Board Meeting of December 15, 1998
Statement by Anna Brandt

Nepal Country Assistance Strategy

1. We appreciate the frankness of the analysis both in the CAN and the CAS with clear identification of shortcomings and risks, and support the strategy of bringing the design of Bank supported programs closer to people.

2. We are in agreement with the Bank that political instability, corruption and lack of good governance needs to be highlighted by the donor community. At the same time, progress, such as the measures taken recently by the Nepalese government to reduce the high turnover rates of civil servants, should be noted. We appreciate that the CAS’s progressive lending scenarios have been designed as clear incentives for enhancing governance. Consequently, we also support the resolute suspension of lending where critical goals are not met.

3. Improved management in the entire Government administration and more effective service delivery are prerequisites to maintaining peoples’ confidence in the future and support of reforms. We support the Bank's suggestion of undertaking a major Public Expenditures Review, and we hope the Bank will expand its assistance to help improve governance in critical areas in collaboration with ADB.

4. We share the view that the donor community must accept its part of the responsibility for the present discouraging picture, which is characterized by a weak and corrupt public sector, stagnant real revenues, inefficient parastatals and a weak financial sector. Looking at the future, the donor community, together with the Government, must take adequate measures to remedy the situation through intensified donor coordination and development of common approaches to tackling sensitive issues.

5. We find that the assessment of the economic situation needs further elaboration. In the latest Quarterly Review by the Nepal Rastra Bank, the price level in the two first months of the current financial year, i.e., July 15 to September 15, has increased at an annual rate of 35.5%, indicating that the domestic inflation rate will remain in the two digit levels for the foreseeable future. Also, the annual growth of GDP for the first two years of the Ninth Plan is not expected to be higher than 3.0 % p.a. In spite of a recent improvement of trade relations with India, the Plan target of 6.0 % economic growth p.a. over the plan period will probably turn out to be
too optimistic. With no signs of a lowering population growth rate, increase in per capita incomes will only be marginal.

6. Despite frequent references to the fact that Nepalese women are particularly disadvantaged, compared to other developing countries, there seems to be no clear strategy as to how the Bank intends to help remedy the situation. The absence of indications of how to deal with this issue leads one to suspect that there is no clear sense of direction in this respect. We would appreciate comments from management on this.

7. The environment and people in Nepal as well as in its neighboring countries have suffered gravely from the consequences of widespread natural resource depletion in the country. It is difficult to understand why this important dimension is not dealt with more explicitly.

8. We find that the Sector Strategies section of the CAS would benefit by dealing explicitly with donor coordination in the respective sectors. In the Education Sector, for example, the current BPEP Program has been kept afloat because BPEP II is still awaiting the outcome of donor preparations. Before the agreed deadline of July 15, 1999, i.e., the beginning of the next fiscal year, it is important that the required preparations and coordination are completed and donor funding is place in order not to jeopardize the achievements of BPEPI. Coordination in the other sectors is likewise of importance.

9. The World Bank is the second biggest multilateral donor to Nepal after the Asian Development Bank. This probably warrants that the World Bank can maintain activities in several sectors. However, spreading the activities over eight of the largest sectors in Nepal seems to be too ambitious, particularly in view of the risks posed by the lack of good governance. Furthermore, the development impact is likely to be diminished. We therefore feel that the Bank should reduce the number of priority sectors.