



39TH ANNUAL MEETING

BOARD OF GOVERNORS

ASIAN DEVELOPMENT BANK

Hyderabad, India

4–6 May 2006

GS-21

NEPAL

Pramod Kumar Karki, Alternate Governor

I bring a message of goodwill and cooperation from Nepal's new government to this Annual Meeting in the historic and rapidly transforming city of Hyderabad.

First of all, we would like to welcome Armenia and Brunei Darussalam into the Asian Development Bank (ADB) family.

Looking back, we have reasonable grounds to be happy about the performance of ADB in the past year, which has also been President Kuroda's first year in office. We congratulate the President for the successful implementation of the reform agenda that the Bank set for itself.

In addition, ADB introduced innovative financing modalities and instruments in 2005 that are primarily focused at the financing needs of member countries. ADB's rapid and effective response to emergencies such as the Asian tsunami, severe acute respiratory syndrome (SARS), avian influenza, and the devastating South Asia earthquake was commendable. We note that ADB is increasingly listening to what developing member countries have to say and tailoring its assistance and implementation methods so they are in line with national priorities and practices. There is much to be done in the area of aligning aid with national priorities and procedures, but we see the present efforts are in right direction.

We support the second medium-term strategy. Nevertheless, implementation should meet the development expectations of member countries so that it becomes relevant, responsive and result-oriented. This, we believe, is also the commitment of the President.

Because of the extremely high growth rate in the large economies, the overall growth rate of developing Asia and the Pacific is expected to be over 7% in 2006 and 2007. Developing Asia's trade surplus with the rest of the world is widening. Asia is rising and rising rapidly. However, we must be mindful of the emerging inequalities among nations. We must keep reminding ourselves of the old saying that "poverty anywhere is a threat to prosperity everywhere". Income inequalities within nations breed insurgency and conflict; this is what Nepal has experienced for the past 10 years. Illegal migration and terrorism is clearly because of income inequalities among nations. There is therefore a greater need for regional cooperation and integration in the area of trade, investment, and cross-border infrastructure. ADB has rightly taken up this issue as one of its strategic priorities. However, there is a need to translate this priority into real action that benefits the developing member countries adjacent to emerging economies.

Developing Asia, and particularly South Asia, needs huge investments in physical infrastructure to sustain the present rate of economic growth and to provide a better investment climate. While good infrastructure will surely attract new investments in



manufacturing and service sectors, investors also need a better governance and policy environment and a larger base of skilled human resources.

The financial markets in developing member countries have mostly been urban-biased and financial services have been expensive in rural areas where most of the poor live. We cannot possibly reduce rural poverty unless we have a financial infrastructure in rural areas that is as effective and efficient as that in the urban commercial centers.

Under President Kuroda's leadership, we anticipate that ADB will pay due attention to these requirements for sustainable and equitable development.

Nepal has recently experienced a tremendous popular uprising seeking to establish a political and governance system that is democratic, inclusive, and broad-based. The parliament has been reinstated and a new government has vowed to end the decade-long armed conflict through appropriate reforms in the political and governance system. The parliament has already passed a resolution calling for a constituent assembly to draft a new constitution according to the wishes of the people.

In spite of the decade-long conflict, the Nepalese economy had shown resilience, mainly because of a tight fiscal policy, an increasing flow of external remittances, and implementation of various reform programs. Since 2002, the GDP growth rate slowed to an average of 2% per annum and preliminary estimates indicate that the growth rate will not exceed 2% at the end of current fiscal year.

As a result of weak export performance, a decline in industrial output, and an overall slowdown in economic activity, there are indications that the general economic stability achieved until 2005 may not remain. Inflation has exceeded 7%, which is much higher than the average annual rate of inflation in the past 4 years. Government revenue is declining, while current expenditures remain unabated. We realize that immediate action is needed to save the country from falling into economic crisis, which is why Nepal is in need of greater international support during this period. The Government will soon work out the details and put up proposals for discussion at an appropriate forum.

Finally, I would like to take this opportunity to thank the Government of India and people of Hyderabad for the excellent hospitality provided to my delegation.