on page 5; 12 on page 15; 18 on page 17).



PLACEMENT OF
NETWORK MEMBERS

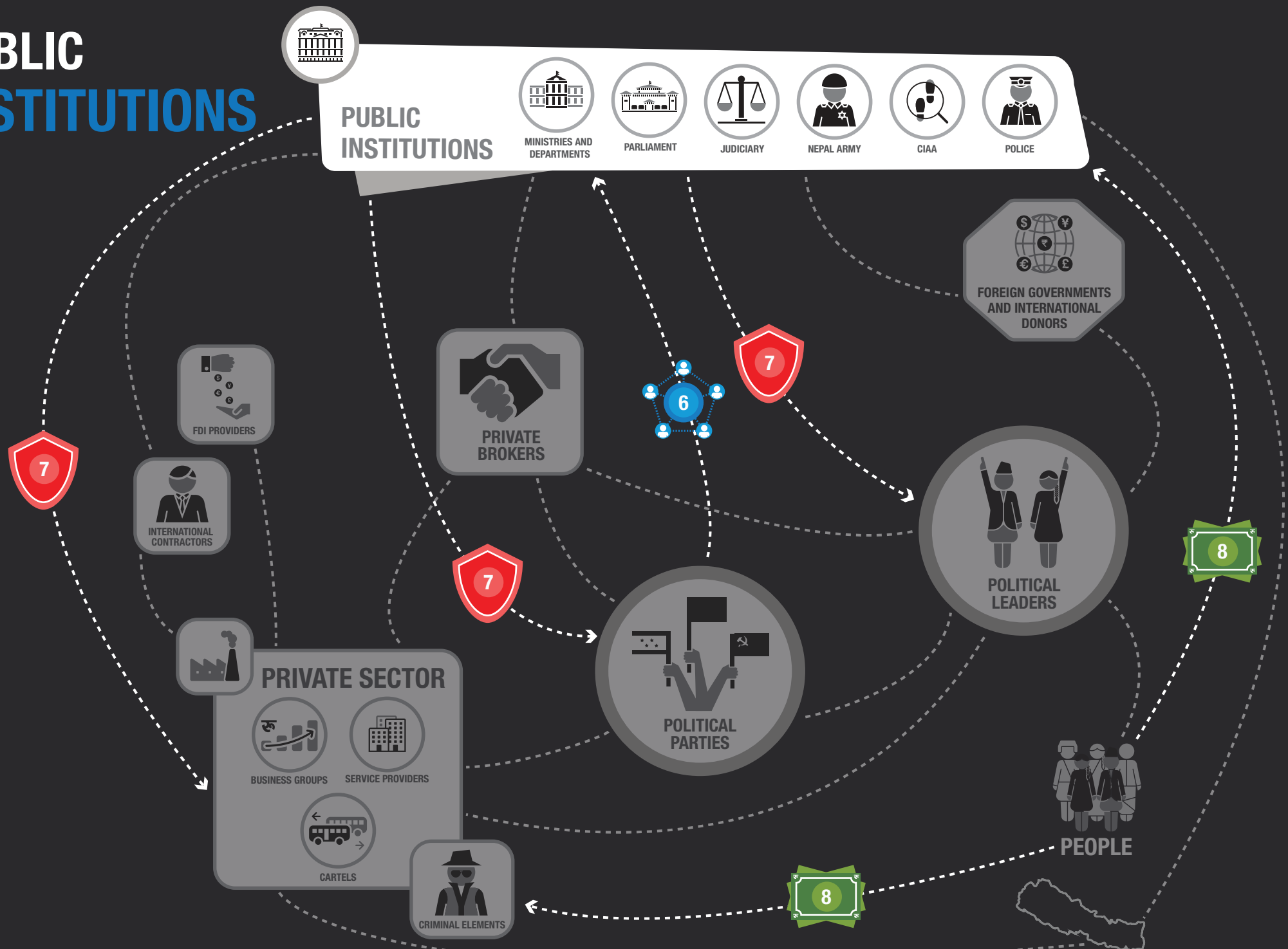


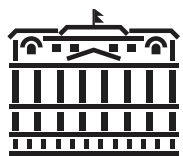
FLOW OF
FINANCES



PROVISION
OF IMPUNITY

PUBLIC INSTITUTIONS





PUBLIC INSTITUTIONS



The hijacking of public institutions is prerequisite for the kleptocratic network. These institutions include those that deliver services, operate federal, provincial and local governments, and regulate the private sector. A large number of public institutions steal directly from the people or collude with the private sector to facilitate exploitation of the public.

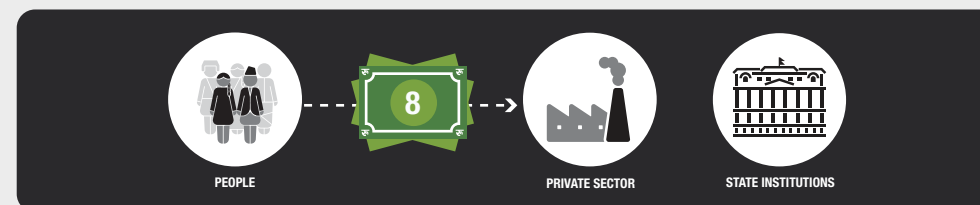


Through strategic placement of kleptocratic network members, the two major political parties now control the public sector, including core state legal entities, which have been weaponized or hollowed out to obstruct their effective functioning (see also 1 on page 5; 13 on page 15; 16 on page 17).



Network members placed in public institutions ensure that institutional oversight and regulatory functions are weakened to guarantee impunity for network members.

Many senior public administrators shirk responsibility or accountability for the corruption within the system by deferring issues to ministers or the cabinet—the patrons of the network. This avoidant response allows for impunity to flourish (see also 2 on page 5; 17 on page 17).



There are two ways in which the network of corrupt bureaucrats steal from citizens. The first is by extracting illicit payments—bribes when delivering public services or while performing regulatory functions.

The second way is through collusion with actors in the private sector, where the regulatory and oversight institutions of the state fail, by design, to carry out their core functions allowing the private sector to abuse and exploit the citizens, consumers, and service seekers without any fear of legal action (see also 12 on page 15; 14 on page 15).



PLACEMENT OF
NETWORK MEMBERS

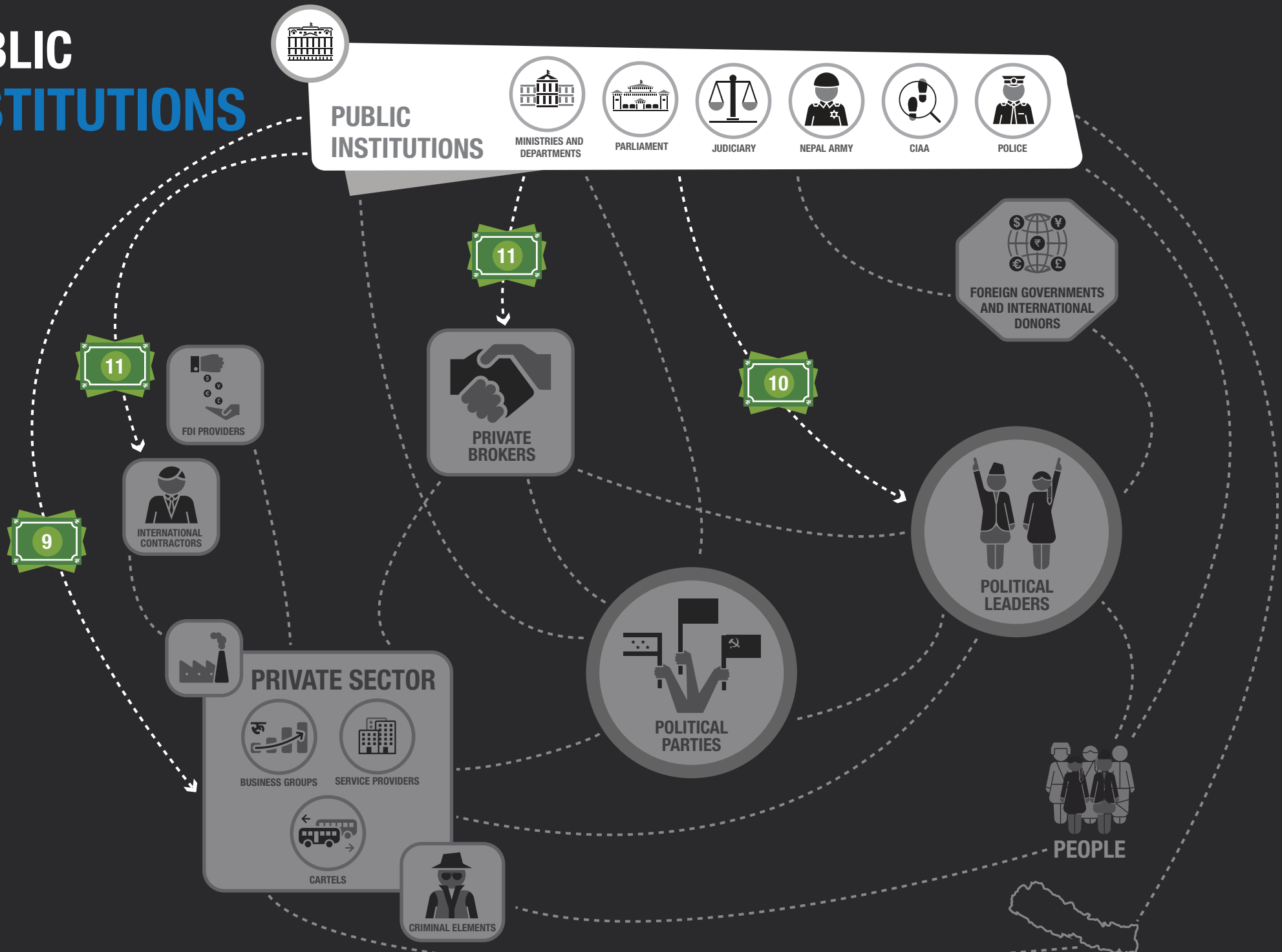


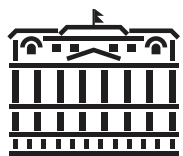
FLOW OF
FINANCES



PROVISION
OF IMPUNITY

PUBLIC INSTITUTIONS





PUBLIC INSTITUTIONS



STATE INSTITUTIONS



PRIVATE SECTOR

Public institutions also collude with private interests and politicians to steal directly from the state. This brazen pilfering of state resources takes place in several arenas where the private sector and the state come together, and is accomplished through cost variation, off-budget allocation, the exaggeration of expenses during procurement, obfuscation of budgetary allocation, and the administration of taxes (see also 12 on page 15; 14 on page 15).

Pilfering is rife in the extraction and exploitation of natural resources. A combination of hollowing out of regulation, restriction of permits to only network members, and the flow of kickbacks and commissions, allow this huge revenue stream to be captured by the network (see also 15 on page 15).



STATE INSTITUTIONS



POLITICAL LEADERS

Public institutions utilise their horizontal links in the network to shift corruption money to other network members, including brokers and corrupt politicians, who are the ultimate beneficiaries. Doing so enables them to hide their exploitative and extractive activities (see also 19 on page 17).



STATE INSTITUTIONS



INTERNATIONAL CONTRACTORS



PRIVATE BROKERS

Government ministries also look overseas to international contractors as a means of hiding corruption money. Through arrangements with shady international contractors, ministries are able to hide money offshore, and wait until suspicion and scrutiny have subsided. The use of international contractors has become an important rent-seeking strategy for corrupt bureaucrats (see also 14 on page 15; 19 on page 17; 21 on page 19).



PLACEMENT OF
NETWORK MEMBERS



FLOW OF
FINANCES



PROVISION
OF IMPUNITY

CORE STATE ENTITIES

The core state entities responsible for regulation and upholding rule of law in Nepal have been weaponized or hollowed out by the kleptocratic network to enable resources to be extracted and impunity guaranteed.

The entities in the impunity network comprise those that declare law, enforce law, and apply law to individual instances. These include, for example, the parliament, ministries and departments, the judiciary, the Commission for the Investigation of Abuse of Authority (CIAA), the Nepal Police, and the Nepal Army, which are highlighted below.

The limiting of discussion to these bodies is not an indication that they are the only core state entities controlled by the kleptocratic network. The network's influence extends throughout the entire state apparatus; many other core state entities—for example, the Nepal Rastra Bank, the Office of the Attorney General, the Inland Revenue Department, and so on—could equally be discussed.



PARLIAMENT

Through the placement of its members in the parliament the kleptocratic network is able to ensure that parliamentary oversight functions are hollowed out and that impunity is assured for network.

Network members who are legislators often encroach on executive functions to gain access to the proceeds of corruption. This is often done in the pretext of oversight and policy instruction, but the underlying goal is to siphon off funds from other constituencies to their own.

The increasing strength of the network and consolidation of its sectoral linkages can be observed by the growing influence of the private sector within the parliament. Over the past decade, individuals belonging to the country's top 30 business houses have served as members of parliament.



COMMISSION
FOR THE
INVESTIGATION
OF THE
ABUSE OF
AUTHORITY
(CIAA)

The core purpose of the CIAA, to 'curb corruption and its tentacles in Nepal', has been compromised over the last few decades. Successive governments have siphoned off public money to the authority as well as making dubious and often criminal appointments to weaponize or hollow out the body.

Hollowing out has been achieved by reducing the CIAA's mandate, appointing commissioners who are either incompetent, overworked or fellow network members, and overloading the CIAA with cases.

The weaponizing of the CIAA has constituted more deliberate action by the kleptocracy. This often involves appointing key network members into influential commissioner positions. A key example was the appointment of notorious official Lokman Singh Karki as Chief Commissioner.

With insidious appointments in place, the CIAA can overlook key allegations and cases, allowing impunity to flourish. The authority, for example, refuses to look into serious cases filed against the Nepal Army.



NEPAL ARMY

Corruption in the Nepal Army is systematic and of a magnitude that is increasingly worrying for governance and national security. The Army's corruption is highly centralised—all illicit operations can only be conducted through the Office of the Chief of Army.

Through financial irregularities and commercial ventures, the army is increasing involved in rent-seeking ventures. These include the operation of medical and nursing colleges, real estate, petroleum retail and the investments by the Army Welfare Fund. The Army is also increasingly contracting 'development' services to the government, including the construction of airports and roads.

Off-budget allocations are the key strategy of rent-seeking for the army, taking significant sums from government and politicians. Illegal behaviour is also present in its civil work operations, where it sub-contracts private contractors for projects, exaggerating the actual costs involved and pocketing and distributing excess funds.



NEPAL POLICE

The Nepal Police play two main roles in the kleptocratic network: first, as a law enforcement agency, they offer impunity to corrupt officials, particularly at the lower levels of the network; secondly, their proximity to citizens and local communities makes them a favoured revenue stream—particularly in the form of bribes and procurements through contractors.

Political party and private broker interference have corrupted the operation of the police. In exchange for money a blind-eye is turned to the corrupt activities of private businesses—illegal natural resource extraction, smuggling and the exploitation of citizens.

Irregularities also include violations of procurement laws, creation of fake invoices during transportation of goods, misappropriation of funds during procurement of disaster relief items, irregularities while issuing citizenship certificates and taking bribes from the accused in criminal cases.



MINISTRIES AND DEPARTMENTS

Government ministries and departments, overseen by the leaders, are one of the main sites for revenue capture by the network. Two of the key functions of the ministries' sector regulation and service delivery are often used by network members to access finance and open up financial flows at the grassroots. This includes stealing money through natural resource extraction, extortion of bribes, and local-level taxation.

Collusion among politicians, private sector, and bureaucracy is most obvious in government agencies involved in collection and administration of taxes, such as the Inland Revenue Department.

The Ministry of Physical Infrastructure and Transport has become an attractive revenue stream for the network. Collusion between senior government officials and contractors, combined with careful packaging of contracts limits competition and favours certain contractors. Contract costs are often inflated, often by more than double.

Corruption has severely distorted and weakened the regulation of the health sector and delivery of health services by the Ministry of the Health and Population and its central-level professional and institutional councils, such as the Nepal Medical Council. Procurement of unnecessary medicine and equipment and collusion with contractors is a means of siphoning off government funds to private pockets.

The Ministry of Education spends the largest share of the national budget (17 percent in FY 2016-2017). Budgeting is frequently irregular. For example, 'ghost' textbooks are included, or 'ghost' schools registered—where the books and schools only exist on paper. Meanwhile, the increased influence of the private sector in the parliament has left the private education providers largely unmonitored and unregulated.

The growth of Nepal's remittance economy has attracted unscrupulous businesses to the labour sector. The Ministry of Labour, Employment and



JUDICIARY

Social Security allows the private sector to practice fraudulent, deceptive and extractive recruitment. The Division of Foreign Employment, for example, which holds a monopoly over recruitment oversight, has consistently failed to monitor the process, maintain proper documentation, or ensure accountability of manpower recruitment agencies.

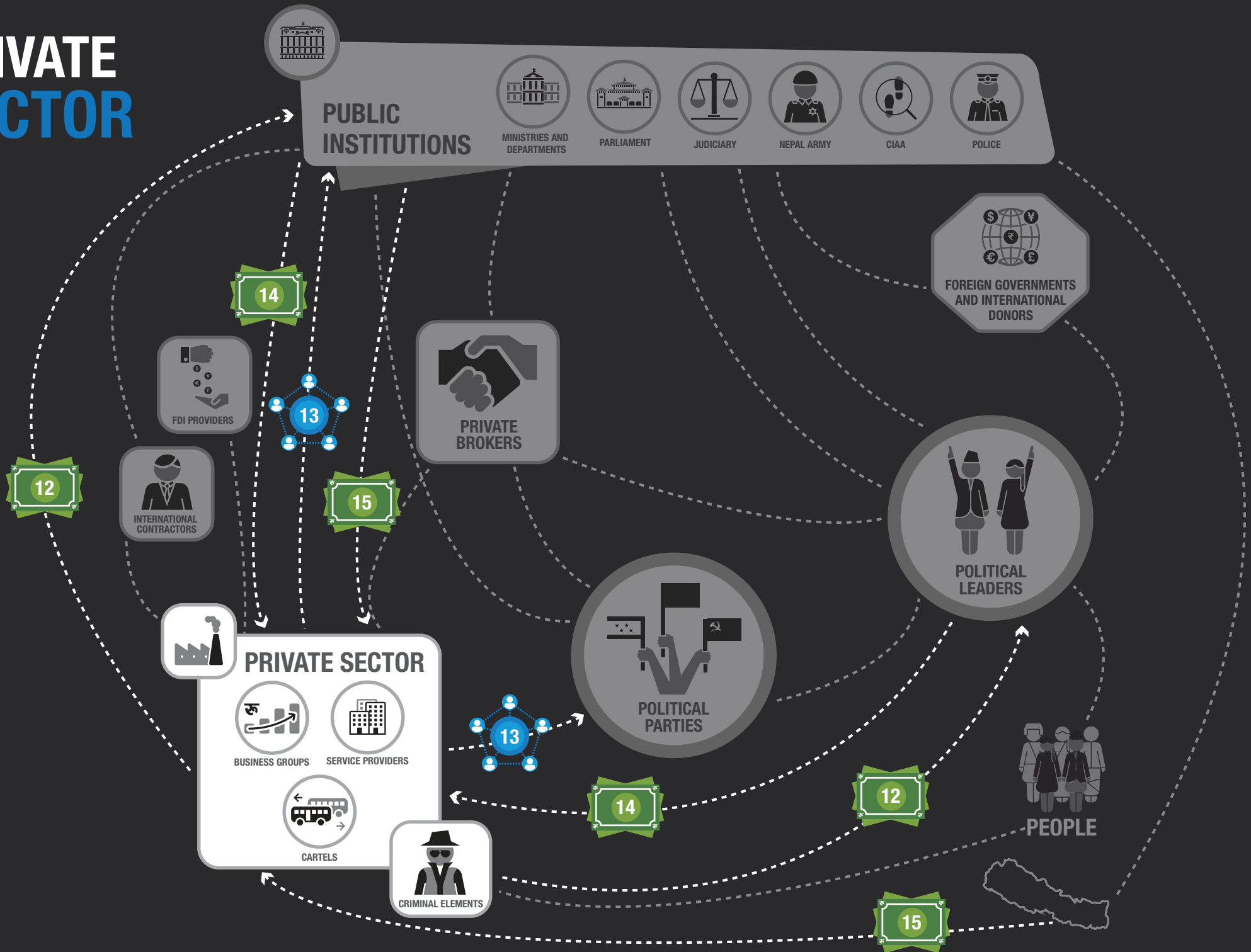
The shift in Nepal from bureaucratic corruption to political/policy corruption has resulted in the judiciary increasingly becoming a location of corruption. Through pressure and threats, including actual sackings, impeachments, and forced retirements, political parties control and extract loyalty from justices.

Driven by political and financial interests, lawyers, intermediaries and administrative staff influence decisions and judicial outcomes, whether it is through political connections, financial transactions, or procedural manipulations. Through the assignment of judges favourable to their cases (so-called 'bench shopping'), the court provides protection to members of the kleptocratic network. Moreover, cases are often delayed deliberately and case files are stolen or hidden by court administrative staff engaged in collusion.

The Supreme Court has also come under controversy for questionable rulings, including overturning the corruption convictions of numerous public sector employees and allowing international companies to repatriate profits leading to the embezzlement of revenues.

Corruption is greater in the lower courts. The Central Investigation Bureau of the Nepal Police complains, for example, that the courts refuse to convict smugglers and criminals or substantially reduce their punishment.

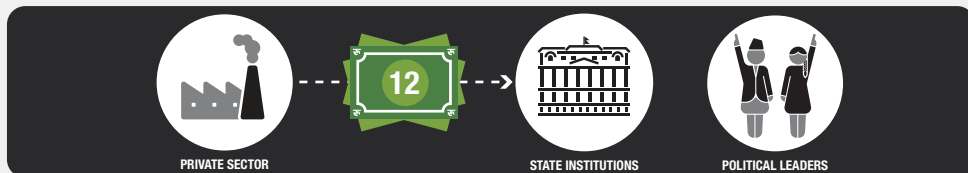
PRIVATE SECTOR



PRIVATE SECTOR

The private sector has gained primacy as the driver of corruption and impunity in Nepal. Within the kleptocratic network, its main roles are to distort the functions and policies of government regulatory agencies and to hijack key revenue streams to facilitate money laundering and rentier practices.

The private sector is made up of contractors, business groups and cartels who exploit the most significant revenue streams, and national and international service providers (who facilitate illicit financial flows).



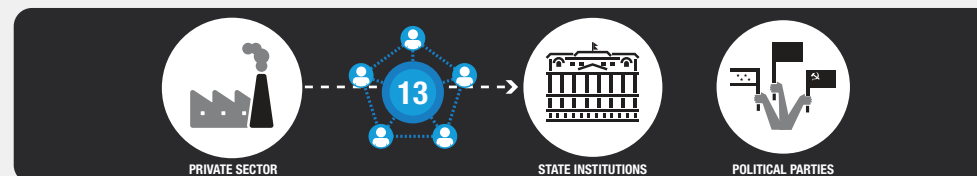
Private sector actors and proxy-capitalists bribe civil servants to engage in policy corruption, offering kickbacks and commissions in return for help in winning contracts, implement tax avoidance schemes, and obtain licences and permits (see also 8 on page 9).

Private actors also finance candidates in elections and the promotion or appointment of their civil servant clients. Such practice is also prevalent in the police, public enterprises, and government agencies which oversee key revenue streams (see also 4 on page 5; 5 on page 7).

Private sector kickbacks and commissions are common across key revenue areas, including remittance, telecom, banking, finance, insurance, real estate, education, health, transport and the extraction of natural resources, and is particularly the case in ministries with high development expenditure. Contractors engaged in the construction of infrastructure—especially roads—are some of the key private sector actors within the kleptocratic network.

Public-private links are critical for private agencies in order to receive illicit permits or have existing illegal activities ignored. Evidently the police are central to these networks of collusion, being the immediate regulatory body that allows the extraction to occur (see also 7 on page 9).

These public-private relationships are utilised to evade taxes on goods and services. Avoidance is achieved through the distortion of revenue administration institutions such as the Tax Settlement Commission, under-invoicing, and collusion with tax officials to avoid paying taxes. (see also 9 on page 11).

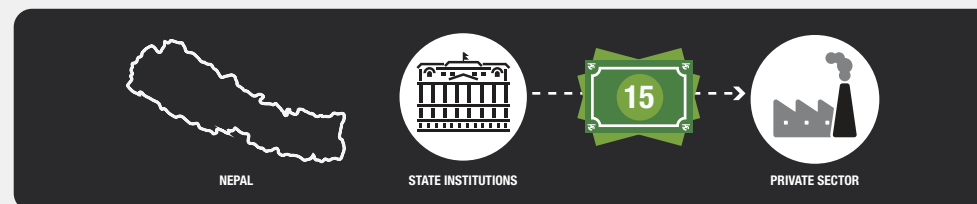


Key private actors have entered politics themselves in order to influence both regulatory bodies and budgetary processes to work in their own favour. Influential businesspersons have either directly contested elections or have won political office through the proportional representation quota system (see also 1 on page 5; 6 on page 7; 16 on page 17).



The private sector serves as the conduit through which public sector officials and politicians steal government money. Procurements, for example, are a key means of siphoning off government funds (see also 9 on page 11).

Notably, the contractors are often international corporations. Use of international contractors has become an increasingly popular option for private kleptocratic actors as it makes it more difficult to trace the movement of illegal funds (see also 11 on page 11).



Private sector actors leverage shady political relationships to capture natural resource extraction and other attractive business opportunities that are licensed or regulated by the government (see also 9 on page 11).



PLACEMENT OF NETWORK MEMBERS

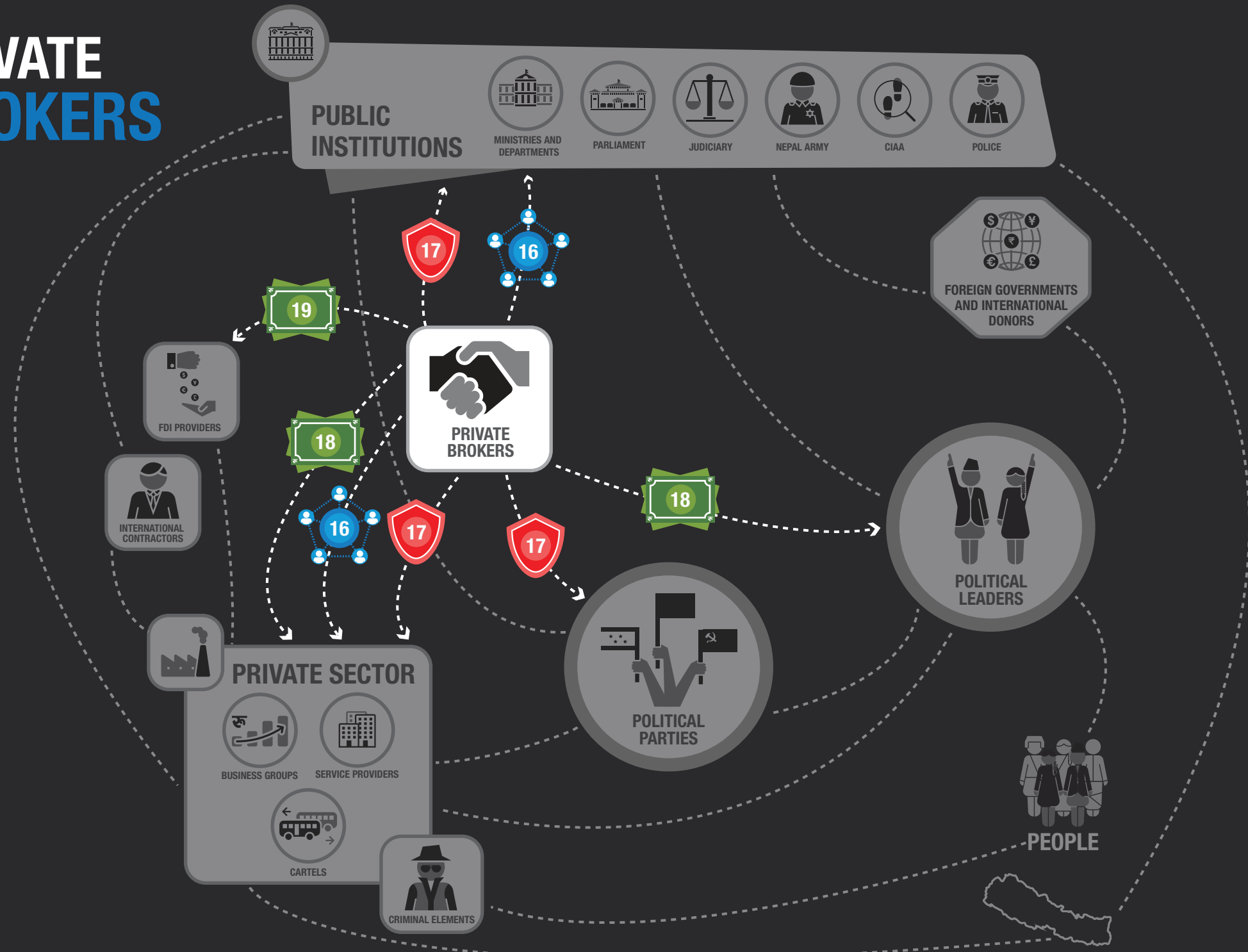


FLOW OF FINANCES



PROVISION OF IMPUNITY

PRIVATE BROKERS

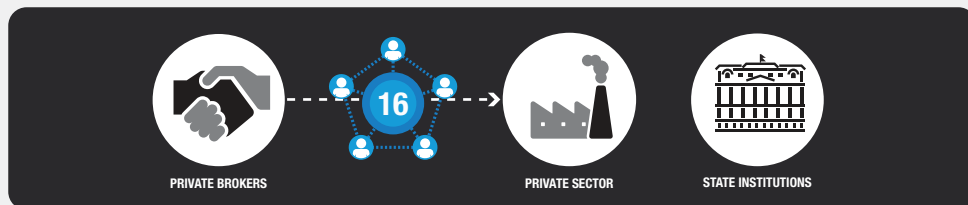




PRIVATE BROKERS



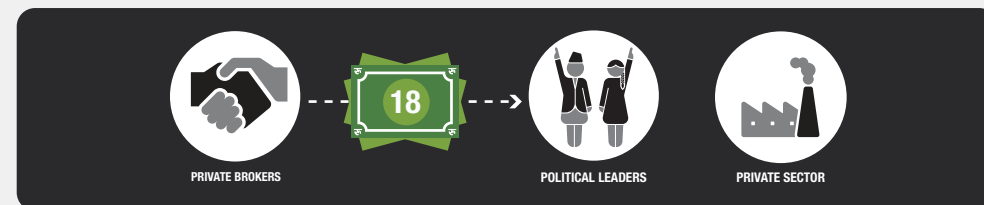
Private sector brokers are powerful businesspersons. Working in tandem with top political leaders, they are at the heart of and operate the kleptocratic network. They recruit individuals to key positions in the network, manage interactions between actors, connect subnetworks and handle money. Most importantly, they ensure the downward flow of impunity and channel the upward flow of finances.



Brokers are responsible for assembling the network. They ensure network members are placed in the public and private sectors (see also 1 on page 5; 6 on page 9; 13 on page 15). This opens the revenue streams that are essential for the kleptocratic network's operation (see also 8 on page 9; 9 on page 11; 12 on page 15; 14 on page 15; 15 on page 15).

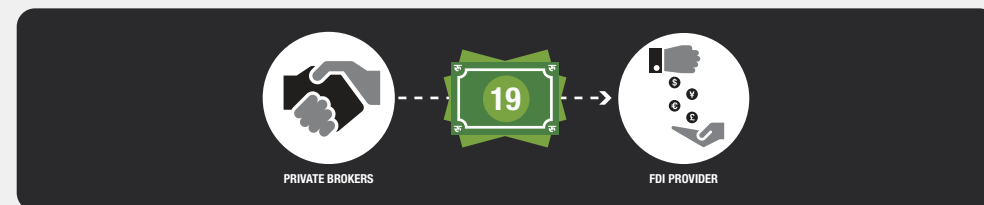


Brokers leverage the network of clients accrued across political parties, the bureaucracy, the private sector and core state entities to benefit the network, including ensuring impunity for members (see also 2 on page 5; 7 on page 9). Their influence within legal entities, such as the judiciary and anticorruption watchdogs, allows them to obstruct effective legal practice that punishes illicit activities.



Brokers manage the political leaders' finances. It is commonplace for every top leader to have a broker who aides him or her by facilitating corruption, managing illicit finances and ensuring the upward flow of revenue within the network hierarchy.

They accumulate funds by contracting political appointments, distorting policies, selling licenses and permits, using leverage to lower taxes, and providing impunity and protection. This money is siphoned off to political leaders and private sector actors (see also 4 on page 5; 5 on page 7; 14 on page 15 and 15 on page 15).



Brokers play an important role in sending money offshore to international service providers. Through modern-day money laundering techniques, brokers coordinate the placement, layering and integration practices that see dirty money re-enter the formal system through ostensibly legitimate avenues, like foreign direct investment (see also 10 on page 11; 11 on page 11; 14 on page 15; 20 and 21 on page 19).



PLACEMENT OF
NETWORK MEMBERS

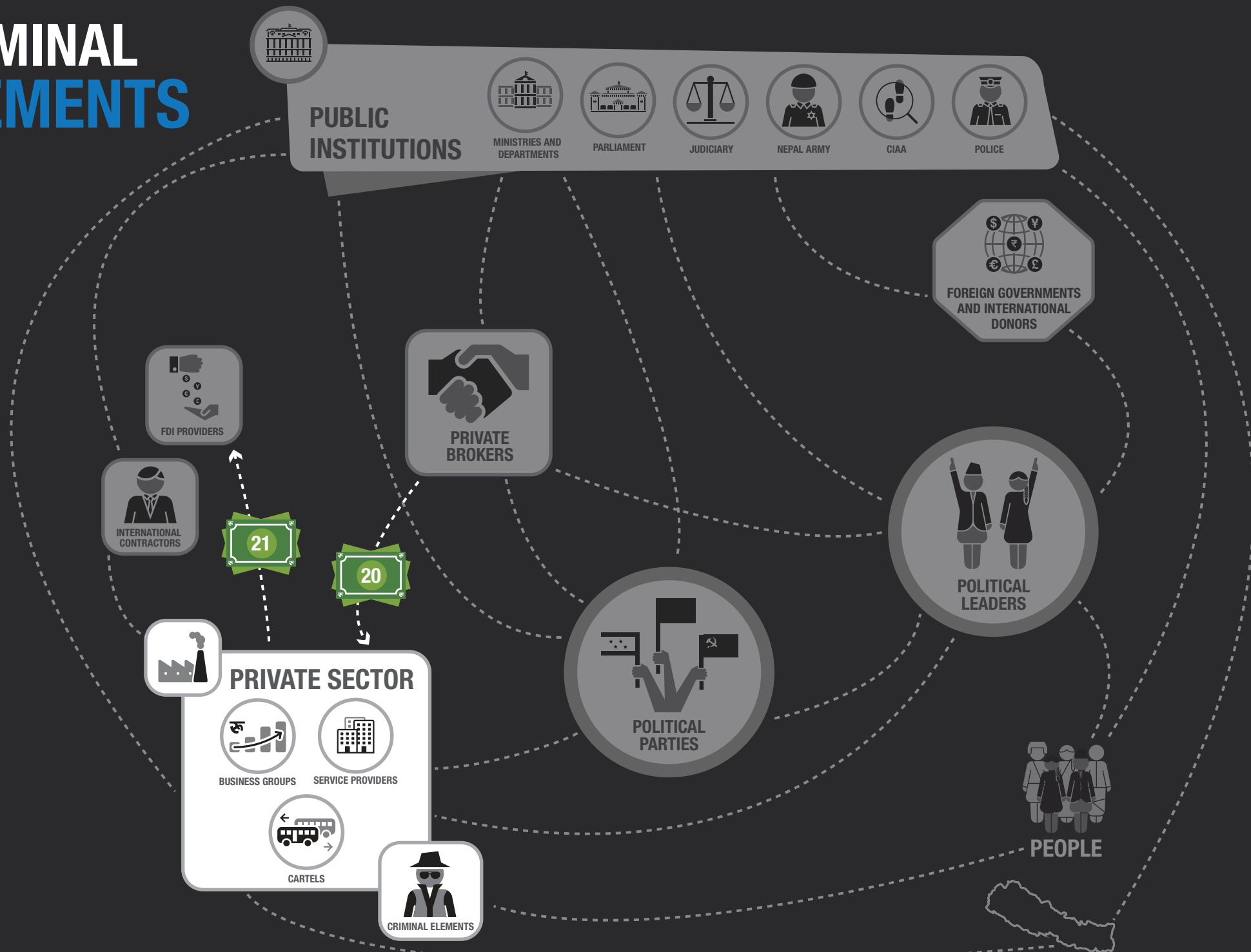


FLOW OF
FINANCES



PROVISION
OF IMPUNITY

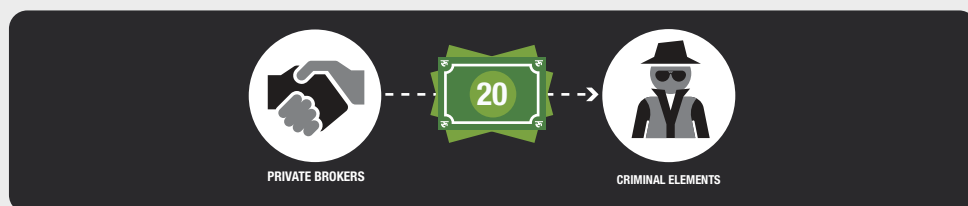
CRIMINAL ELEMENTS



CRIMINAL ELEMENTS

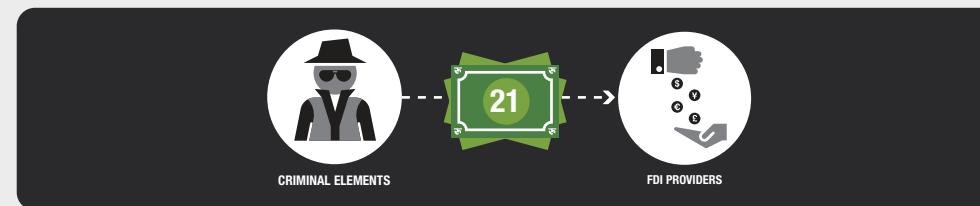


Criminal elements are closely linked to the workings of the private sector. Primarily these actors are engaged in smuggling (gold, narcotics, human trafficking, contraband, etc.), extortion of development contractors and businesses, illegal extraction of natural resources and regulating money laundering and illicit financial flows.



As service providers criminal actors help transport capital (in the form of cash, gold and remittance) and launder money through land transactions, share-transactions, and entertainment businesses (e.g., restaurants and night-clubs).

These actors orchestrate the network's money laundering activities through typical channels such as ATM cards, cooperatives, real estate, arms trade, casinos and restaurants. Additionally, the formal banking and financial sector has directly become part of the mechanisms of corruption by intentionally turning a blind eye to suspicious transactions (see also 19 on page 17).



A critical element in money laundering activities in Nepal is the international dimension. International service providers funnel illicitly acquired finances offshore. There the funds are left to cool down before the service providers return them under the guise of foreign direct investment (see also 11 on page 11; 14 on page 15; 19 on page 17).



**PLACEMENT OF
NETWORK MEMBERS**

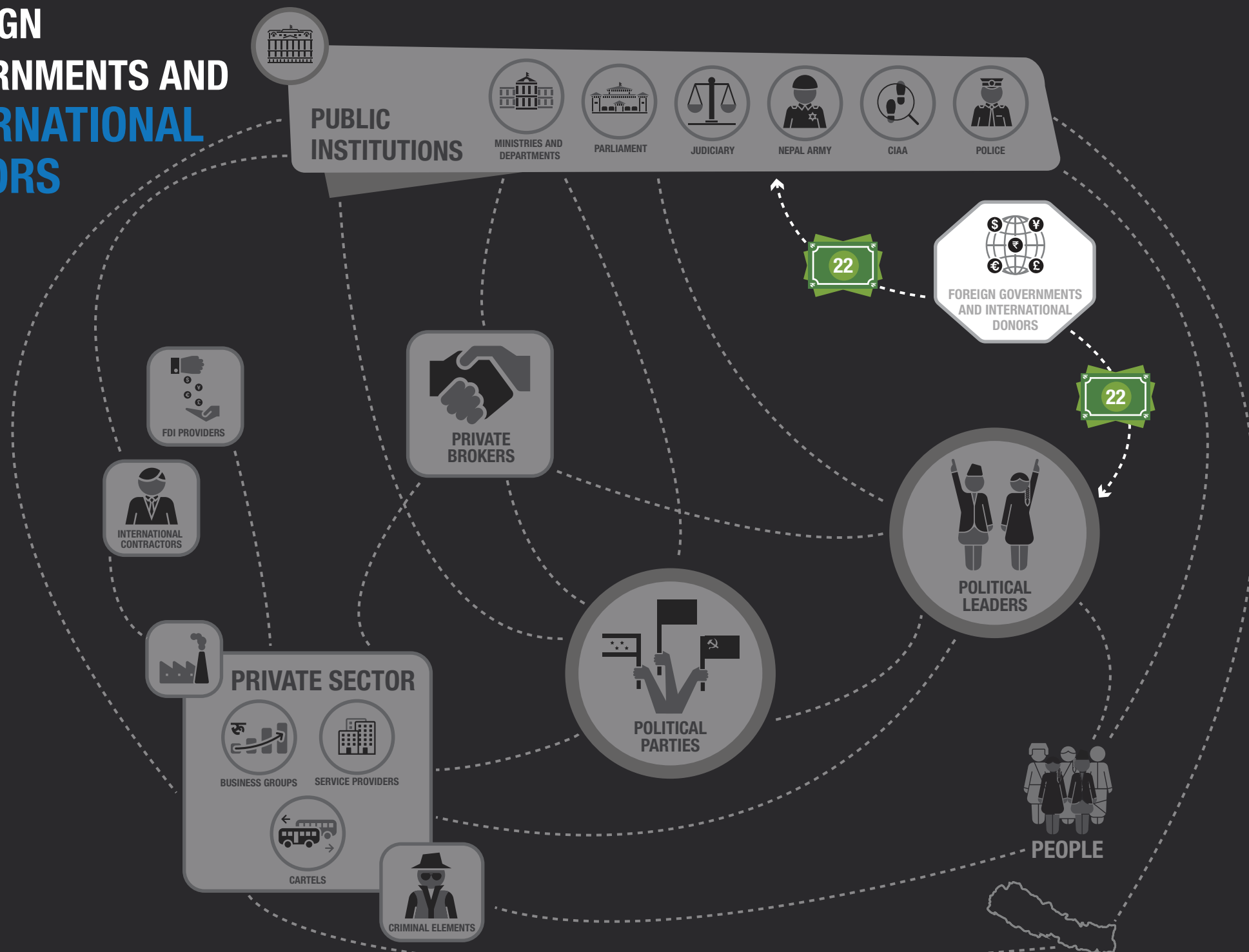


**FLOW OF
FINANCES**



**PROVISION
OF IMPUNITY**

FOREIGN GOVERNMENTS AND INTERNATIONAL DONORS

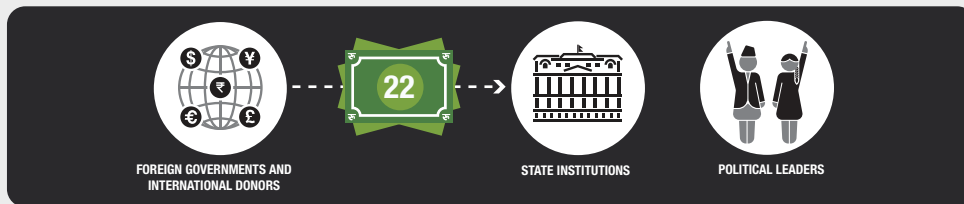




FOREIGN GOVERNMENTS AND INTERNATIONAL DONORS



A broader understanding of how kleptocracy operates implicates foreign governments and international donors. This is primarily because of the change in the kleptocratic network's rent-seeking strategies, which increasingly focus on international finance and foreign direct investment in addition to conventional development assistance.



Conventional development assistance facilitates corruption primarily by cross-subsidizing corrupt actions in government expenditures (i.e., allowing the diversion of government funds to opaque sectors) and by being unable to control corruption at the level of implementing partners and their private sector partners, both of which are often under the control of the network. In addition, international covenants on development assistance are often used by network members in government to avoid scrutiny, constraining foreign government and international donor oversight.

While foreign governments support development in Nepal, their countries also host kleptocratic network members who contribute significantly to illicit financial flows (primarily through money laundering), and political financing (see also 4 on page 5) in addition to smuggling.



PLACEMENT OF
NETWORK MEMBERS



FLOW OF
FINANCES



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