At the outset, on behalf of my Nepalese authorities, I would like to thank the Management and staff for preparing this excellent Country Assistance Strategy on Nepal. The CAS is candid and touches upon critical issues affecting the development efforts of Nepal in the last several decades.

Nepal’s development challenges as described in the CAS include not only the macroeconomic management factor, the weak financial sector, the high incidence of poverty, corruption, and illiteracy, but are also heightened by the difficult geographical terrain compounded by the landlocked feature of the country. Moreover, until 1950s, the country lacked modern infrastructures, social services and was not linked with the global economy. As the CAS eloquently sums up, despite the country’s late start and other numerous problems, Nepal has made considerable progress in creating some basic infrastructures and in providing social services to its people. Politically, Nepal transformed itself to a multi-party democracy in 1990, and since then has made significant progress in making the economy more liberal, open and market-oriented. The present challenge before the government is how to consolidate and enhance the reforms that were initiated a few years ago and reduce widespread poverty.

The CAS analyzes the poverty situation in the country and rightly points out that the progress in this area has not been substantial. The CAS also touches on problems such as corruption and its consequences, the situation of macroeconomic management and Nepal’s unrealized potentials. In all these areas, Nepal has been trying hard to turn around the situation with the Bank’s, and other donors’, assistance. The parliamentary election to be held next year hopefully will put forth a stable government to give continuity in implementing vital economic policies for the country’s broad-based growth and in alleviating poverty. Besides, the Ninth Development Plan, which was finalized in July 1998, emphasizes the eradication of poverty as its major developmental agenda. To this end, the plan targets a growth of 6 percent during the plan period, and 7 percent growth in the following decade and half. The plan also stresses the need to increase employment opportunities for a rapidly expanding labor force, to accelerate social development and to improve access to basic infrastructures. To accelerate growth, the plan proposes harnessing Nepal’s growth potential in agriculture, forestry, hydropower and
tourism. The plan also accords an enhanced role of the private sector in economic development and recognizes the role of the public sector as a facilitator, in line with the liberal and open market-oriented economic policies.

The country has generally maintained a stable macroeconomic situation. Although economic growth declined to 1.9 percent in 1998, it is expected to rebound modestly to 4 percent in 1999. The present Government, which came to power in April 1998, has turned around the situation with improvements in revenue collection and boldly introducing VAT in the face of strong opposition. It has shown strong commitment to combat corruption. The Government’s request for the Bank’s assistance with regard to tackling corruption and broader governance issues exemplifies the Government’s determination in this direction. The security situation has also been improved. Furthermore, the Government is determined to make major improvements in national economic and fiscal management. In this regard, 16 public enterprises have already been privatized and many more are in the pipeline, the financial sector has been deregulated, which will improve resource allocation.

My authorities fully endorse the two pronged strategies of the CAS: bringing resources closer to the beneficiaries and introducing collective donor action. They support the CAS’s emphasis on local/private involvement in project implementation and on the strengthening of the center in monitoring and evaluation. It is expected that this will complement the Government’s new Local Self-Governance Bill, which delegates more power to the districts. However, they feel that the institutional capabilities at the local/private level will have to be substantially improved to get the desired results in this regard. Similarly, they welcome the emphasis of the CAS on donor coordination to improve aid effectiveness in Nepal. The Government is ready to work with the donors for better aid coordination and take full control of aid resources. In this regard, they wish to thank the Bank for carrying out public expenditure review which is expected to rationalize the government’s request for donor assistance.

My authorities feel that the CAS strategies should be better linked with the country’s Ninth Plan objectives so as to augment resources required for the successful implementation of the plan. They are confident that the intensive consultation in preparing the document with village user groups, government officials, NGOs, the private sector, academics and journalists, will bring about a greater feeling of ownership of the CAS among all the stakeholders, and eventually contribute in implementing the strategies effectively.

Regarding the proposed three lending scenarios: low case, base case and high case; the low case scenario of IDA lending of $0-150 million in FY99-01 is too pessimistic of a scenario. It is not convincing that Nepal’s political and economic situation will deteriorate to the extent to warrant zero-level lending, as envisaged in the CAS. Even if the situation were to deteriorate, this scenario should not be applied; we think that it will not only cause a severe balance of payments problem and resource crunch to the country, but will also severely jeopardize the previous investments of the Bank in Nepal. In our view, the low case scenario to a poor country such as Nepal, with a fledgling democracy facing difficult development
challenges, will be overly-constraining financially. Moreover, the CAS does not provide adequate plans to manage this risk. Therefore, we prefer a more optimistic lending scenario on CAS.

The proposed sectoral strategies, benchmarks and ESW are appropriate. However, a more dynamic power sector strategy is needed to exploit the vast hydroelectric potential of the country, estimated at about 83,000 MW. In this regard, we especially welcome the OED findings which, among other things, have pointed out the need for better integration of Nepal’s power system with the Northern and Eastern Indian Grids. Similarly, the CAS should have also mentioned the country’s tourism sector strategy, which is another potential positive area of the country. In our view, Nepal needs to exploit its power and tourism sectors to the maximum extent to accelerate economic growth and to alleviate its massive poverty. The CAS has rightly emphasized better infrastructures as a precondition for broad-based growth in Nepal, and my authorities hope that the Bank will continue its support in the infrastructure development of the country. In this respect, they are ready to work with the Bank in this area including urban infrastructure and environmental sectors.

My authorities welcome EDI’s proposed assistance to Nepal with the aim of creating national capacity and indigenous skills to formulate and implement the country’s development agenda. Training programs, particularly focusing on grassroots level poor women and government officials involved in fiscal decentralization and microfinance, will in turn help the Government implement programs in poverty alleviation.

IFC’s strategy towards Nepal is very encouraging and my authorities welcome its role in establishing physical infrastructures, developing markets and reforming the financial sector in Nepal. My authorities also strongly endorse IFC’s future involvement in industrial and tourism projects in Nepal.

Finally, on behalf of our Nepalese authorities, we would like to thank the Bank for its continued support to Nepal in its development endeavors. They have also expressed their consent to the release of the document.