

# Need for a Robust, Dynamic and Active National Planning Commission

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## **Introduction:**

As the 2015 Constitution federalized administrative and governance structure of Nepal into seven provinces and 753 local units with devolution of significant authorities to provincial and local governments, discussion on restructuring of National Planning Commission (NPC) in this changed context is underway. With federalization, it comes in the minds of most experts, academicians, and other concerned individuals that the new structure of NPC should be more of a passive and facilitating rather than an active on national planning and development. However, the spirit of the 2015 Constitution of Nepal, which envisions a socialistic economy under the federalized governance, nation's heavy reliance on its vast natural resources for accelerated economic growth, and the presence of multitudes of socio-economic and infrastructural development problems in the country warrant a robust, dynamic, and active NPC.

Although the 2015 Constitution gives autonomy to local and provincial governments for raising and spending revenues, and they are expected to contribute and drive their planning and development processes by themselves (Payne and Basnyat, 2017), federal government is still responsible for planning and development of big projects such as large hydropower, multi-provincial projects, national highways, and railways. In agriculture, local governments will manage local irrigation projects, agricultural roads, extension services, and livestock health; provincial governments will manage province level agriculture, livestock, and irrigation projects; and the central government will manage the issues of quarantine and large-scale irrigation projects (Kyle and Resnick, 2016). An active NPC will be necessary for close coordination with the line agencies and the provincial and local governments for the development of integrated national plans and their successful implementations.

The Ministry of Finance (2017) has identified many challenges for Nepalese economy under the federalized structure. Major challenges identified include the development of an appropriate revenue system, achieving balanced and inclusive development, reducing dependency on foreign aid, developing infrastructure, agricultural modernization, employment generation, graduating from the Least Developed Countries (LDCs) status, and developing a socialistic economy as envisioned by the 2015 Constitution. In this context, the role of NPC on guiding line agencies and the local and provincial governments in planning and development for expedited economic growth and socio-economic transformation becomes paramount.

A close look on every nation's production and distribution system reveals the presence of both capitalistic and socialistic approaches. In this sense, capitalism and socialism are the two sides of the same coin in a society. In Nepal, while Nepali Congress (NC) government in 1991-94 emphasized economic liberalization, CPN-UML government in 1995 introduced pensions for the aged, then the subsequent coalition government headed by NC continued pensions for aged but re-emphasized economic liberalization policy (Hachhethu, 1997). Tax incentives and promotional schemes for private business include capitalistic approach, whereas health and education services, old age allowance, or expenses on social welfare involve socialistic mode of governance. While capitalism enriches a society through efficient production, socialism augments it through better distribution of the wealth. Relatively strong presence of government is necessary for managing natural resources as well as making big investment on large projects until the private sector sufficiently develops in a developing country like Nepal.

Planning and development system of Nepal is seriously underperforming. National plans developed by NPC are poorly coordinated between programs and the budgets, largely ad hoc, highly politicized, and are failure in their implementations (Wagle, 2017). National plans are lacking clarity on their long-term visions. In order to develop a robust planning and development process to accelerate economic growth and realize fast-paced socio-economic transformation of the nation, it is critical to review and assess Nepal's planning and development history, analyze current and future challenges in relation to economic growth and socio-economic transformation, develop a long-term vision for the nation, and restructure NPC appropriately.

### **Planning and Development History:**

According to Wildavsky (1972), the concept of planning in Nepal began from Rana Prime Minister Shree Mohan Shamsher JBR in 1949 when he established a national planning committee for developing a Fifteen-Year Plan for making Nepal self-sufficient. Wildavsky (1972) further wrote that actual planning in Nepal began by establishing Planning Commission in 1956 following the

proclamation stating “the necessity of a five-year plan for Nepal for attaining national self-sufficiency and establishing a welfare state” from His Majesty King Mahendra Bir Bikram Shah Dev on October 9, 1955. The Planning Commission of Nepal, basically, followed the similar ideals of the Planning Commission of India established in 1950 under the Chairmanship of the first Prime Minister of India, Pandit Jawaharlal Nehru, following India’s independence from British rule on August 15, 1947. Major reasons for the establishment of Planning Commission in India were the conviction that the long-range national planning was necessary for solving many national problems including eradication of poverty, tackling regional imbalances, increasing literacy, enhancing national defense and economic growth, advancement on scientific and technological research, raising living standard of the people, and the industrialization of India (Mishra, 2014). India changed its Planning Commission to NITI (National Institution for Transforming India) Aayog, meaning “policy commission,” with its primary feature as a “think tank” for policy formulation (NITI Aayog, 2017a) in 2015. As an improvement on Five-Year planning system, the NITI Aayog launched Three-Year Action Agenda early 2017, formally closing over six decades of centralized planning, after ending the Twelfth Five-Year Plan (2012-2017) on March 31, 2017 (NITI Aayog, 2017b; Singh, 2017). Along with increased economic growth, regional development, and sustainability of environment, forests, and water resources, the Three-Year Action Agenda is expected to help the Government of India in successful implementation of programs and projects and realization of the United Nation’s Sustainable Development Goals (SDGs). The NITI Aayog emphasizes bottom-up approach for planning and development. In Nepal, the First Five-Year Plan (1956-1961), which was produced by the Ministry of Planning and Development in 1956 (Wildavsky, 1972), and the subsequent five different plans emphasized infrastructural and industrial development coupled with import substitutions and employment generation. Planning goals and strategies in 1980s switched to agriculture (Khadka, 1988). Most infrastructural development projects such as highways, hydropower, irrigation schemes, airports, and industries were developed and completed during these early plan periods. The Seventh Five-Year Plan (1985-1990) keeps special significance in Nepal’s planning and development history as it marked the beginning of the privatization of Public Enterprises (PEs) in Nepal. This plan for the first time encouraged the involvement of private sector in economic development. Nepal implemented the Structural Adjustment Program (SAP) from World Bank and Structural Adjustment Facility (SAF) and Stand-By Arrangement (SAB) from IMF during this plan period.

These measures facilitated privatization and deregulation in the country. The decades of 1990s and 2000s saw significant progress on privatization of the industries and the liberalization of trade regime and financial sector. Poverty alleviation was the primary focus of national plans in which public-private-partnerships and encouragement for private investments remained the major strategies. From the end of the Tenth Five-Year Plan (2002-2007), the NPC started developing Three-Year Plans, mainly due to political transformation processes occurring in the nation. The 11th plan (2007/10) addressed the rehabilitation and compensation following the Maoist War (1996-2006). From 2010 to present, Nepal’s developmental strategy has been the promotion of market-oriented economy with additional involvement of private sector. The government has been emphasizing public-private-partnerships, private sector leaderships, and policy reforms. The 14th plan (2016/19) also stresses sectoral development with emphasis on private investment (NPC, 2017).

According to Schloss (1983), the planning process in LDCs consist of three stages. The first stage is merely a ritual of planning. In the second stage, LDCs realize the potential of planning for

attracting donors in meeting their developmental needs and rely on both political considerations and economic justification. At the third stage, they elevate from the “project” level to integrate planning and implementation into regional and sectoral planning. Arguing that it is the third stage when LDCs utilize planning for their actual development, Schloss (1983), cited the three road projects completed by 1962 in Nepal, for example, were not due to the Nepalese plans rather they were due to external offers. As Nepal’s planning process can be considered at the third stage (Schloss, 1983), as discussed above, this is the prime time for Nepal to set up a highly dynamic, competent, and effective planning and implementation mechanism for expedited economic development capitalizing experiences gained and lessons learned over the past six decades of planning and development.

### **Economic Growth and Socio-Economic Transformation:**

Despite six decades of planned development, 25 percent of the Nepalese population is still below poverty line (NLSS, 2011) and 41 percent of children are suffering from stunting and chronic malnutrition (NDHS, 2011). In 2014, Nepal’s literacy rate was 70.4 percent (CBS, 2016a). Nepal is still in the group of LDCs along with Afghanistan in Asia. Problems such as declining agricultural productivity, lack of employment, massive outmigration of youths, widespread corruption, environmental degradation, and lack of food and clean drinking water are enormous and widespread (Poudel, 2016). Of the total Nepalese population having access to electricity, one-third rely on small, rural off the grid hydropower and experience high load shedding especially during the dry season (USAID, 2017). Nepal is experiencing seriously widening trade gaps in recent years (Ghimire, 2016; MoF, 2017). According to The Observatory of Economic Complexity (2017), Nepal’s total expenditure on imports in 1995, 2000, 2005, 2010 and 2015, respectively, was US \$619 million, \$816 million, \$1,300 million, \$5,010 million and \$6,610 million. Export has remained almost the same during this duration with the amount of \$356 million, \$732 million, \$653 million, \$971 million, and \$910 million, respectively, for 1995, 2000, 2005, 2010, and 2015. Thus, the corresponding negative trade balance for the years of 1995, 2000, 2005, 2010, and 2015 was US \$263 million, \$84 million, \$647 million, \$4,039 million, and \$5,700 million, respectively. In relation to the trading partners, the CBS (2016b) reports a negative trade balance of Rs. 622,374.56 million (Rs.774,684.20 million import and Rs. 85,319.10 million export) for the fiscal year 2014/2015, of which 63.22 percent was with India, 14.21 percent with China, and 22.57 percent with other countries. The top two imports in 2014/2015 included agricultural products (Rs 137.12 billion) followed by petroleum products (Rs. 112.16 billion).

Increasing dependency of Nepal on foreign aid, which consists of loan and grants, is another major concern in recent years. Nepal’s first foreign aid came from US with \$2,000 in 1951 to Rana Regime. Nepal officially became the recipient for foreign aid after signing the Colombo Plan in 1952. The Colombo Plan established in 1952 aimed for cooperative, economic, and social development in Asia and the Pacific. Since then Nepal has been regularly receiving significant foreign aid to meet its annual developmental expenditures (Levi, 1959; Wildavsky, 1972; Schloss, 1983; Khadka, 1988, 1997; Shrestha, 2015). The foreign aid component estimated at 25.1 percent equaled Rs. 206 billion in 2015-16 budget (Shrestha, 2015). According to Shrestha (2015), the top five multilateral agencies that provide foreign aid to Nepal include: World Bank, Asian Development Bank, European Union, UN Agencies, and Global Fund (GFTAM), and Shrestha (2015) adds that Nepal has not been able to utilize even 50 percent of foreign aid due to lack of institutional capacity for timely and properly utilization of the funds. Sources of foreign aid in

Nepal has shifted drastically from bilateral agreements in the past to multilateral agencies at present (Levi, 1959; Wildavsky, 1972; Schloss, 1982; Khadka, 1988; Shrestha, 2015).

Nepal's outstanding public debt has also been increasing fast in recent years. Total outstanding debt of Rs. 375.6 billion in 2007/08 increased to Rs. 545.3 billion in 2012/13 and Rs. 627.8 billion in 2015/16 (MoF, 2017). Corresponding proportions of the outstanding foreign debt to the total outstanding public debt for the fiscal year 2007/08, 2012/13, and 2015/16, respectively, were 66.56 percent, 61.14 percent and 61.93 percent. In 2015/2016, Nepal's outstanding per capita debt was Rs. 22,159, which was a 50.6 percent increase from that of 2007/08 and 10.6 percent increase from that of 2012/13. Similarly, the 2007/08, 2012/13, and 2015/16 debt, respectively, equaled to 46.1 percent, 32.2 percent, and 27.9 percent of Nepal GDP (CBS, 2016b; MoF, 2017). Citing IMF's categorization of a country at a "critical stage," when its foreign debt hits 200-250 percent of the value of its export and the debt servicing ratio reaches 20 percent to the export, Verma and Navlakha (2007) reported Nepalese economy at crisis stage as early as in 1994-95 when Nepal's foreign debt was 600 percent of the total export value and debt servicing ratio was 35 percent.

*# (This is the Introduction part of the article penned by the distinguished author on 'Restructuring National Planning Commission Focusing on Asta-Ja and Nepal Vision 2040'. The second portion of the same article shall be presented for the benefit of the valued readers and research scholars soon. Ed.)*