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INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES
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Statement by the Hon. **BHARAT KUMAR SHAH**,
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 a great honor for me to address 2002 Annual Meetings of the Bank and the Fund. On behalf of His Majesty's Government of Nepal and on my own, I would like to thank the Bank and the Fund for the excellent arrangement made for this meeting. I would also like to put on record our sincere appreciation to the people and the government of the United States of America for the warm hospitality extended to us. I would also like to join other fellow governors to welcome the Democratic Republic of East Timor as new member of the Fund and the Bank.

Mr. Chairman,

This meeting is very special to all of us since we are gathering here after a gap of one year in the aftermath of September 11 incident last year. Although our regular meeting was interrupted by the act of terrorism, we appreciate the fact that the world has been united ever before to fight against terrorism. We, therefore, urge the Governors of the Bank and the Fund that we should utilize this unity and move forward resolutely in the matters of economic cooperation as well.

Although global economy has shown improvements and upturns in 2002, the recovery in poor developing countries has been sluggish due to external and internal shocks. We are also concerned about the downside risks to the small and poor developing countries due to higher price level of oils and regional uncertainties. The prolonged global economic downturn has also led to a sharp deceleration of capital flows in these countries. Further, the declining of ODA to a mere 0.22 percent of GDP of developed countries as against the target of 0.7 percent is a matter of a serious concern to us. Therefore, we join the Bank, the Fund and the United Nations to call on donors to scale up their aid and boost net resource transfer to these countries to help achieve the millennium development goals including halving poverty level by 2015. In this regard, the role of the international community towards capacity building of poor countries is also equally important. We need not elaborate here how critical is the role of development assistance for the poorest countries like Nepal. As such, we urge advanced economies to honor their commitment towards poor developing countries.

We believe that the Bank and the Fund have important responsibilities in making globalization work better for poor countries. Given the wider access of these institutions

in international arena, they are in better position to help poor countries to prepare themselves to the opportunities and risks posed by globalization. We encourage the Bank and Fund to be more proactive in managing globalization to the benefit of poor countries. In our view, much work still needs to be done especially in structural reforms and institution building in poor countries so as not to exclude them from the process of globalization. Improving market access for greater coherence between aid and trade would certainly help poor countries for achieving economic growth and alleviating poverty. In this regard, we urge greater access of markets for the products of poor countries along with enhanced level of development assistance (ODA), debt relief measures and capacity building of poor developing countries in line with Doha Development Agenda of WTO and Monterrey Conference on Financing for Development. I take this opportunity to request the developed countries to assist least developed countries to enter into WTO on a fast track basis without seeking much concessions from them.

On strengthening the international financial system, we support the Fund's role on crisis prevention and crisis resolution within the expertise and resources of the Fund. The developing countries should be provided with technical assistance to enhance their capabilities on combating money laundering and the terrorist financing. With regard to lending policies and conditionality, we encourage the Fund to regularly review the applicability of such conditionality taking into consideration the mandate of the Fund and capacities of countries to implement such conditionality.

We would like to commend the Fund and the Bank for sharpening their focus on poverty in the recent years. However, time has come to assess the impact of such changes in alleviation of poverty in poor countries. In our view, the Fund and the Bank still need to be more country specific in their approach rather than following one size fits for all approach. We thank the Bank for successfully concluding negotiation on IDA 13 replenishment. Donors of IDA also deserve our appreciation for providing grants to IDA in the range of 18-21 percent to address the special difficulties faced by the poorest and most vulnerable countries. We hope that the portion of grant will be increased even more in the next replenishment of IDA to lessen the debt burden of debt ridden poor countries.

With regard to heavily indebted poor countries (HIPC) initiative launched by the Bank and Fund in 1996, it is discouraging to note that the progress has been slow. Although consensus emerged in 1998 for deeper, broader and faster debt relief, most of the heavily indebted countries are still out of the coverage of this initiative due to rigid debt sustainability criteria. We, once again, urge for a comprehensive debt relief package that includes all poor countries such as Nepal for the real solution of a debt free world.

Evolution of poverty reduction strategic credit and poverty reduction and growth facility as innovative instruments for carrying out Bank's and Fund's mission for poverty alleviation would be crucial in providing quick disbursement of external financing and supporting policy and institutional reforms to the member countries. However, we feel

that conditionality of such lending should be more realistic and have a greater country ownership.

Mr. Chairman,

Now, I would like to briefly dwell upon current economic situation of my own country. Nepal is currently passing through a critical juncture in its economic history due to domestic as well as external factors. In the fiscal year 2001/2002, our economy grew only by less than one percent as against 4.3 percent last year due to decline in manufacturing and slow down in service sector including trade and tourism. A formidable challenge was to maintain fiscal balance because of decline in revenue mobilization due to slump in our foreign trade, industrial and service sectors and additional funding required for maintaining law and order. External sector also experienced a set back. Both exports and imports declined and balance of payment recorded a deficit. However, foreign exchange reserve remain at comfortable level and is sufficient to cover one year's merchandise import.

His Majesty's Government has initiated several reform measures to overcome the present situation as well as to pave way for the long term development. Firstly, security measures have been tightened to improve the law and order situation along with allocation of more resources. Secondly, the government has been implementing Immediate Action Plan (IAP), which aims at prioritization of public resources and provision of immediate relief to the people and reducing poverty as envisaged in the Tenth Plan/Poverty Reduction Strategy Paper (PRSP). Immediate Action Plan also aims at to improve the quality of public services and enhance its transparency and accountability. Similarly, with a view to improve governance, the government in collaboration with civil society has formulated Comprehensive Anti-Corruption Strategy.

Policies have also been adjusted to address the present economic difficulties. Public expenditure management and resource mobilization has been given top priority. The financial sector reform program is progressing with restructuring of the ailing banks, new directives in implementation and strengthening of the central bank for making regulatory and supervisory role more effective. Macro-economic policies and corporate governance measures are being implemented to create conducive environment for private sector development. To reinvigorate sluggish economy, the central bank has adopted flexible monetary policy by cutting down bank rates and cash reserve ratio requirements of commercial banks with a view to inject more liquidity in the economy.

The Government has recently approved Foreign Aid Policy, which contains comprehensive reform package to enhance aid effectiveness. The policy demands behavioral changes as well as procedural harmonization of on both sides – donors and recipient. Also, this policy intends to ensure better utilization of foreign aid by addressing aid related issues. The government has also adopted the Medium Term Expenditure Framework (MTEF) under which all projects and programs have been prioritized and

resources have been estimated for next three years with a view to ensure predictability in the budget processes. For an enhanced level of revenue mobilization, measures have been initiated to broaden the tax base, create an investment friendly environment and adjust tax rates as necessary. Governance reform measures are progressing with making civil service right-sized, efficient, accountable, and result oriented. Decentralization is being institutionalized for ensuring effective delivery of public services, empowering local bodies, and mobilizing local resources for meeting development needs.

Currently, the country is facing political and economic challenges arising from Maoist insurgency and the government is determined to resolve the problem. The government is proceeding ahead with economic reforms. The reform program could be supplemented by the Poverty Reduction and Growth Facility/ Poverty Reduction Strategic Credit of the Fund and the Bank. Achieving the goal of poverty reduction of the country which is also the overarching objective of the Tenth Plan would not be possible with our resources alone. We need donor support in this process. Thus, Nepal urges the Fund and the Bank to support our endeavor with additional poverty reduction program and flexible budgetary support.

Finally, I would like to conclude by thanking the Bank and the Fund for their continued support in the development endeavor of my country.

I thank you all.