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Statement by the Hon. **RAM BINOD BHATTARAI**,
Alternate Governor of the Bank for **NEPAL**,
at the Joint Annual Discussion

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Mr. Chairman, Mr. President, Mr. Managing Director, Fellow Governors, Distinguished Delegates.

It is indeed a great pleasure and privilege for me to address these Joint Annual Meetings of the Board of Governors of the World Bank and the International Monetary Fund. On behalf of Nepalese delegation and on my own, I express sincere appreciation to the people and the Government of the United States for their hospitality and to the Bank and the Fund for the excellent arrangement made for these meetings.

Let me also take this opportunity to congratulate the management and staff of the Bank and the Fund for their able and close partnership in managing the financial turbulence in East Asia and other parts of the world. As a member of these institutions, it is a matter of great satisfaction to note that these institutions have served its members well at the times of the greatest need.

The slower growth witnessed in the recent years in the world output in general and that in developing world in particular has become the serious concern of the developing countries, the affected economies and the international community as a whole. However, the growth outlook for 1999 has improved moderately. These outcomes have direct bearing on the growth and development prospects of developing countries. The hopes that we had while the Uruguay Round Agreements were signed are still to be felt by many of us. Many countries are yet outside the realm of WTO. Some industrial countries need to fulfil their global commitments toward easing constraints of international trade and development. The progress in poverty reduction is not satisfactory to all of us. A lot more needs to be done in safeguarding the acute needs of small and least developing countries like ours. There are, however, some indications of positive nature. Recent recovery in international commodity prices and of East Asian economies as well as positive growth outlook in industrial countries present some hope for the revival of global economy and, in turn, increase in development assistance.

We are now at the verge of next millennium, whereby globalization of markets has provided both opportunities and challenges to all of us, for promoting growth, equity and development. Many small and poor countries have not been able to reap the benefit of globalization. Therefore, greater attention is needed, particularly by industrial countries and international institutions to create an enabling environment that can take care of the interests of the poor and least developed countries.

Our experience has shown that unlike the developed countries, developing countries need relatively a long transition period to fully realize the benefits of economic

liberalization. Developing countries including Nepal have hard time to make the process of liberalization a widely beneficial phenomenon to the society as a whole, at a time when we are faced with huge agenda of institutionalization of democratic process and heavy burden of external debt servicing.

The transfer of official development assistance to developing countries has not shown any serious move toward the tune of international call and our appeal for many years. The relevance of foreign grant and highly concessional assistance for the growth of developing countries is still very important and appears to remain so for a number of years to come as many of these countries have to develop key sectors of the economy, where private sector is still shy in making investments.

Having said that let me turn to the Bank and the Fund related matters.

It is very much encouraging to learn about the progress made by the Bank and the Fund in strengthening the international financial structure.

We welcome the initiative taken by the Bank and the Fund in reducing the unsustainable debt of Heavily Indebted Poor Countries (HIPC). We note the Bank and the Fund are currently working for enhanced framework for faster, deeper and broader debt relief of the poor countries. We support additional financial assistance from the donors toward this framework. Similarly, further considerations should be given to include the poorest countries, which are being presently excluded from these arrangements.

The Bank and IDA deputies deserve our special thanks for the successful conclusion of the twelfth Replenishment of IDA. We stress that the Bank Group should focus IDA lending to those countries where the need is greatest to meet the need of the poor and least developed countries. It should also focus on the environment-related issues, which the private sector is least capable of addressing.

We are encouraged by the Bank's activities focused on flexibility, change and partnership to serve its clients better in the days to come. In this regard, we believe that the Comprehensive Development Framework would prove to be a vehicle for sustainable growth. We understand that this process is based on a holistic approach to development and recognizes the importance of institutional, structural and social aspects of the development along with macro-economic fundamentals.

We appreciate strategy of making ESAF arrangements a central point of poverty reduction program and Fund's effort to help member countries in handling structural and institutional reforms. The role of IMF in strengthening the financial sector and the establishment of the Contingent Credit Line would help attain the objective of a more sustainable growth in member countries.

Now let me turn to my own country, Nepal.

Nepal is a landlocked country in South Asia, which has not so far been a party of either to any miracle or debacle. The country's per capita income is one of the lowest in the world and more than two-fifth of its population are living in a state of absolute poverty. The average growth rate of GDP during the past two years was estimated at slightly above 3 percent against the target of 6 percent average growth as set forth by the Ninth Plan (1997-2001). The ratio of gross domestic saving and investment of GDP is still very low. The rate of inflation crossed single digit and reached almost 12 percent toward the end of the last fiscal year. Deteriorating performance of the agricultural sector despite the highest priority assigned to it has been the major factor for the grave situation of poverty in Nepal. The unfavourable climate, uncertainties in economic reforms, slowdown in resource utilization and increased fiscal imbalances are considered as responsible factors for slowing economic activities. The balance of payments situation, however, has improved basically due to better performance of the export sector and the decline in imports. As a result, the foreign exchange reserve, at present, is at comfortable position.

After the restoration of democracy in 1990, people's expectation rose to a new height. The impressive economic progress made in the first half of the 1990s could not be sustained during the past four and half years due to the political instability that transpired from the nature of the composition of the last Parliament. As a result, considerable slackness surfaced in the economy and the utilization of resources including external resources slowed down.

In the aftermath of general elections held in May 1999, the present Government has come to power by holding a comfortable majority in the Parliament. Taking into account the overall performance needs in various fronts of the economy, the new government is committed for creating a strong macro-economic situation. In this regard, the balance of payments position continues to be strong, inflation appears to be moderate, and economic growth picked up slightly from the last years' depressed level. The actions of the government have been well sequenced to alleviate widespread poverty and unemployment. On the fiscal side, revenue growth has increased in the past few months and the fiscal deficit has been kept within the affordable limit. The government is also fully committed to resume the process of liberalization as was initiated in the beginning of this decade.

Nepal has put poverty reduction agenda always at the forefront. For this, we have focused on achieving high economic growth rate, expanding social and safety programs, encouraging participatory development and ensuring good governance. In order to achieve these, we have adopted strategies of the modernization of agriculture, rural development, community participation, and creation of employment opportunities. Likewise, other strategies have been developed for the development of social and economic infrastructure, better mobilization and use of economic resources including external resources, promotion of private sector development. This will be achieved through continued persuasion of economic reform programs and the transformation of the

development administration into a service and result oriented one. Various measures are adopted to strengthen the institutional capacity of project implementation. Civil service reform process is on the way. The Government has also adopted various measures to make its affairs more transparent.

Implementation of the twenty-year Agriculture Perspective Plan (1997-2016) has been our priority in order to increase economic growth and alleviate poverty. We have emphasized the development of social sector and increasingly allocated financial resources for education, health, drinking water, and human resource development. The empowerment of women is one of the prominent agenda of our development. The process of privatization of public corporations has been reactivated.

We consider financial resources as the most effective and critical means of development and a major instrument of the success of policy implementation. We are committed to manage public expenditure more efficiently. Prioritization of the development expenditure is being further improved and projects are selected based on cost/benefit analysis, availability of sustainable resources and implementation capacity. The new financial rules formulated with a view to reduce discretionary power in awarding contracts, and ensure transparency of statements and records as well as develop time-bound decision making system is already in operation. In order to enhance the effectiveness of overall resources, Aid Receiving Strategy is being formulated and enforced within this fiscal year.

The need for internal resources mobilization is enormous in Nepal. The structure of the tax administration is being reviewed to raise its quality of performance. Value Added Tax (VAT) system has been fully implemented as the main instrument of revenue mobilization. Tax and customs administrations are being made more transparent and supportive. A system of regular and continuous dialogue with private sector is being developed in order to generate mutual confidence and enhance tax collection. Customs administration are being made more efficient in line with the requirements for the membership in the World Trade Organization, South Asia Preferential Trade Arrangement and South Asia Free Trade Arrangement.

Currently, we are actively engaged in the devolution of power to local government bodies. The process of decentralization has achieved its milestone as the Act relating to it has come into effect. The Act provides extensive economic, administrative and political power to local authorities. The new arrangement would also address issues of governance throughout the country.

Similarly, the Government has launched several programs for urban sector development. In this regard, our capital city, Kathmandu is facing acute shortage of drinking water supply for over a decade. In order to solve this problem, we have proposed the Melamchi Water Supply Project for donors' assistance. I, therefore, take this opportunity thank the donors for their support and commitment to this project and

would appreciate any additional assistance to meet the financial gap and for the speedy implementation of the project.

It is important for us to build on the achievements made in the past and also continue address necessary issues that stand as hurdles along the path of poverty alleviation and sustainable development. The current year's budget and the Ninth Plan have placed clear directions for reforming policy course. We believe that greater efforts are essential to enhance domestic resource mobilization and to improve public resource management. Another equally important task is to build technical and institutional capability in order to prepare and implement complex and sweeping reforms over a broad front and prevent potential crisis.

It is a matter of common experience of developing countries like Nepal that no matter how important the reform process may be it invariably encounters with a great resistance and the process itself is long and painful. In order to overcome these difficulties while, we, as a member of developing countries have to put all our resources in achieving the development goals, the continued support of bi-lateral and multi-lateral agencies would be required more than ever before. I, also like to put emphasis on the importance of sequencing reforms as a critical factor in making the reform program a success.

The role of the Bank and the Fund in the 21st century will be even more challenging. We are confident that the Bretton Woods institutions are better prepared to surmount such challenges and will continue to remain as reliable, flexible and dynamic development partners for their member countries in the new millennium.

We are thankful to the international donor community for their consistent and strong support in Nepal's economic development programs. I would like to mention here that Nepal Aid Group Meeting would be held in March, next year in Paris. As in the past, we are confident to receive strong support from the members of Nepal Aid Group to implement our development programs.

Let me express our sincere appreciation to the World Bank and the International Monetary Fund for providing valuable technical and financial cooperation to our development efforts. I look forward to rewarding partnerships with these institutions in the future.

Thank you.