Nepal: Country Assistance Strategy — Progress Report

We thank management and staff for this progress report. Notwithstanding the political and administrative environment in Nepal, it is very encouraging to note that the joint efforts of the Bank and the Government of Nepal have yielded positive results. The country has been able to maintain a stable macro-economic framework that is manifested in the stable domestic inflation and balance of payments position. In addition, there has been considerable progress in the privatization process and in the plan to introduce a Value Added Tax system.

However, the situation remains very fragile as successive governments have faced formidable difficulties in mobilizing the necessary support for strong economic reform program which is key for improving Nepal’s extremely low social indicators, particularly reducing the number of Nepali living below the poverty level. We therefore support the Bank’s strategy in focusing on strengthening its dialogue with the government, especially on the need to attain an acceptable macro-economic, sectoral and environmental policy framework.

We are pleased to note in the progress report that the increase in front line services by moving supervision to the field, decentralizing many disbursement decisions and strengthening of the Kathmandu office has paid good dividends by way of improved portfolio management. Only two out of fourteen projects are now rated as unsatisfactory compared to seven in FY96. It is also worth noting the involvement of beneficiaries and NGOs in all stages of project design and implementation. This will, no doubt, strengthen project ownership and sustainability. We also applaud the decision to locate the Nepal Country Director in Kathmandu as this will further strengthen the Bank’s policy dialogue with the Nepali authorities, besides enhancing close project supervision.

For sustainable economic growth, more attention needs to be given to the country’s human resource base. This would entail directing more resources to education and human development. In this connection, we welcome the proposed technical assistance program, particularly the use of IDF and EDI in building capacity in the area of public sector management. The proposed strategy of involving the private sector in
overcoming public capacity constraints, whenever the relevant private expertise is available, is equally appropriate. With regard to structural reform, we endorse the Bank’s plan to continue supporting investments in the productive sectors, even in a difficult political environment.

There are some areas where we would have expected further elaboration in the report. The progress report does not give us an insight into the involvement of other donors in Nepal. We would also appreciate staff comments on the status of the 1996 IMF ESAF program to the country. We note that IFC has not been very active in the country. We would have expected to see the involvement of the Corporation in areas such as the energy and financial sectors. Likewise, there is also no mention of MIGA’s activities in the report. We believe that MIGA can play a very active role in attracting private capital flows into the country.

On the whole, we have no difficulty with supporting the proposed IDA assistance for FY98-00 as stated in Table 2 of the document. We hope that flexibility will be exercised when initiating triggers in view of the difficult political climate currently prevailing in the country.

We endorse the two proposed credits accompanying this progress report as they are fully consistent with the CAS discussed in 1996. The Multimodal Transit and Trade Facilitation Project will increase the country’s exports potential and make the Nepali economy more competitive in the world market while the importance of the proposed Irrigation Sector Project cannot be overemphasized in a country with over 85 percent of the population working on the land. We however hope that the increases in water charges will be of such a magnitude that they will be affordable by rural poor farmers. It is also our view that the various technical assistance components will help to develop the necessary institutional capacity that would ensure self-sustainability of the projects.

Finally, we commend the staff for their efforts in preparing the progress report and the two projects. We also wish the Government of Nepal success in their efforts to put their economy back on track.