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WORLD BANK GROUP

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL FINANCE CORPORATION
INTERNATIONAL DEVELOPMENT ASSOCIATION
INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES
MULTILATERAL INVESTMENT GUARANTEE AGENCY

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

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**Mr. Chairman,
Fellow Governors,
Distinguished Delegates!**

1. When we last met in Washington DC a year ago, economies around the world were struggling to cope up with rising commodity prices and food crisis. Major stock markets were beginning to shed asset values and a greater financial crisis was brewing in the background. In a few months since then, financial markets virtually collapsed in an astonishing speed. The contagion quickly spread to other sectors resulting into massive loss of jobs. International trade plummeted in a scale never seen before in our lifetime.
2. Nepal, just as many other developing countries, was worried that the remittance and tourism income will nosedive; aid receipts and already low-volume exports will suffer. These anticipations were frustrating particularly in the context of additional financial resources required for a country just emerging from a decade-long conflict to carry out relief, rehabilitation and reconstruction.
3. A year on, the world is much wiser. We have seen countries implementing fiscal and monetary stimulus in an unprecedented scale and in a much coordinated manner. The result thus far has been impressive. At least the further erosion in economic activities is averted. Recession seems to be over. But much remains to be done to secure a durable recovery and a new order is needed so that we do not confront a similar tragedy in the future.

Mr. Chairman,

4. As for Nepal, contrary to our worst fears, remittance remained robust, tourism did not decline, aid commitments and exports did not suffer much. Domestic financial market remained stable although we have our own worries of property and stock

market bubbles, high credit-to-deposit ratio in the banking sector and, above all, a serious unemployment problem. At the same time fiscal burden created due to rising petroleum prices in the past is yet to be made up. In this connection, we welcome the G-20 commitment for improved regulation, functioning, and transparency of financial and commodity markets to address excessive commodity price volatility.

5. I greatly acknowledge the World Bank's tremendous job in global crisis response. I appreciate the record high lending commitments and the different instruments such as the Global Food Crisis Response Program, the Infrastructure Recovery and Assets Platform, the Rapid Social Response, as well as IFC-led initiatives for the private sector. I also commend for President Mr. Robert Zoellick's strong leadership to lead the Bank ahead enabling the institution to encounter various global challenges.
6. There is much needed to be done to make the Bank and the Fund more responsive to the needs of emerging and developing economies, however. This includes other International Financial Institutions, as well. At the macro level, the issue of Voice and Participation Reform is important. It is equally important to enhance the financial capacity of Bank Group and the Fund. In this context, we welcome the recent resolve of G20 leaders to implement measures to increase responsiveness and adaptability of IFIs. We particularly welcome the proposed surveillance and regulatory mechanism for global financial stability and the need for a more legitimate and effective IMF.
7. At the micro level, particularly the Bank's lending instruments to developing countries need to be more flexible allowing quick transfer of committed resources from under-performing projects to others in the recipient country. In case of IDA-eligible countries either in conflict or just emerging from conflict, the country context needs to be considered in making allocation decisions.
8. I am sure under the leadership of President Zoellick and Managing Director Strauss-Kahn, major reforms in these institutions will be successfully implemented.
9. I would like to take this opportunity to briefly highlight the **key challenges** that

Nepal is facing today, which we alone cannot deal with quickly and effectively. The **first** is achieving sustainable peace. We are in the process of drafting a new constitution and expect complete in the timeline that all political parties agreed through the interim constitution. The making of the new constitution is one element of the peace deal, the other two important elements are reintegration of Maoists combatants who are for nearly two years inside the cantonments. The other major element is the relief, rehabilitation and reconstruction. We thank the international community and the United Nations for their support in the peace process, but still need more support to complete relief, rehabilitation, reconstruction and reintegration.

10. The **second** is the widening disparity between the rural and the urban economies. While Nepal was able to reduce headcount poverty level, the poverty level in the rural area has not declined much. Much of the rural area does not have access to roads and modern energy and standards of basic social services, such as health and education, remain very poor. Without these, we cannot expect rural economy to improve and create new jobs. There is a need for massive investment in basic infrastructures and in improving social services. Without these, we cannot reduce the disparity and without economic prosperity there is a danger of country relapsing into another violent conflict.
11. The **third** is the adverse effects of suspected climate change. We have been experiencing the effects in the form of erratic rains and snowfall. There have been floods and droughts at the same time in the country. The immediate effect of this has been on the agriculture production. We faced food shortage last year and, in 2009, the production is expected to go down further. Food prices are soaring. The government has to ensure that poor people get food supplies and at prices they can afford. While the food crisis is immediate, climate change is also bringing catastrophe at an unprecedented level. Nepal is yet to complete rehabilitation and reconstruction of damages caused due to Koshi basin floods last year that inundated a large area in Nepal and much larger area in neighboring India. While global efforts are required to fight against climate change, we in Nepal see that unless we

provide reliable and affordable source of renewable energy to more than 60 percent of the population that still depends upon forest fuel-wood for household energy requirement, our forest will thin out. Protection of forest in Nepal is necessary to protect the glaciers and the flow of the river systems that provide water for irrigation, livelihood and hydropower potential for Nepal and significant portion of India and Bangladesh.

12. While I am talking about Nepal's challenges due to climate change, I am saddened to hear the news of human tragedy due to typhoons in the Philippines and unusual floods in South India. Indonesia for over a week is struggling to minimize the loss of human lives due to earthquake. We need to have concerted efforts to avoid the occurrence of such catastrophes.

Mr. Chairman,

13. Recently, the Government of Nepal hosted the South Asia Regional Climate Change Conference: From Kathmandu to Copenhagen: A Vision for Addressing Climate Change Risks and Opportunities in the Himalaya Region. We are hopeful that the upcoming Copenhagen Meeting will be meaningful and the developed countries will largely support developing countries being affected by climate change.
14. I would like to thank the Bank and the Fund for their continued support for Nepal's overall development in the past and hope for the enhanced support in the future.
15. Before I close, I would like to express my sincere appreciation to the Government and the people of Turkey for the excellent hospitality accorded to me and my delegation and also for the excellent arrangements made for these meetings in this historic city of Istanbul
16. I wish the Annual Meetings a grand success and thank you all for your kind attention!

Thank you!