



Dispatches from The Hall of Ideas!

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FROM PALPA TO THE HALLS OF GOVERNMENT MINISTRIES*

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I completed my secondary education in 1963. Thereafter, I travelled all the way from Palpa to Kathmandu to enroll in the Public Science Campus—now renamed the Amrit Science College. Like most of my contemporaries, I pursued a high school degree in science, such was the popularity of the course back then.

The Russians offered lucrative scholarships to Nepalis back then, particularly if one were to pursue engineering or medicine. Even today, you can find plenty of people working in the hydropower sector and as medical professionals who are products of Russia. The Indians and the Pakistanis too offered lucrative scholarships. I could have pursued a degree in any of these countries, but my parents were reluctant, after all I was an only child, and I would have had to leave for seven to eight years. Instead, I enrolled in the Tri-Chandra Campus. I was the first batch of students to be enrolled in the Bachelor of Science—Statistics program. But some familial duties prevented me from completing

my studies. I went back to Tansen, Palpa and enrolled in Tribhuvan College. Fortunately, this time I was able to complete my studies, and I graduated with a degree in Economics and Political Science. I returned to Kathmandu to pursue a post-graduate degree.

In 1971 I attained a post-graduate degree and returned to Palpa. I did not have any aspirations of joining the government services, I always wanted to take up a teaching position and so I joined the Palpa Campus along with a German friend of mine whom I had gotten to know during post-graduate studies, and we shared similar aspirations. The salary of a teacher was NPR 600, the campus could only pay for one teacher and thus a deal was made, my friend and I were to split the money equally, after all I would have lived at my home and the amount was decent enough to cover all expenses.

The campus offered certificate and diploma courses in humanities and commerce, we taught there for five years. It so happened that all faculty members of the Tribhuvan Campus shared the same goal, we all wanted to see our students succeed and we put in the hard work required. I take pride in sharing that for five years, the top three students of a post-graduate

* The text is an abridged and translated version of the September 2024 edition of Sambaad @ Samridhi. Sambaad @ Samridhi is a monthly discussion on contemporary issues held on the last Friday of each month. In this edition Prithvi Raj Ligal speaks about his journey from Palpa to halls of Singha Durbar. He also reflects on the reform process and shares insights on how reforms were sequenced. The discussion was moderated by Deependra Chaulagain.

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degree course work in Kathmandu were from the Palpa Campus, people like Rameshwor Khanal and Shree Krishna Shrestha are all products of the Palpa Campus, and they went on to do great things. We had developed the campus as a center of excellence, and it showed in the results we achieved.

In 1976-77 I received a letter from the Dean's office, Kathmandu. The Central Department of Economics, Kathmandu was in need of a teacher, and I was transferred from the Palpa Campus to the Central Department of Economics in Kathmandu. I was reluctant to go, the salary was NPR 600, and I would have had to relocate with my family. The amount would have barely covered my expenses. My wife, fortunately, convinced me to take the leap. She was after all determined to seek out better opportunities and even provided me with the confidence to take that leap. I still remember her telling me that we are going, and we might have to struggle for a few years but eventually opportunities will also arise.

And thus, I began teaching Macro-Economics at the Central Department of Economics. I was also involved with the Center for Economic Development and Administration. Dr Prakash Chandra Lohani, given his interest in research and teaching, joined the department as well. Together with Dr Lohani we conducted a study proposing a method to measure the non-accountable services offered by women—generally in the role caretaker and home makers and incorporate them into the National accounts of the country. This marked the start of my acquaintance with Dr Lohani.

While the initial few months were difficult for me, I quickly adjusted and was fortunate enough to be engaged in some of the most rewarding work. For about three years, I taught Mathematical Economics to Nepal Rastra Bank staffs, and Economist from all over Nepal. It was a short introductory course of about 1 month and it was held in Pokhara city. Perhaps, it was this engagement that eventually led to my involvement with the National Planning

commission.

Around 1978-79, I was called upon by Ratna Shumsher Rana, then Vice-Chairperson of the National Planning Commission. Mr Rana invited me to be part of the internal working committee tasked with authoring the background note for the sixth periodic plan. I was tasked with designing the Macro-economic framework of the plan. Then member of the National Planning Commission, Bijay Bahadur Pradhan was made in-charge of the macroeconomic division of the National Planning Commission. Mr Pradhan had worked for numerous years as the research head of the Nepal Rastra Bank before joining the National planning. He was a serious man, knowledgeable and resourceful and I was fortunate to have had the pleasure of working with him.

As we started working, we soon realized that there was no database of consumption, investments or savings we could rely on. We thus designed proxies based on the available data which at the time was just the estimate of Gross Domestic Product and not the components of the GDP. It took us about three-to-four months, and we presented our work to the National Planning Commission. The commission was happy with our work, and I would even go so far as to add that it marked the use of a detailed macroeconomic framework to inform our national plans.

After I completed my work, I returned to the university. In 1981, I went to the United States of America as a Hubert Humphrey Fellow. By the time I returned the political landscape of Nepal had changed considerably and Dr Prakash Chandra Lohani was made the Minister of Finance. I thought that it was good thing that he was made Minister, he was after all a familiar face, but I had no intention of seeking any benefit. I even avoided congratulating him or calling upon him. I did not want to be taken as someone who sought to benefit from the position of a familiar person. Dr Lohani, later, through a mutual friend, informed me that he wanted to meet me.

I went to meet Dr Lohani, thereafter. I don't remember the date, but I remember that I had gone in the evening. I congratulated him and we spoke for a few minutes before he asked me to explain the entire concept of the "Exchange rate determination through a basket of goods". Perhaps it was a test, but after I had done explaining, Dr Lohani requested that I join the Ministry Finance as an advisor to the Minister. I had no reservations about joining the ministry and I agreed to his offer.

There were three of us at the ministry. I served in the capacity of an economic advisor, Madhukar Rana served in the capacity of a political advisor and Sushil Pant as the Legal advisor. We were allocated a room next to the Minister's office and we spent our time there.

The Ministry of Finance is notorious for being a conservative institution. The staff rarely shared anything with the advisors, whom they saw as outsiders. All advisors before me—Pushkar Karki, Bhawani Dhungana, Yadav Prasad Pant—suffered from the conservative nature of the ministry. For some reason I survived. In total I spent around 10 years at the ministry. Bharat Bahadur Pradhan and Devendra Raj Pandey—both Ministers of Finance—requested that I continue to act as the advisor despite their predecessor's tenure ending and despite the general practice to appoint new advisors. I had become very close with the Ministry's bureaucracy. This closeness allowed me to work on many things including first the Economic Survey. The general practice at that time was to present a year's data, I managed to convince the staff to release data for 10 years, the reasoning was simple, without time-series data the economic survey was not useful.

Later, I worked on budgetary reform including resource allocation, budget releases and the process of formulation itself. I also worked on streamlining the tax system. Our taxation system at that time was all over the place, we had a sales tax and on top of that we had an excise tax. I had worked with the bureaucrats to revise the excise system to only be applicable to

socially hazardous products. We limited the tax slabs to just a few categories. More importantly we started a monthly monitor, which till date is the basis for all our data systems. The monthly monitor was designed to collect data from multiple sources, it included trade data from the customs department, revenue data from the Inland revenue department and others from the Nepal Rastra Bank.

In 1990, after the restoration of democracy, Ram Sharan Mahat and Mahesh Acharya were made the advisors to the Minister of Finance-Girija Prasad Koirala. I had thought that I would now leave for the university and continue teaching there but Mr Mahat and Mr Acharya requested me to stay a bit longer. They asked me to stay given the knowledge I possessed about the ministry and asked that I impart all the knowledge onto them. I stayed for a few years.

Mr Mahat although only an advisor at that time was no less than a Minister. Girija babu trusted him and he was engaged in the budget formulation process intricately. I remember preparing the national budget when Ram Sharan was attending the IMF-World Bank meeting in the US. Nepali Congress and the Rastriya Prajatantra Party had formed a coalition government then and I had to frequently negotiate with counterparts from the Rastriya Prajatantra Party.

After Ram Sharan came back and presented the budget, he informed that he was going to be made the Vice-Chairperson of the National Planning Commission. He asked me to join him there. I told him that it had been ten years since I had left the university, and I wanted to go back to teaching. Ram Sharan calmly told me that it was a new government, and it needed all the help it could get. And thus, I was made a member of the National Planning Commission. What was interesting then is that Girija babu had given the reins to Ram Sharan, he was made responsible for picking the best of people and to his credit he did, Ram Prakash Yadav, Binayak Vajra, Shree Krishna Upadhyaya to name a few.

Our main task was to draft the eighth periodic plan. We had been expressly told that the eighth plan was to be departure from the previous plans to the extent that the priority was no longer government control or government interference it was rather private sector participation, the license raj was to be ended. It was a collective realization that the private sector must be involved, government investment alone was not enough, and all policy bottlenecks had to be removed.

My division—the macroeconomic division was made responsible for translating the policy into action which later came to be known as the first-generation reforms. Together with Pushkar Bajracharya, Nirmal Pandey and Bhola Nath Chalise we started an ambitious plan to dismantle the foreign exchange control regime. All out problems including the need to control industrial license, import and export license followed from the foreign exchange control regime. We decided that the first reform was to dismantle the foreign exchange reform regime.

Luckily for us, the Indian foreign exchange crisis in 1991 served as a backdrop for reforms. Indian foreign exchange reserves had depleted so much so that they could barely finance 15 days of import. Manmohan Singh was made the Minister of Finance by Prime Minister PV Narasimha Rao. Mr Singh was made in charge of correcting the situation and as is the practice till date, he reached out to the International Monetary Fund. The IMF's stand-by arrangement came with conditions attached and often there are huge political costs. Reforms and delicensing were a major condition when India reached out to the IMF, and it worked out in our favor. Had India not initiated the same reforms we could not have gone ahead with ours. We have fixed exchange rate and share an open boarder, much of our trade is concentrated, if the two countries have different policies, then the larger economy will completely dismantle the smaller one. The only choice we have is to make similar policies and the only strategy we can adopt is to predict what policies India will adopt and adopt them faster.

One such example was the foreign exchange convertibility reform, industry delicensing and the devaluation of the Nepali currency against the Indian rupee in 1992-93. My team and I were convinced that it was the right thing to do, and we had even predicted that the Government of India was going to present the same policy. Armed with all our projections and statistics, we briefed the cabinet members and told them that this policy must be announced. We informed Girija Babu that we should announce the policy during at 1:30 pm, we argued that India was to announce it at 7:00 pm and by announcing the policies 6 hours earlier he could claim that his government did what was needed even before India and did not borrow anything from India. Once Girija babu was convinced he went ahead with the announcement. He might have had a thousand habits worth criticizing but he had one admirable quality, if he was convinced, he would back his staff and he would take on any and all responsibility that followed as if it was all his doing. The Government India announced the same policy later that day as we predicted and for the next two years the economy became stronger, our reforms had worked.



But a new government came into power. It was led by Manmohan Adhikari of the CPN-UML and

Bharat Mohan Adhikari became the Minister of Finance. On the day that Mr Adhikari took charge of the Ministry of Finance he refused to continue the policy that the previous government took. He stated that the eight plan was not endorsed by his party nor were the reforms, and thus they could not be held responsible. Fiscal policies often take a long time to show results, successive governments often build on previous reforms, by making the statement, Nepal backtracked. Compared to India where Narasimha Rao's reforms were given continuation, Nepal never followed through, the result today is that India is about to become the third largest economy in the world and Nepal is stuck in a low growth low productivity environment.

We often hear that the World Bank or the IMF forced us to adopt liberal policies, but I would like to remind that we did not have any arrangement with the World Bank or the IMF, we had one in 1984 when our foreign exchange reserves depleted so much so that it could only sustain a week's worth of import. But even then, the condition was to open the banking sector to foreign investment. In 1991, there was no such arrangement, at least not as stringent as the IMF conditions. We had a Structural adjustment lending program with the World Bank, but its conditions cannot be compared with IMF's condition, while the former focuses on undertaking development activities the latter focuses on economic management. It was rather the vision of the government and events unfolding in India that eventually led to reforms.

There are a few things worth remembering when initiating reforms. The first is the area of reforms. Not all sectors can be reformed in the first go, rather we need to select areas where reforms are the most needed. The second is picking some reform areas that will provide quick results. We selected trade because it provides results relatively quicker. When I look back, I also see hints of the political leadership focusing on the right people. Two examples are worth noting here. First, the head of the Commission for Investigation of Abuse of Authority during the Nepali Congress-Rastriya Prajatantra Party

government was a member of the Communist party of Nepal-Unified Marxist Leninist. Second, Finance Minister Mahesh Acharya's (Nepali Congress) economic advisor was known to be affiliated with the CPN-UML. There are other examples as well, but the key metric of a person was never their political affiliation, it was always their credentials. Today, credentials rarely matter.

Reforms that were initiated then should have continued. Instead, today our Finance Minister is more worried about the share market dipping and even visits the stock exchange to know what has happened. The economy is not in a good state, bank loans have not been disbursed, revenue collection is weak and economic activity for the past few years has been slow. Indeed, the government is more worried about the share market, after all it offers seven and a half percent of all transactions as tax revenues, it is a source where the government has to do nothing. Future agendas for reform are not very hard to identify, we just have to start off from where we left, this includes privatizing state-owned enterprises, devaluing the Nepali currency against the Indian rupee and focusing on fiscal policy instead of monetary policy.
