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MULTILATERAL INVESTMENT GUARANTEE AGENCY

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Statement by the Hon. **RAM SHARAN MAHAT**,
Governor of the Bank for **NEPAL**,
at the Joint Annual Discussion

Honorable Dr. Ram Sharan Mahat
Governor of the World Bank for Nepal
1998 Annual Meetings

Mr. Chairman, Fellow Governors,
Ladies and Gentlemen,

It is a great honor and privilege for me to address the Annual Meetings of the World Bank and the International Monetary Fund.

The role of the World Bank and the IMF was unprecedented this year due to the global financial crisis that started from East Asia last year. We have noted with interest the Bank moving beyond its traditional focus of funding individual projects to pumping fast track rescue package loans. This has also necessitated in redefining and delineating the roles of the Bank and the Fund. We think it is an appropriate time that we revamp these institutions, thus giving them new vigor and strength to deal with changed circumstances. Given the linkages between macroeconomic and structural issues, there is a clear need to provide an interrelated and properly-sequenced assistance by the two organizations. In this regard, we welcome the proposed initiatives closer Bank-Fund to foster collaboration, which include the Review of Bank-Fund Collaboration in Strengthening Financial Systems and the Pilot Program for Enhanced Bank-Fund Collaboration in Low-Income Countries.

We thank the Bank for the progress made so far in Highly Indebted Poor Countries (HIPC) Initiatives. We are confident that with the extension of the eligibility period of the Initiative for two more years, more countries will benefit from this Initiative. We also support the Assistance to Post-Conflict Countries and urge other creditors and donors to complement the Bank in this endeavor.

It is commendable to note that the IMF has been active in raising financial resources to add to its fund. The increase in quota of member countries also enables easy access to these funds during a time of need. We strongly urge all member countries to make appropriate arrangements so that the requirements for making the new quota system effective are met soon.

This Year's Annual Meetings are being held at a time when the world is passing through a difficult period. The countries in the East Asian region have suffered severe economic setbacks. The economy of Japan is also under pressure. Transition economies, particularly Russia, are also in crisis despite tremendous IMF financial backing and support from the world economy. Currency crisis, banking and economic turmoil have become common phenomenon in a number of countries. We firmly believe that the Bretton Woods Institutions and the world community, together, will come out with a reform package to help overcome the problems on an urgent basis before the turmoil spreads to other economies, leading to a situation of full-blown financial crisis. In the process of tackling the problems faced by countries in turmoil situations, the interest of smaller developing countries with a high degree of poverty should not be overlooked.

Time is a crucial input for development. Time needed for designing and processing a programme and disbursing the fund should be carefully minimized. Likewise, recipient countries should devote greater attention to the effective implementation of the development programme. I believe that the pace of development depends on these commitments.

Nepal embarked upon an economic reform programme in 1991 which led to the series of reforms in trade, industry, tax, and foreign exchange regimes, in line with the imperatives of liberal and open economy. The private sector was allowed to play a broader and dynamic role in the economy, and the government declared a policy of gradual disengagement from the management of public enterprises. The economy was growing at a rate of more than 5 percent in the last six years since 1991, with relative financial stability. The situation deteriorated last year. During FY 1997/98, the GDP is estimated to have grown by only 2.3 percent, the lowest growth rate since 1986/87. The agriculture growth rate was less than expected and private sector investment did not pick up. Revenue growth was not as expected and the development expenditure also slowed down. When the present government came into power in April 1998, the government took various measures to mobilize additional revenue, curtailed unproductive expenditures, and accelerated the privatization process. We have succeeded in regaining the confidence of the people. Now revenue has shown encouraging signs of growth and investment has started to pick up. In order to strengthen domestic resource mobilization efforts, government is committed to implementing VAT effectively.

Attainment of economic efficiency through the privatization process has been given priority. In this context, the government in the last six years has privatized 16 public enterprises; and currently four major public sector undertakings are in various stages of privatization.

A sound financial system is a prerequisite for smooth functioning of the national economy. Our commitment has, therefore, been to augment financial sector reform so as to create a conducive atmosphere for healthy and sustainable economic development.

Equally important challenges for the Nepalese economy are to achieve broad-based growth and address the issue of poverty. These are challenging and complex issues. We believe that the development activities should be initiated at the grass root level with the meaningful participation of the stakeholders. People should be in the forefront of the development process and they should take a lead role in ensuring the investment efficiency and sustainability of the project benefits. In order to reinforce the participation process, the parliament has recently passed a Local Governance Bill, which will give more authority to the locally elected bodies in terms of revenue mobilization, allocation of resources, and implementation of development activities.

Infrastructure development is crucial to Nepal's economic development. Establishment of a rural road network; harnessing of water resources for irrigation and power development for domestic as well as the export market; and expansion of the rural telecommunications are some of prerequisites to reduce rural poverty, and the development of these sectors calls for higher investment. We have consistently increased the allocation for the social sector. In the current year's budget, more than one-third of the development budget has been allocated for the social sector. Here again, in order to improve the quality of services to the rural areas, expansion of

rural infrastructure network is essential. This is also a prerequisite to enhance the capacity of the economy to accelerate the growth rate. We therefore urge the international community to support the development of Nepal's poor infrastructure sector, without which the goal of reducing poverty will become a distant dream.

The revised document of the Ninth Plan (1998–2003) has outlined a perspective for Nepal's long-term economic development. This plan at its core has set poverty alleviation as its sole objective, aiming to reduce the population under the poverty line by one-fourth. The targeted GDP growth rate is 6.0 percent annually. The plan also seeks to limit the growth of the money supply at 13 percent, while anticipating inflation at 6.5 percent. In order to achieve the targets, the plan has envisaged, within the framework of the goals defined by the Agriculture Perspective Plan, rural development with a greater focus on social services, agriculture growth and income generating activities, and the development of infrastructure, including the construction of rural roads. It will ensure the involvement of the civil society in socioeconomic development. The government will play the role of the facilitator. The promotion of the private sector, especially in industrial, trade, tourism, and other service sectors, is the core of the reform program.

The government is committed to provide good governance, and address the problem of corruption. Corruption is a complex issue with social, political, legal and institutional dimensions. It requires the efforts of both the donor and recipient community to fight this menace. We therefore seek the World Bank's cooperation in tackling this problem.

We firmly believe that the international community will support our efforts by providing an increased level of concessional finance, particularly to the poorer countries. We are encouraged by the recent announcement by the UK government to increase their development assistance by 25 percent. We expect that IDA 12 negotiations will be successfully concluded by the end of 1998 to avoid any uncertainties. Judicious and efficient utilization of increased development assistance will help to avert not only the problems that many countries are faced with, but also make the world a better place to live in for millions of people who have never had a chance to acquire even the basic needs of life.

Thank you.