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Statement by the Hon. **MADHUKAR S.J.B. RANA**,
Governor of the Bank for **NEPAL**,
at the Joint Annual Discussion

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Mr. Chairman,
Mr. Wolfowitz
Mr. de Rato
Fellow Governors,
Distinguished Delegates,

It is indeed an honor and privilege for me to address the 2005 Annual Meetings of the Board of Governors of the World Bank Group and the International Monetary Fund. On behalf of His Majesty's Government of Nepal I thank the Bank and the Fund for the excellent arrangements made for this joint meeting. Similarly, I would like to record our sincere appreciation to the government and people of the United States of America for the warmth and hospitality extended to us.

At the outset, I would like to congratulate the Bank President, Mr. Paul Wolfowitz, on his appointment. As a personality with such vast array of knowledge and experience we in the developing world, especially those representing States-in-conflict, gripped by insurgency and terrorism, are particularly hopeful that during the tenure of his leadership of the World Bank Group new development policies and strategies would be in the offing to strengthen weak States in the interest of national, regional and collective security and the global war on terrorism. We endorse the vision of President Wolfowitz that development support needs to have two themes—the need to create the conditions for robust, private-sector-led economic growth as the core element of the agenda to achieve the development goals; and the need for good governance, including capable and accountable national leadership, effective and transparent public financial management, a determined attack on corruption, and promotion of rule of law. We are also encouraged by President's statement on effective delivery and utilization of the prospective increases in aid flows. We are also inspired by the address of Mr. de Rato and look forward to participating fully in the globalization process. We are encouraged by his flexible approach to dealing with growth and economic stability.

May I also take this opportunity to express how shocked and distressed the entire Kingdom was on seeing on television the fury of the hurricane, Katrina; and on seeing and reading on its aftermath of such ghastly proportions with the death, destruction and despair. We deeply empathize with America, and the people of New Orleans, and pray to the Almighty for everlasting peace for the departed souls. We are confident that America, being America, New Orleans will rise, once again, as a historic city that is "taller and better" in the passionate words of President Bush. The fury of Mother Nature humbles us all and, in doing so, it brings us all together as one common humanity to help one

another; and materially and financially—no matter how small the monetary assistance being rendered.

Mr. Chairman,

The global economic expansion is returning to a more sustainable pace in 2005. Soaring oil price and its volatility has, however, threatened the robust growth potential. The current oil market condition particularly hurts the most vulnerable and least developed countries, by generating the prospect for a sustained inflationary pressure in the economy. The growth of developing Asia is expected to remain robust in 2005, and is expected to continue at the same pace in 2006. As China and India are expected to grow significantly during this period, Nepal being located between these two countries is prepared to take the geographic advantage. Nepal has already initiated activities to turn itself into a transit point between these two giant economies. However, we realize that we need to have considerable amount of resources and technology to create and upgrade the infrastructures required to become a transit economy.

The Bank-Fund PRSC/PRGF initiatives for low-income countries based on country-owned poverty reduction strategies have been extremely useful. It is our expectation that enhanced level of financial support will be extended to conflict-affected countries from additional resources made available through IDA 14th Replenishment. The conflict-affected countries not only need additional financial support in a harmonized manner, the poverty reduction strategy for these countries should also be tailored to the specific country situation. It is in this context we welcome the Paris Declaration on Aid Effectiveness and are committed to its implementation. We also would like to urge donors to step up their efforts to improve the coordination and alignment of their support on their part.

For many developing countries, trade is equally and even more important than development cooperation funding in generating the necessary resources to achieve the developmental objective. Trade is a critical engine of growth and a country like Nepal is in need of improved market access in high income markets as well as financial resources to remove supply side constraints through increased investments in trade infrastructure (roads, electricity) and trade facilitation with technology and institutions.

We welcome the debt relief proposals of the G-8 Finance Ministers in Gleneagles recently. We would like to support the initiative as we see such initiative as part of the support to low-income countries helping them achieving the MDGs. However, we are equally concerned that this initiative should not put pressure on IDA resources. We urge that if the world community really wants to help poor countries to get rid of their debt, the HIPC initiative should make the criteria flexible and accommodate all debt ridden poor countries in an inclusive manner. We, therefore, urge developed countries to contribute more funds for this initiative.

Nepal supports the quest for enhancing the voice and participation of developing and transition countries in the decision-making processes at the World Bank and the International Monetary Fund.

We also welcome the Bank's renewed focus on infrastructure financing. This, we hope, will help poor countries like Nepal to overcome deficiency in infrastructure and at the same time accelerate the pace of economic growth with balanced regional development of its macro-economy. Moreover, there is a greater need of infrastructure financing in Asia where there is enormous potential for mutually beneficial trade in energy and water resources to develop new, and improve the existing, transport corridors and bolster the efficiency of transport and trade facilitation services.

We welcome the review of World Bank and IMF loan conditionalities with a view to simplifying them. It is imperative that conditionalities should not be used as a mechanism to exert pressure for changing domestic policies in developing countries that exacerbate political instability.

Mr. Chairman,

Let me briefly reflect upon the recent macroeconomic situation of Nepal. The Nepalese economy achieved a slower growth of Gross Domestic Product (GDP) at 2.0 percent in FY 2004/05 compared to 3.3 percent in FY 2003/04. Non-agricultural sector did not perform well in FY 2004/05 while agriculture sector also declined. In spite of rise in petroleum prices, the inflation remained at a moderate rate of 4.5 percent in FY 2004/05. Our growth outlook for current year is lower than what is seen elsewhere in Asia. However, we have been able to maintain macro-economic stability by maintaining budgetary discipline and adopting prudential monetary policy.

We have been consistent in our approach to targeting our efforts to poverty reduction and achieving MDGs by 2015, which is now given additional emphasis through the implementation of His Majesty's Government's 21-point program. Nepal has made significant progress over the last 15 years in reducing poverty, improving access to education, health services and drinking water, and biodiversity conservation and alternative energy. It is a remarkable achievement considering the difficult situation in the country in recent years as the MDG report 2005 reflects. This is a reaffirmation of Nepal's commitment to reducing poverty and advancing human development.

However, despite the continued efforts and with some positive signs in the poverty reduction front, all the MDGs may not be attained by Nepal unless some concrete efforts are taken. A recently conducted Needs Assessment study has estimated that Nepal needs additional 7.6 billion US Dollars to achieve the MDGs by 2015. While we have to look for ways to meeting this financing gap, we should also be innovative in our approach to implementing targeted programs effectively amidst on-going conflict. The government is now increasingly involving communities and community-based-organizations in implementing development activities and for service delivery, which has been found to be effective in conflict-affected areas.

We are fully aware that rapid economic reform is extremely vital for creating conducive environment for private investment. The government has continued financial sector reform program. The emphasis of this program is cleaning up the non-performing assets of the commercial banking system and at the same time taking stringent action on large well-connected defaulters. There has been significant progress in the privatization of state-owned enterprises, which is on the one hand helping generate extra resources for the government to finance activities related to poverty reduction and on the other hand making productive assets available to efficient private sector.

Let me reiterate that Nepal does not have adequate physical infrastructure necessary for enhanced private investment and sustainable economic growth. Since government resources are not enough, we are now promoting public-private partnerships in the creation of vital infrastructure at all levels—community, local and national.

Our poverty reduction efforts in the recent past have been encouraging. However, the fact that still around 31 percent of the population lives below absolute poverty is extremely worrying as it the core reason for insurgency and terrorism. Poverty cannot be reduced without giving people access to productive assets and income generating opportunities. We have conceived the role of Land Bank in this context which will, no doubt, bring structural changes to the rural economy through tenancy reforms.

Mr. Chairman,

May I take this opportunity to explain the directions of recent political developments in Nepal, which has often been wrongly reported in the international media? When the parliament was dissolved in June 2002 by the Prime Minister having majority in the Lower House of parliament, the promise made was to hold fresh elections within six months. The elections could not be held, as security situation seriously deteriorated. Between June 2002 and January 2005, there were four different Prime Ministers and none of them could hold elections as promised. The security situation did not improve and people at large desperately wanted restoration of peace and resolution of conflict. It was this popular sentiment that led His Majesty, who is also the custodian of the Constitution, to act for the improvement of security and restoration of peace.

The security situation in these past eight months has substantially improved. The government will be holding municipality elections in the near future. This is a step for the full-fledged resurrection of the elected bodies at all levels and eventually within two years from now, the parliamentary elections will be held. His Majesty has no intention of prolonging his rule. His wish is to strengthen the democratic process, but security and peace is very important at the moment. His Majesty has reiterated this pledge to the people that he wishes to reign and not rule.

Nepal is fighting terrorism and there has been some success as evident from the improvement in security situation in these recent months. This momentum needs to be strengthened by improved governance and enhanced development activities. At a time when Nepal needs generous international support to suppress the menace of terrorism by

accelerating the development activities and improving government service delivery, we are worried by the Bank's recent review of Country Assistance Strategy, which indicates reduced level of funding even as it recognizes significant achievements made in implementing reforms and development performance.

It will definitely weaken Nepal's efforts for achieving MDGs, reducing poverty and consolidating democracy. Moreover, the declined government spending would trigger the total loss of reform momentum and worsen the environment for development activities and private sector investments thus giving fresh impetus to terrorism and helping undesirable elements to take the country towards anarchy.

Therefore, I urge the World Bank to retain the present lending status and release the second tranche of Poverty Reduction Support Credit (PRSC II) to Nepal, as most of the promised actions have been successfully carried out. The government is fully committed to implementing the remaining actions. Nepal in this hour of crisis, ridden by terrorism, deserves all the support in a clear, consistent, sustained and dependable manner if the gains made thus far by implementing PRSP and economic reform programs are to be sustained. We are thinking of next generation of reforms that will target the improvement of lives in the rural areas. This is the only way by which recurrence of conflict and armed insurgency can be totally prevented. And in our mission, we want the World Bank to be a partner.

I thank you all for patient hearing.

Thank you.