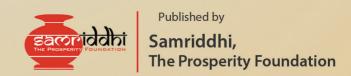


Liberating Nepali Enterprises

ENSURING PROTECTION OF PRIVATE PROPERTY

Akash Shrestha Suraj Dhakal

July 2015



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Acknowledgements

This paper, which is a part of the larger Liberating Nepalese Enterprises series, would not have been possible without inputs from a lot of individuals and organisations. We would like to begin by expressing our sincerest gratitude to the individuals who shared their stories on how the state-led project of road expansion violated their property rights. This study would have been incomplete without their voluntary support. We wish to thank the Supreme Court of Nepal for availing information on the number of cases pertaining to the road expansion campaign still pending at the Court. Our gratitude to the Kathmandu Valley Development Authority (KVDA) officials for sparing their time and effort to run us through the developments being made in the road expansion projects and responding to every single one of our queries. And lastly, special thanks to our colleagues Ms. Sarita Sapkota and Mr. Diwas Maharjan for helping us with the editing, designing and laying-out of the paper.

We hope this paper will lend some insight to the readers in terms of why property rights are important, and how it fosters voluntary transactions among individuals/groups, thus contributing to the economic growth of a country. Our intention with this paper is to shed some light on where Nepal stands in terms of security of property rights and make a case for strengthening private property rights which is one of the most important pillars of economic freedom.

Akash Shrestha & Suraj Dhakal

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Introduction

The right to life is the source of all rights—and the right to property is their only implementation. Without property rights, no other rights are possible. Since man has to sustain his life by his own effort, the man who has no right to the product of his effort has no means to sustain his life.

Man's Rights, Ayn Rand

In 2011, the government led by the then Prime Minister Dr. Baburam Bhattarai started a road expansion drive in Kathmandu valley (The Kathmandu Post, 2013). Kathmandu Valley had seen a massive population explosion since the Maoist insurgency, which began in 1996 and lasted until 2006. This brought about rapid and often unplanned urbanization in Kathmandu. Alongside, the number of vehicles on the streets of Kathmandu also escalated in the last decade. These factors contributed to the traffic congestion slowing down Kathmandu. In the wake of finding a solution, the government decided to expand the narrow roads of Kathmandu and in many cases this involved expropriating privately-owned land to create a greater public good as demonstrated by the case stories presented in this paper.

Widening roads by demolishing roadside houses came as a respite to many who struggled with traffic congestion and often had difficulties finding parking spaces. To others, the solution comes across as being a temporary recourse if not plainly wrong. Where the expansion is complete, the roads look good, traffic often flows swiftly and people seem to enjoy the more-open spaces. However, the price that some individuals have had to pay for the greater public good seems too high. As per the Kathmandu Valley Development Authority, some four thousand structures were demolished during the expansion drive (Bayalkoti, 2014). At instances where private lands were also expropriated for the campaign, people were not compensated for such expropriation, citing reason that the land prices rose after the government started the campaign (Rai, 2012).

The constitution of Nepal allows for expropriating private land for public utility upon due compensation. However, provisions of compensation for the buildings that were accepted as legitimate by the government standards is nowhere enough to bear the cost of demolition and reconstruction of the houses and also for the temporary relocation of thousands of families and

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firms in the process. Majority of the affected individuals are still waiting for the compensation that might or might not come ¹(Kharel, 2014).

This paper looks into those cases of property rights violation during the road expansion drive in Kathmandu. We first try to understand what private property rights entail, and then delve into how it connects with the growth of an economy – learning from local and international experiences. We then look at specific cases of people whose land and/or houses were encroached upon by the state during the expansion drive, their legal battles against the state and the loss they suffered when the state decided to act against its intended role of the protector of its people's rights as guaranteed by its constitution. With these case stories, the paper tries to shed some light into how the security of private property rights has been weakening in Nepal over the years.

¹ The Government of Nepal had estimated that it would require NRs 1 billion for compensating those who had been directly affected by the expansion drive, but released only NRs. 250 million for the purpose (as of March 20.14). Thus, majority of people are still waiting for the compensation.

The Concept of Property Rights

The debate about what constitutes property and who should own property has engaged philosophers from the times of Plato and Aristotle². In his essay "Property Rights", American economist Armen A. Alchian states "A property right is the exclusive authority to determine how a resource is used, whether that resource is owned by government or by individuals." In case a property is owned by an individual, the definition of property rights holds true to two more specific attributes: one, the right to the benefits that the individual owner can derive out of his property in whichever way he sees fit, as long as he does not encroach upon somebody else's similar right, and two, the right to transfer the ownership to another person at any price he sees fit (provided the receiver is willing to pay) (Alchian, 2008).

John Locke, in "The Second Treatise on Government" clarifies that the primary role of the government is to protect individuals' – which are its "subjects" in this case – private property. He argues that property rights are natural rights and precede the notion of government. He further explains, eloquently, "The great and chief end therefore of men uniting into commonwealths, and putting themselves under government, is the preservation of property." For

Locke, if a government violates its peoples' property rights - which is what happened in Nepal during the road expansion drive – then the two parties are effectively at war with each other, justifying the disobedience of government by its people (Bethell 1998, as cited in Anderson & Huggins, 2003).

In his analysis of Adam Smith's "Wealth of Nations," Peter Boettke points out the necessary institutions for an individual's pursuit of his own selfinterests to lead to the benefit of the entire ecosystem of economic activities and its actors³. Smith points out that a society benefits from the actions of the individuals that comprise it not because they all work for a common goal of creating a prosperous society but because they all are pursuing their own self-interests (Boettke, 2012). When he says this, Smith realizes that when individuals pursue their self-interests in an unrestrained environment, there is every possibility that their actions result in socially-undesirable outcomes. It is therefore that Smith lays down institutions like "delineation enforcement of private property," "the keeping of promises through contract" and "the legitimacy of the transfer of property by consent" (Boettke, 2012). These considerations were missing in the road expansion drive in majority of cases as presented in the case stories in this paper. When the institutions

The primary role of the government is to protect individuals' private property

² For more, read Plato's "Republic" and Aristotle's "Politics"

³ For more, read Peter J. Boettke's "Living Economics: Yesterday, Today and Tomorrow"

mentioned earlier are in place, every voluntary interaction between two or more parties results in benefits for every interacting party. Therefore, strong property rights form the basis of lawful and socially desirable interaction between individuals – interactions that are the building blocks of a free and prosperous society.

The growth of an economy depends upon trade; and enforcement of strong property rights is a necessary condition for trade (Gwartney, Stoup & Lee, 2005). Strong property rights meansthat private owners will protect their property from any possible damage and preserve its value (because any possibility of trading it in future requires so), use their resources most productively (because higher the yield of their resources, higher the benefits), develop their properties in ways that will add more value to other people (because there is more to gain in future trade), and conserve their resources for future (because that allows them to increase their wealth by "balancing the demands in the present with the potential demand in the future") (Gwartney, Stoup & Lee, 2005). All of these possibilities were nullified by the state as it took away the private property of its people during the road expansion drive in Kathmandu Valley.

Having well defined and strongly enforced property rights is recognized as an indicator of prosperity. A strong system of property rights gives individuals exclusive authority to use resources as they see fit to enhance their standard of living. A property owner always considers the costs and benefits of employing resources in a specific manner, which we call rationality. This implies efficiency in economics, which gradually translates higher standards of living (O'Driscoll & Hoskins, 2003). Studies show that countries that rank high in terms of property rights are also the developed countries in the world, while those that rank towards the bottom are also the underdeveloped countries in the world 4.

Having well defined and strongly enforced property rights is recognized as an indicator of prosperity.

⁴ For more, see International Property Rights Index.

Where does Nepal stand with regard to protection of private property?

"Every citizen shall, subject to existing laws, have right to acquire, sell and otherwise dispose of property.

"State shall not, except in the public interest, acquire, or create any encumbrance on the property of any person.

"Provided that this clause shall not be applicable to property acquired through illegal means.

"Compensation shall be provided for any property requisitioned, acquired or encumbered by the state in implementing scientific land reform program or in public interest in accordance with law. The amount and basis of compensation, and relevant procedure shall be prescribed by the law."

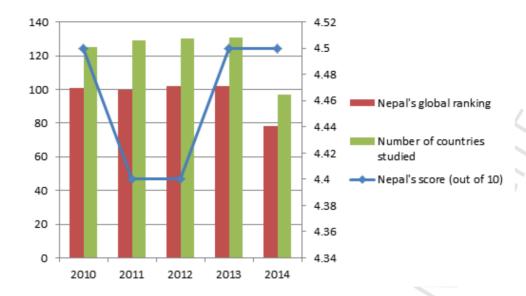
"Right to Property," The Interim Constitution of Nepal, 2007

'Right to Property' has been guaranteed as a fundamental right in the Interim Constitution of Nepal, 2007. In practice however, the state has not been able to protect this fundamental right of the people; going as far as violating the people's right in some cases, as evinced by the road expansion drive. The recently published International Property Rights Index (IPRI) 2014, a publication of Washington DCbased independent research institute, Property Rights Alliance validates these claims. According to the report, Nepal ranks 78th out of 97 countries in the world and holds a position in the bottom 20th percentile⁵.

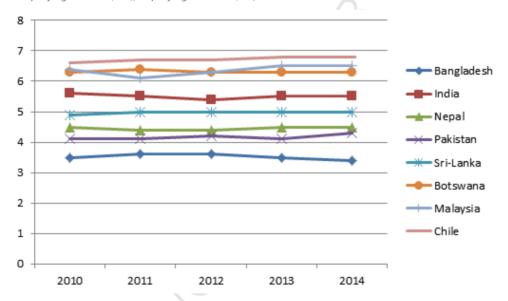
Annual reports published by Property Rights Alliance reflect Nepal's performance with regard to protection of private property. Nepal has not shown any significant improvement in protecting property rights of its citizens in the last five years.

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⁵ http://internationalpropertyrightsindex.



Source: International Property Rights Indices (IPRIs), Property Rights Alliance (PRA)⁶



Source: International Property Rights Indices (IPRIs), Property Rights Alliance (PRA)⁷

⁶ http://internationalpropertyrightsindex.org/

⁷ http://internationalpropertyrightsindex.org/

Road Expansion drive in Kathmandu Valley: Crushing the Fundamental Right to Property

Public Road Act, 1974 identified 'roads' as a 'public good.' Roads being public goods, the state could acquire private land for the construction and widening of roads. Staying true to the constitutional provision of protecting private property, Land Acquisition Act, 1977 thus set a due process that the state needed to follow in order to acquire somebody's private property. The Act also required the state to pay due compensation to the private owner of land.

However, in 2011, the government under the premiership of Dr. Baburam Bhattarai did not follow the due procedure while carrying out its 'road expansion drive.' Disregarding what is written in the law, Kathmandu Valley Town Development Committee (KVTDC), accelerated road expansion. According to KVTDC, most of the roads were expanded on the basis of road demarcation of 1976, which is not a law in itself; rather, a set of town planning decisions of the Town Development Plan Implementation Committee (TDPIC) envisioned in 1976/77 during a - the Panchayat system.

On the basis of these decisions made by the TDPIC, KVTDC later established that private owners of land and buildings had encroached 'public property'. Thousands of structures built on legal grounds with the consent of municipal authority and Village Development Committees were then demolished using force (Attibho, 2012). As of today more than 500 cases remain registered against the KVTDC, awaiting final verdict from the Supreme Court⁸. In some cases, KVTDC even completely disregarded the law by not complying with the stay order of the Supreme Court (The Himalayan Times, 2011).

To add to the woe of the victims, no compensation was paid to the land-owners when their were acquired for the purpose of the expansion drive. Government has however committed to paying compensation if the acquired land also houses a physical property over it. The amount of this compensation (which takes under consideration only the damage done to the physical property and not the land) is also determined by the state.

There are still cases in Kathmandu valley where houses were built as per the then Village Development Committee code and the state later marked these houses for demolition under the road expansion drive, disregarding the VDC codes. Some of these VDCs have only recently been upgraded to municipalities. The locals of these former VDCs have been battling litigations against the state for over a year now⁹.

... Most of the roads were expanded on the basis of road demarcation of 1976, which is not a law in itself: rather. a set of town planning decisions of Town **Development** Plan **Implmeentation** Committee.

⁸ Based on the information collected by the researcher from the Supreme Court of Nepal during the course of the research

⁹ Based on the information collected by the researcher from the Supreme Court of Nepal

Road expansion is also being carried out under the Guided Land Development (GLD) Program as prescribed by Town Development Act, 1998. As per the Act, the state could carry out road expansion with consent at least 75% of stakeholders provided that compensation is provided by the beneficiaries of the road expansion and Town Development Committee before acquiring the private property. However, in many cases, roads have already been expanded without any compensation¹⁰.

Thus, in Nepal, the state that is supposed to protect individual's property rights has been expropriating private property disregarding the constitution of the state as well as the verdicts of Supreme Court.

during the course of the research

This is evinced by the Kathmandu Valley Road Expansion Project. Engineers workout the compensation to be paid (if the home-owners qualify for compensation) based on the damage done to the physical property once the houses have been demolished.

Case stories of Property Rights Violation in Kathmandu Valley:

1. Court, Who?

Bijay Kumar Ghimire, a permanent resident of Battisputali, Kathmandu, has been fighting for over a decade to protect the private property which was inherited by his father. The first shocker came in 2003, when his phone rang and he was notified of the government's plan to build a road over his private property. A few days later, municipality officials along with some locals and the police came and asked that he give up his land. In a bid to protect his constitutional right, he took the matter to the Supreme Court, filing a case against the Kathmandu Metropolitan City. In November 2006, the Supreme Court made a verdict in his favor. The Court ordered Kathmandu Metropolitan City to acquire his property as per Land Acquisition Act, 2034. But the municipal authority did not need the Supreme Court's order.

Mr. Ghimire again went to Appellate Court, this time against Road Division Office, Department of Roads (DoR), Sano-Gaucharan, Kathmandu. In June 2010, the Appellate Court decided in his favor and ordered discontinuation of road expansion. However, as it stands today, the Department has constructed a blacktop road on his

property without following due process of land acquisition. This is sheer disregard to the law of the land. He lost 3764.75 square feet (11 aana¹¹) of his private land, whose market value stands around NRs. 44 million.

Mr. Ghimire's case is a reflection of how government authority can take away private property neglecting the judiciary's verdict without any compensation.

2. A surgery without anesthesia

Pradeep Agrawal's two-story house located in Lazimpat, Kathmandu, was demolished during the road expansion drive in 2012. Though his house dwelled on legal property, he was accused of encroaching public property and the blame put by the state authority on his family compelled him to bear enormous social costs. The statement from the government that said "only those structures built illegally are being demolished" completely tarnished his reputation in the society.

Mr. Agrawal, stated that "road expansion had become akin to surgery without anesthesia." He was told that road expansion was for the benefit of the people – to cure the problem of traffic congestion. However, in all fairness, it failed to compensate the victims like him before the demolition of their houses. In the end, it only

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¹¹ Anna is a Nepalese unit of land measurement. 1 Anna = 342.25 sq. ft

It is more about establishing security and a culture whereby in future, individuals do not have to live under a constant fear that the state will take away their private property.

rendered many unable to sustain a 3. Using the neighbors proper life.

He lost half of his two story house and has only recently been provided some compensation (post demolition.) He was compensated NRs. 800,000 for something that cost him NRs. 4 million to rebuild. He has however, not been compensated for the land he had to give up. The market value of the land currently stands about NRs. 9 million.

"It's not only about financial loss... I've had to face severe psychological distress and see my children and family members cry as our house was being pulled down. No amount of compensation can make up for the emotional loss that my family and I have gone through because of the "road expansion"," says Agrawal. He adds, "I also don't understand why it is such a huge challenge to get the compensation. After all, it's not the public official's personal savings that I am asking for; it's people's money that has gone to the national coffers for cases like mine."

He stresses that the practice of compensating is not merely about reimbursing victims. It is more about establishing security and a culture whereby in future, individuals do not have to live under a constant fear that the state will take away their private property.

Bibek Basnet, a permanent resident of Baluwatar, Kathmandu. had a heart-wrenching experience when he realized that the state and his neighbors had conspired against him to take away his private property. The authorities completely neglected due process and expropriated his land with help from his neighbors. He shares that the neighbors, whose land would not be encroached upon by the proposed road-widening project got together and worked with the authorit. The road expansion was supposed to comply with the Guided Land Development Program as prescribed by the Town Development Act, 1998. However, he was never informed about the stakeholders' meetings that took place and was never consulted individually.

Around 171.13 square feet (half an aana) of his land was taken by the state authority and locals without any compensation. Walls of his private house were also demolished at the same time. The reconstruction project cost him an additional NRs. 300,000 on top of the loss of land. His relationship with the neighbors soured further when he approached them for the compensation that the Act provisions that he get from the neighbors – the direct beneficiaries.

4. Taking away people's source of livelihood

Tirtha Bahadhur Magarati, another victim from Lazimpat, Kathmandu, is living every single day in agony since the road expansion drive got to his house. According to Magarati, the road expansion drive has brought him a gamut of problems.

With the expansion, he lost nine rooms of his house. To him, the rent



House of Mr. Magarti after road expansion drive in Lazimpat, athmandu

he received from the tenants weas the major source of income. These days, every day is a battle for him to earn a livelihood.

Despite having all legal documents of land registration and house ownership, the state authority has been going around blaming him of having encroached on public property instead of compensating him.

Magarati questions "If my house did not really meet all legal conditions, how come the municipality approved my blueprint and other documents?"

He lost 540.76 square feet (1.58 aana) of his. At current prices, that amounts to over NRs. 10 million. In addition to the financial loss, a temple within his private land was also demolished at the same time. Till date, he has been demanding reconstruction from the state.

5. Road expansion over a citizen's retirement plans

Bishnu Man Shrestha, a resident of Tutepani, Lalitpur feels helpless because the road expansion has a big loss in store for him. He owns a 2738 squares feet (8 aana) triangular plot which faces major on all sides. As per the notice he has been communicated, he has to set aside majority of his land for future expansion project. That leaves him with just 684.5 square feet (two aana) of land. He says, "I had great hopes of building a house here, run a small store and live the rest of my old-age in peace. The proposed road expansion project will take it all away from me." As per the current market value of land, his property worth NRs. 1.5 million is at risk. He thinks he will not be compensated for his loss.

"If my house did not really meet all legal conditions, how come the municipality approved my blueprint and other documents?"

"The government should also respect the constitutionally-protected fundamental 'right to property' and should follow the due process of land acquisition."

The road expansion in his neighborhood is being conducted as per the Guided Land Development Program (GLDP) under the Town Development Act, 1988. As per the Act, he is entitled to compensation from the direct beneficiaries of the expansion (his neighbors) and the Town Development Committee (TDC). Cases of road expansion all over the valley give him no hope.

6. A greater public good at the expense of a citizen's life savings

Bijay Gopal Shrestha, a resident of Khumaltar, Lalitpur, has a similar story. If he complies with the conditions of the soon-to-begin road expansion project in his neighborhood, he is all set to lose 6502.75 square feet (19 aana) of his land. The market value of his land currently stands at around NRs. 47.5 million. He invested his entire life saving of his life to buy this land. Now the uncertainty of compensation haunts him every single day.

Like the previous case, this road expansion is also being conducted as per the Guided Land Development Program, under the Town Development Act, 1988. Just like Bishnu Man Shrestha, Bijay Gopal Shrestha also does not see any light at the end of the tunnel.

7. Together against violation of property rights

Anil Maharjan, a resident of Gongabu, Kathmandu, is one of those people who are in a legal battle against the state to reclaim their property rights.

Kathmandu Valley Town Development Authority has already set the new "right of way" and has also demarcated how much property the locals have to let go of. To this, the locals have got together and have already approached the court to seek justice. Maharjan, along with some people in the community and a public school went to the Supreme Court in 2013 in a bid to protect their private property from state expropriation. The court has halted the road expansion project for the time being.

The road expansion project has inculcated immense insecurity in the people in Gongabu. If he gives up land (as demanded by the state), he will be completely displaced as his house will also be demolished at the same time. He built his four-story house in 2007 after getting approval from the Gongabu Village Development Committee (VDC).

"Increasing population of Kathmandu Valley has sought wider roads for a long period of time. But that in no way means that the government has the right to expropriate our private properties in the name of development activities without following the due process. The government should also respect the constitutionally-protected fundamental 'right to property' and

should follow the due process of land acquisition,"- says Maharjan. He further adds, "the state is always more powerful than individuals and therefore an individual may not be able to protect state-led encroachment of private property. This is why we, the community people, have come together to fight against this injustice."

Maharjan argues that there are some hidden interests behind this expansion drive beyond the politically framed excuse of "public good". He opines that the large construction projects going on in the vicinity triggered the expansion in his neighborhood. He believes that big businesses have been lobbying for wider roads in order to have better access to the construction sites.

8. Not a one-time story

Rajesh Adhikari, a permanent resident of Maharajgunj Chakrapath, Kathmadu, is discontent with the state for many reasons. One of those reasons is the contradiction between what then state is doing and what it is actually supposed to do. Adhikari firmly believes that the government should recognize the inhabitants of Kathmandu valley have frequently given up their private lands for the construction and widening of a public road. In contrast, the state has been blaming the locals of encroaching public property and constructing houses illegally.

Two of his houses, built in the year 2005 with approval of Village Development Committee, were demolished during the expansion in the year 2012. Today, vehicles ply the road which is built where once his private property used to be. What is more remarkable is that he has not been compensated for the loss yet. He has lost 1084.93 square feet (3.17 aana) of his private land whose market value stands around NRs 31.7 million.

"The plot of land right outside my gate, where there is a public road today, belonged to my grandfather and we have been giving up land time and again for the expansion of this very public road," he recalls.

9. A cruel dictator

Mohan Krishna Khanal, a law practitioner by profession, is one of the very few people who managed to seek legal protection against the expropriation of his private property.

As the road expansion reached his neighborhood, he was shocked to see demarcations on both sides of his house. The "numbers in red" indicated how much of his property he was supposed to give up. He immediately went to all concerned organizations asking compensation before his house could be bull-dozed. No institution involved in the expansion drive ever heeded his pleas. This left him with no option but one – the court.

"We have been giving up land time and again for the expansion of this very public road"

...if the government can give a professional lawyer such a hard time with something as simple as following clearly-set due process, it could very well have done injustice to majority of local Kathmanduites who know very little of the law.

Khanal willingly gave up the front section of his house and he was later compensated for the loss. But giving up the side section would mean that he would be displaced altogether. To this, he sought protection from the Appellate Court. After eight months of litigation, the court ruled in his favor. As of now, with the intervention of the court, the authority has discontinued the road expansion project.

Khanal believes that if the government can give a professional lawyer such a hard time with something as simple as following clearly-set due process, it could very well have done injustice to majority of local Kathmanduites who know very little of the law. "The state totally transformed itself into a cruel dictator during the road expansion project," he recalls.

10. Left with no shelter or livelihood

Moti Kumari Shrestha, a permanent resident of Maharajgung, Kathmandu,

was put through one of the toughest periods of her life during the expansion project. All the state did was put up a red sign on one of her walls and a few months later it came back asking that she vacate her property for the greater good of the citizens of Kathmandu.

In the year 2012, her two-story house was bulldozed. She was never consulted before the road expansion process. She owned and ran a small mom-and-pop store in her own house which she was forced to shut down for four months, pushing her family into deep financial crisis. In addition to this loss, she had to spend NRs. 700,000 to rebuild her house. The expansion cost her 513.38 square feet (1.5 aana) of private land whose market value stands at over NRs 10 million. Till date, she has not received a penny for compensation.

Conclusion

With the road expansion drive, Kathmandu witnessed the 'tyranny of the state' first-hand. The state ignored not just the historically established foundation of economic growth (countries with higher security of property right are some of the fastest growing economies, if not necessarily the most developed), but also fundamental principles of a democracy – rule of law and respect for an independent judiciary.

The state used the decisions of a committee – the Town Development Plan Implementation Committee (TDPIC) – as the "guiding law" for all of the road expansion drive, which is the first flaw with the entire process. The Kathmandu Valley Development Authority then decided to pay no compensation for the expropriation of private land, which was a violation of the constitutionally guaranteed rights. As per the Town Development Act, 1998, the government and the beneficiaries of the road expansion had to pay at least 75% compensation to the individual whose property was being expropriated under the Guided Land Development Program. The case stories reveal that even this provision was not adhered to. The road expansion drive got to the point that the courts could not protect the people from the state as the stay orders given by the court were brushed aside.

Meanwhile, the bigger question here is regarding how safe is a Nepali citizen's right to property as guaranteed by the Interim Constitution of Nepal, 2007? Property rights are apparently not adequately safeguarded if the "omnipotent" government can encroach upon people's private lands and destroy their homes at will. Most importantly, where should we draw the line such that private property rights are upheld in a public good interface? To the least, what will bring about due predictability and transparency in the process demonstrating a respect for the Rule of Law?

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ABOUT SAMRIDDHI, THE PROSPERITY FOUNDATION

Samriddhi, The Prosperity Foundation is an independent policy institute based in Kathmandu that focuses on economic policy reform. Established in 2007, Samriddhi aims at facilitating a discourse on pragmatic market based solutions for a free and prosperous Nepal.

Known for bringing together entrepreneurs, politicians, business leaders, bureaucrats, experts, journalists and other groups and individuals to make an impact on the policy discourse of Nepal, Samriddhi works with a three-tier approach - Research and Publication, Educational and Training, Advocacy and Public Outreach. Some of its highly successful efforts include the annual economic policy reform initiative named "Nepal Economic Growth Agenda (NEGA)", a sharing platform for entrepreneurs named "Last Thursdays with an entrepreneur" and a regular discussion forum on contemporary political economic agendas named "Econ-ity". Samriddhi also hosts the secretariat of 'Campaign for a Livable Nepal', popularly known as Gari Khana Deu campaign.

One of Samriddhi's award winning programs is a five day residential workshop on economics and entrepreneurship named Arthalya, which has produced over 400 graduates over the past few years, among which more than two dozen run their own enterprises now.

The organization is also committed towards developing a resource center on political economic issues with its Political Economic Resource Center (PERC). Besides this, Samriddhi also undertakes localization of international publications on the core areas of its work. Samriddhi was the recipient of the Dorian & Antony Fisher Venture Grant Award in 2009 and the Templeton Freedom Award in 2011.

More about us at: www.samriddhi.org









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