

**NEPAL****RAM SHARAN MAHAT, Governor**

It is my pleasure and privilege to address this Thirty-Fifth Annual Meeting of the Board of Governors of the Asian Development Bank (ADB). On behalf of my delegation and myself, I would like to thank the Government of the People's Republic of China and the people of Shanghai for the warm welcome and hospitality extended to us during our stay in this beautiful city. We express our deep appreciation to ADB for the excellent arrangements made for the meeting. I would like to congratulate you, Mr. Chairman, on your election as the chair of the annual meeting. Let me extend my sincere congratulations to Mr. Tadao Chino on his reelection to the coveted post of the President of ADB for another five-year term. I am confident that ADB will emerge as a stronger and a more dynamic institution in the days to come. In the mean time, I would like to welcome Portugal as the 60th member of the ADB community.

Poverty, by far, has remained the major challenge of the Asia and Pacific region, where more than 900 million of the world's poor live. Amelioration of this scale of massive poverty has remained one of the principle concerns of ADB. We note with satisfaction that ADB has approved a numbers of policy measures in 2001. The adoption of the long-term strategic framework; the medium-term strategy; and policies on water, education, and performance-based lending are among those that will contribute to the alleviation of poverty in the region. These, coupled with ADB's governance initiatives and other institutional strengthening measures, will prove important in fostering an environment for sustaining growth and alleviating poverty in the developing member countries.

There has been a decline in ADB's commitment of both loan amount and technical assistance in 2001. In view of this, the net flow of resources both at the country and aggregate levels has dropped. Consequently, the volume of lending in Nepal has also decreased in comparison with the previous year. However, with the prospect of gradual recovery in the global economy accompanied by an increased level of economic reform initiatives in the developing member countries, the operations of ADB in the coming years will pick up. Viewed in this context, the responsibility would increase, along with the scale of resources that need to be mobilized to meet this need, including the Asian Development Fund, a soft window of ADB.

The developing member countries of ADB, including my own country Nepal, have greatly benefited from technical assistance provided by ADB for project preparation and

capacity-building activities. In this regard, I would like to take this opportunity to express our sincere appreciation to the donor governments for their generous support. We also wish to put on record our sincere gratitude to the Government of Japan for creating the Japan Fund for Information and Communication Technology with a view to bridging digital divides in the region. I am confident that developing member countries will benefit immensely from this initiative.

ADB's initiative in promoting economic growth through regional and subregional economic cooperation, we hope, will open new opportunities for accelerating the economic development process in developing member countries. Nepal strongly supports the South Asian Subregional Economic Cooperation Program being implemented under the framework of the South Asian Growth Quadrangle. Indeed, regional economic cooperation can be a powerful tool for dealing with regional issues and reaping benefits unleashed by globalization. Therefore, we hope that this program will help realize the vast resource mobilization potential of this region. We are confident that more efficient use of regional resources, protection of the environment, and expansion of trade will ultimately help reduce poverty in the region.

Now, let me turn to my own country, Nepal. Despite being a late starter of development in the South Asian region, Nepal has achieved tangible progress on the socioeconomic development front after the reinstallation of democracy in 1991. The Government has been focusing its efforts to strengthen democratic institutions and empower these institutions to address social, economic, and political issues, as well as fulfill the rising expectations of the people. However, in recent years, violence, destruction, and terror unleashed by the terrorists in the name of Maoism have seriously affected the country's development process. The nation, the people, and the economy are badly affected. Not only human lives, but even infrastructure like telecommunication facilities, electricity plants, roads, bridges, government offices, and banking institutions have become the target of terrorist attacks.

The extent of destruction of physical infrastructure by the terrorists has been estimated at \$250 million until now. Immediate rehabilitation costs to restore the damaged public facilities and services is estimated to be more than \$100 million. The Government exercised a lot of restraint to prevent the loss of human lives and property. The failure of the negotiations exercise left the Government with no choice but to proclaim an emergency and undertake all measures that are absolutely necessary to maintain peace and tranquility in the country. The state of emergency is only a temporary phenomenon, a compulsion rather than a choice, which will be brought to an end very soon. At this critical juncture, we need all-out support from ADB and the international community to bring the situation under control in order that normal development activities and programs in Nepal can continue in full swing.

On account of global and domestic terrorism as well as global economic slowdowns, economic problems are compounded and are getting complex in Nepal. Revenue targets have become unattainable. Economic output, export, import, tourism, investments, and overall economic outlook have received setbacks. Our earnings have gone down and tourism has declined by almost 50%; industrial output has sharply

declined. On the other hand, increasing security cost, among other things has pushed up the Governments' regular expenditures far exceeding the previous estimates.

However, due to the prudent macroeconomic policy stance of the Government, the budget deficit is under control, the price situation has remained stable, and the foreign exchange reserve has been kept at a satisfactory level. Domestic borrowing has been controlled to avoid the crowding out effect in investment. However, there has been an increase in the current account deficit partly due to decline in services income, and the overall balance of payments has remained negative during the year.

The Government is fully committed to the implementation of various poverty reduction measures including channeling more domestic and external resources to the needy and poor people down to the grassroots level. We are in the process of finalizing the Tenth Plan-Poverty Reduction Strategy Paper (PRSP) with a sole objective of reducing poverty. We believe that Tenth Plan-PRSP will provide a general framework for poverty reduction strategy under which all stakeholders will assume their definite and significant roles. Nepal has signed the Poverty Partnership Agreement with ADB, which reflects the Government's goal for poverty reduction. We are also preparing a medium-term expenditure framework, which will help anchor the plan in reality of the present resource situation and to translate the plan and priorities into an achievable program. Likewise, the Government has initiated a number of measures to consolidate the reform process with strong emphasis on poverty reduction. The reform measures mainly concentrate on the areas of civil service, good governance, financial sector reform, private sector development, and decentralization.

At a time, when Nepal's resources requirements have increased many times and the capacity to mobilize the country's own resources has shrunk for several internal and external reasons, we are in need of extra resources to fund our economic reform programs and to finance social sector, agriculture, infrastructure, and other development activities. Therefore, we are in urgent need of flexible economic assistance from ADB and our valued donors to support our budget so that our priority programs in sectors like education, health, and rural development are not affected.

Furthermore, the interplay of forces like reduced revenue due to slowing down of economic activities on the one hand, and increased security cost and the need for high social spending on the other, has put severe pressure on public resource management. On top of this, our debt servicing liability is growing fast. About one third of our revenue needs to be spent on debt servicing. Therefore, we urge the international community to consider liberal debt relief measures, or at least debt service moratorium for some time. This will give Nepal at least an immediate breathing space to carry out the minimum level of development activities for people.

Nepal is serious about effectively utilizing resources in the face of grave fiscal problems. As part of efforts for the overall utilization of resources and lifting the country out of this hardship, Nepal's fiscal priorities are being closely reviewed with a view to addressing internal security needs, reducing poverty, and generating employment opportunities. We are determined to translate policies and reforms into concrete actions, in the hope that the end result of these endeavors will yield quick, observable, and

monitorable results in terms of the delivery of services—such as basic health care, basic and primary education, agriculture, drinking water, and so on—to the rural communities in our effort to alleviate their poverty.

We are aware that the implementation of these reform measures is not an easy task in countries like ours. Nevertheless, we are committed to overcome the complex and challenging problems and transforming the economy's potentials into concrete achievements. Our association with ADB and the international community, I believe, will help us achieve this.

The relationship between Nepal and ADB has grown ever stronger and closer over time. ADB's assistance has covered almost all sectors of the economy including agriculture, power, transport, and social services. We are thankful to ADB for its valuable support in our socioeconomic development endeavors. I am fully confident that the economic cooperation between the Government and ADB will be strengthened in future.

Before I conclude, let me take this opportunity to express our sincere appreciation to ADB and all our valued development partners for their commitment and support in the recently concluded Nepal Development Forum meeting held in Kathmandu in early February this year.