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Statement by the Hon. **MAHESH ACHARYA**,
Governor of the Bank for **NEPAL**,
at the Joint Annual Discussion

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Mr. Chairman,
Mr. Kohler,
Mr. Wolfensohn,
Fellow Governors
Ladies and Gentlemen

I feel honored and privileged to have this opportunity of addressing the first Fund-Bank Annual Meetings of the new millennium. At the outset, I would like to congratulate Mr. Kohler on his appointment as the Managing Director of the IMF. I would also like to express my gratitude to Mr. Michel Camdessus for his valuable service to the Fund and support to the cause of developing countries.

I express my sincere appreciation to President Havel's thoughtful observations in his inaugural address and I thank the government and people of Czech Republic for hosting the Annual Meetings and extending warm hospitality to us in this beautiful city of Prague.

Mr. Chairman,

Let me begin with the recent changes in world economy. The world economy has shown signs of recovery. The growth rate reached 3.4 percent in 1999 and is expected to further rise to 4.7 percent in 2000. Likewise, world trade volume is expected to rise by 10 percent in 2000. However, the current oil price rise could pose difficulties in maintaining the current level of growth at the global level. The smaller and low-income economies would be more adversely affected by the multiplier negative effects created by the oil price hike. In South Asia, a region that has witnessed higher levels of economic growth during the past couple of years of economic liberalization, entrenched poverty and associated social conflicts have forced government to divert resources toward countering such conflicts. I would, therefore, like to draw the attention of global community, especially the Fund-Bank, to pay attention to help government address these social and economic challenges.

Since our last Annual Meetings in Washington, DC, I am pleased to note that the Fund-Bank are trying to move in close collaboration with increased commitment toward reducing poverty, achieving growth and maintaining international financial stability. The Fund-Bank leadership deserve our appreciation for the initiatives taken in this regard with

a view to avoid possible duplication of efforts as the roles of two institutions are evolving over the time.

Poverty has become the core issue touched upon by all of us but our response to this issue has been weak in relation to the actual transformation of poor. Unless we make concerted efforts by providing more resources to the poor countries, it is clear that these targets will not be achieved and poverty reduction will remain rhetoric rather than the reality. I, therefore, would call on the global community to redouble their efforts to achieve the international development goal of halving global poverty level by 2015 and to achieve other international development targets.

We would like to appreciate the Fund-Bank for the efforts toward implementing an enhanced HIPC initiative for faster, deeper and broader debt relief. May I also remind you the concern that I raised, as the Chairman of the Annual Meetings of the Bank-Fund last year, the need for the wider inclusion of poor countries like Nepal under this initiative. I particularly appreciate the determination of the Fund-Bank to include additional member countries under this initiative. However, we are equally concerned with the slow progress in this process.

The Fund-Bank initiative on Poverty Reduction is an encouraging step to develop pro-poor strategies and help member countries evolve their own coherent and consistent policy and allocation framework. The poverty reduction strategy would definitely assist developing countries to do away with conventional barriers and open new vistas of reforms in poverty reduction programs. We are of the view that the Poverty Reduction Strategy Paper (PRSP) should not become the international blueprint across the board but should provide a framework to include the indigenous experiences and distinct settings of the respective countries. The Comprehensive Development Framework (CDF) has indeed provided early reference to such strategy and the approach of partnership and involvement of beneficiaries at large.

Poverty reduction and global public goods do not compete - they, in fact, complement. Public goods should be stretched and seen from global as well as regional and local perspectives. Peace, knowledge, trade, environment, sound financial system and prevention and eradication of communicable diseases are common public goods. In order to distribute these goods equitably across the globe especially in developing countries, judicious investment in these sectors is a must. The Fund-Bank should be proactive and take the leadership in safeguarding the interests of the small and poor countries.

Mr. Chairman,

Let me now briefly touch upon some of the economic development indicators of my country. The economic liberalization policies and programs of the past decade have been important in greater private sector participation and improving the resource allocative efficiency of the economy. The gains from liberalization are further strengthened by deregulating and decontrolling several state controlled entities.

Nepal attained economic growth of 6 percent last year, the highest for the last six years. Despite high export growth and remittance inflows, merchandise trade deficit/GDP ratio remained at 15 percent and the current account turned into a huge deficit, due to growth in import and decline in net services income. Inflation dropped to an annual average of 3.3 percent from a double-digit rate observed during the previous year. Total investment and national saving as percentages of GDP during the fiscal year have been higher than that of the previous year. The revenue/GDP ratio reached 11.4 percent, up from 11.0 percent during the previous year. Macroeconomic framework seems stable but its fragile export sector coupled with big import dependency indicates its vulnerability.

The reforms have been intensified recently. The government is working towards creating a prudent expenditure framework by curtailing existing unproductive expenditure and limiting its scarce resources in viable and feasible projects. The recently constituted Public Expenditure Review Commission is reviewing the current expenditures and will recommend the ways to trim the size of the recurrent expenditure and create a healthy expenditure framework. In order to meet the increasing expenses of the government and development expectations, the base of internal resources are being widened. The government is simplifying and enforcing the tax related procedures to increase the government receivables to achieve an annual increment of 0.5 percent revenue/GDP ratio in the medium-term.

Our reform agenda encompasses wider issues of economy and governance. The government has developed its financial sector strategy which focuses on reform and restructuring of ailing commercial banks. We have also developed a multi-faceted civil service reform program to introduce the reform measures at organizational, functional and ecological levels. To ensure transparency, predictability, accountability and sincerity in administration; legal, institutional and procedural guidelines are created. The legal framework is being consolidated to guarantee financial autonomy to the local bodies, thereby, completely devolving authorities and functions to them. Under good governance, our focus is on strengthening the institutions which could adequately perform the vital State functions of peace and security; efficiency, consistency, predictability in service delivery and combating corruption. Civil societies have gained increasing role and recognition in socio-economic development issues in general and poverty reduction efforts in particular.

Mr. Chaiman,

The daunting challenges of Nepalese economy are low agricultural productivity, high population growth, burdensome public sector, low level of social development and poor infrastructures. These structural impediments have handicapped the scope of our economy resulting in massive poverty.

Poverty situation in Nepal is unique -- spatially uneven, socially skewed and genderwise discriminative. The government has taken various measures to address this complex and interlocked issue of poverty. The intensification and diversification of agriculture to

enhance farm productivity has been taken as broad based growth strategy to improve the status of median and low income groups. Emphasis has been placed for infrastructure and utility services in remote and rural areas to create rural-urban linkage and reduce regional disparities. Similarly, empowerment and social upliftment programs to the socio-economically underprivileged groups have been launched as targeted programs for the poor.

Nepal is in urgency to develop an integrated poverty reduction program with wide geographical and demographic coverage. For this, Poverty Alleviation Fund (PAF), which has recently been created by the government at the center helps not only to streamline all poverty related programs but also helps diffuse poverty reduction programs to the needy area and people through non-governmental organizations, community-based organizations, savings and credit groups and other civil society organizations. The government is in the process of finalizing PAF modality and procedures.

We are also in the process of preparation of a home-grown comprehensive poverty alleviation strategy which will be based on the experience of the existing poverty reduction framework and will also look into the new poverty alleviation tools available in the regional and global environments. This strategy will be further consolidated with additional exercises and broad-based participation that would be enlisted for the preparation of the forthcoming Tenth Plan (2002-2007).

Mr. Chairman,

There should be a match between what developing countries expect and what Fund-Bank offer. It has been noticed in the past that the Fund-Bank lending priorities, conditions and resources have not matched the priority and needs of the recipients. It is, however, heartening to note that both Mr. Wolfensohn and Mr. Kohler have renewed their commitment during their inaugural statements to narrow the gap between donors commitment and recipient's expectations.

Building a genuine partnership between the government and its development partners and enhancing national ownership of development programs are seen as essential prerequisites for effective aid management. Underscoring these considerations, the government has recently brought out a draft foreign aid policy that aims at integrating external assistance with the development priorities of the country, claims government leadership in aid coordination and focuses on improving mutual responsibility. More importantly, we are of the view that the resource flow for the policy-related and institutional considerations, that are mainly of the cross-cutting nature, should not affect the critical resource requirements of core investment areas like the physical and social infrastructure and poverty reduction programs at large.

Mr. Chairman,

We have no doubt in our mind that the only way to bring prosperity to our people is to move ahead with our reform agenda. But, our experience suggests that management of

reform in a young democracy is difficult and painful. No doubt, this difficult public policy choice needs commitment at the top level but it equally requires support from the grass-roots. Despite commitment at the policy level, the structural-institutional-capacity-related constraints and paucity of resources would try to thwart the successful implementation of the reform strategy. Since some of the institutional and capacity related constraints arise due to paucity of resources, the inadequate resource back-up to reform delays benefits of such reforms reach the poor. During such difficult and long transition and stalemate bounce back the skeptics who denounce reform and undermine institutions. Then, we witness strong resentments and social conflicts. I would, therefore, like to encourage Fund-Bank management to seriously look into such difficult dimensions of reform management in poor and low income economies..

Today, Nepal is in transition and the forces of change and development have become more active and visible in our society. More and more people are coming forward with entrepreneurial zeal and dynamism to transform the life of our nation. Although we have been witnessing moderate growth in our economy at present, the future definitely looks much brighter. The increased scope created by the reform process for the mutual cooperation and interactions among the government, donor community, civil society and people at large ensures huge opportunities and potentialities for transformation of Nepal.

I thank you all.