

**Address by Hon. Dr. Prakash Chandra Lohani, Finance Minister and the Chairman
of the Nepal Development Forum 2004**

Right Honorable Prime Minister,
Honorable Ministers,
Vice President of the World Bank, Mr. Praful C. Patel,
Excellencies,
Distinguished Delegates,
Ladies and Gentlemen,

First of all I would like to welcome all distinguished participants attending this meeting of Nepal Development Forum 2004. All our development partners deserve our appreciation for their valuable presence at this meeting held for the second time in Nepal. In fact, the beauty of this meeting is the wider participation of all our stakeholders including political parties, civil society, private sector and donor community. Despite the uneasy situation prevailing in the country, we are encouraged by the interest shown by the wider spectrum of our society for this meeting right from the pre-consultative meetings. Let us hope that this meeting will prove a turning point in restoring peace and development of this country.

Let me now appraise you of progress made by Nepal on various reform measures as promised during the NDF meeting of 2002. To begin with, let me briefly highlight you the present macro-economic situation of Nepal. Since our last NDF meeting, Nepal's macroeconomic situation deteriorated sharply due to internal and external shocks. The intensification of Maoist conflict together with the effects of the global recession led to sharp reduction in exports and tourism. Trade deficit widened, revenue collection declined, security expenditures surged while development expenditure declined sharply and consequently economic growth fell by -0.5 percent in fiscal year 2001/2002. From a negative growth in 2001/02, despite domestic security and political problems, the macroeconomic situation has shown gradual improvements in fiscal year 2002/03. The overall GDP growth increased by 2.6 percent in fiscal year 2002/03, with agriculture growing by a modest 2.4 percent. In fiscal year 2003/04, GDP is expected to grow by 4.0-4.6 percent as agriculture is expected to grow by about 3 percent due to good monsoon and supportive policies, while non- agriculture is expected to grow by about 4.6 percent due to recovery in tourism, manufacturing, construction, services and exports sectors. The Government adopted tough measures to overcome budgetary imbalances. The revenue is expected to increase by over 12 percent due to reform measures initiated in tax administration. In addition, increased aid and tight control in regular expenditures is expected to help increase development spending by 32 percent. Exports and imports are expected to grow by 7.4 percent and 9.0 percent respectively. Although Nepal's trade deficit has continued to grow, our balance of payment is going a major structural change due to increased earning from remittances. This has helped to achieve an overall current account surplus in recent fiscal years. During the first eight months of FY 2003/04, gross foreign exchange reserves are sufficient to cover 9.5 months of imports.

His Majesty's Government of Nepal is firmly committed towards reforms. Wide-ranging reforms have been implemented by the Government over the last few years in conformity with the country's Poverty Reduction Strategy, which was finalized in April 2002.

Even before finalization of PRSP, the Government prepared a Medium Term Expenditure Framework (MTEF). The Government also prepared an Immediate Action Plan (IAP) immediately after the NDF meeting of 2002. I need not elaborate here that these three instruments constitute a unique and comprehensive approach towards poverty reduction efforts in Nepal.

The Government has also made impressive progress in the implementation of structural reforms. One of the key areas in this regard is undoubtedly public expenditure reform. With a view to manage resources judiciously a medium term expenditure framework was adopted and projects/programs were ranked into three categories (P1, P2 and P3) and low priority projects/programs were dropped. In order to ensure adequate funding to the priority projects/programs, the Ministry of Finance streamlined budget releasing procedures from central level to districts and local levels. This is completely a departure from traditional budgeting and planning process with the government strictly sticking to prioritization process and minimizing the chances of diverting funds to unauthorized uses. Also, from the next fiscal year, line ministries will be instructed to submit detail annual programs at the time of presenting annual budget itself. This will save the time required for approval of annual programs later and will expedite the implementation of projects and programs.

Similarly, the Government has already initiated a number of tax reform measures and is determined to consolidate it by implementing recommendations of the Fiscal Reform Taskforce in the years to come. These measures, among others, include reducing exemptions and widening tax base, strengthening of tax administration and periodically revising customs valuations.

The Government has been carrying out public enterprises reforms for the last several years. This has become important in the context of PRSP's commitment to reduce the public sector role in economic activities and promote private sector involvement. The privatization process, which was stalled for few years, has been resumed. In this regard, two public enterprises have been privatized or leased out, while five other enterprises have been liquidated during the last two years. In order to bring greater transparency on privatization, a Fiscal Transparency Law is in the making, which will be enacted soon. A policy of public-private partnership will be adopted for the selection and implementation of development projects as emphasized in the budget speech of the current fiscal year.

The Government has taken a number of steps to facilitate private sector development. With a view to improve the legal framework, a number of bills are either enacted or in the process of enactment. Most important in this regard is enactment of bill on Build –Own-Operate-Transfer (BOOT). The Government is inviting several infrastructure projects from private sector under BOOT. The Cabinet has already approved a Secure Transaction

Ordinance, while New Company Ordinance and Insolvency Ordinance are at final stages of preparation. The legal preparation for Special Economic Zones is almost complete. Arrangements have been made for the retail distribution of electricity through cooperatives, communities or local bodies.

The assets and liabilities of Royal Nepal Airlines Corporation are being evaluated with a view to transform it into public company while Nepal Telecommunication Corporation has already been converted into public company with the plan of selling its share to the people through the stock market. In addition, shares of Rastriya Beema Sansthan-the state owned insurance company- would also be issued to public. The Government intends to ensure competitive business environment in cases where privatization is not practical. In this regard, imports and distribution of petroleum products is being opened to private Nepali companies. The Government has also introduced performance contracting of top managers of public enterprises to improve their management.

In order to create a healthy financial sector and to get rid of various institutional and structural deficiencies in the system, the Government has carried out comprehensive financial sector reform program. Even during a short span of time (2002/03) significant progress has been made including legislative and regulatory reforms. In order to strengthen the supervision and inspection capacity of the central bank of Nepal, a series of activities including its re-engineering process have been launched. Significant progress has been made on restructuring of two large commercial banks; Rastriya Banijya Bank and Nepal Bank Ltd.

The PRSP envisages a number of measures to improve governance. One of the most important measures includes acceleration of decentralization. In fact, decentralization is one of the Government's key strategies to improve service delivery and ensure good governance to the rural poor. As envisaged in the Local Self-Governance Act 1999, a number of steps have been taken in the last two years. These include transferring of responsibilities such as primary education, primary health care and agriculture extension to local bodies, providing them more financial resources and enhancing the capacity of local bodies through training. Despite these efforts, the people in remote and rural areas have not been able to experience changes in their lives due to ongoing Maoist conflict, absence of elected representatives and institutional deficiencies. The Government is determined to address these problems in the days to come by accelerating the decentralization process down to the village and ward level.

On civil service reform, the Government reform agenda includes streamlining and "right sizing" of the government, making the civil service efficient, accountable and transparent, so as to strengthen its capacity for service delivery and combating corruption.

As envisaged in the Tenth Plan/PRSP, the Government is committed to creating gender equal and gender just society by eliminating all forms of discriminations against women and marginalized people. A high level commission to suggest a general framework of special measures on affirmative actions in favor of Janjatis, Dalits and women has been formed and is expected to submit its recommendation in the next three months.

To ensure good governance, anti-corruption drive will be further strengthened by providing more resources to the CIAA and strengthening, among others, administrative and financial autonomy of the judicial system. The proposed Fiscal Transparency Act is also expected to help control corruption in the days to come.

The Government has developed a National Action Plan for Aid Harmonization with a view to streamline the operational policies, procedures and practices of donor community with our own procedures and policies. In order to realize the intended benefits, we look forward to work closely with our donor community in the days to come.

His Majesty's Government is fully committed to promote and protect human rights, especially in the wake of conflict prevailing in the country. In this regard, the Government is committed to protect the rights of women, children, Dalits and indigenous people as well as to observe international conventions for the protection of human rights. Similarly, steps will be taken to strengthen the National Human Rights Commission. Also important to notice in this regard is approval of human rights action plan by the Cabinet recently.

As you are all aware, our country is facing difficult times, a period of societal turbulence that has unleashed violence, terror and political division causing pain and suffering to our people. The task ahead is to get out of this morass of distress and misery on a platform of consensus and cooperation among all the political forces in the nation so as to provide adequate political and economic space to all segments of our people especially the downtrodden, marginalized and the oppressed. It is a historical challenge before us and it has clearly three components. First, the country faces an ideological challenge from the Maoists. Here is a group of insurgents who are willing to use all the elements of psychological as well as physical terror on the belief that transformation of Nepali society is not possible within a parliamentary framework based on a competitive multiparty system. It is clearly an ideological challenge to the multi party democratic system. It is not enough to say that the so called Maoist doctrine is an ideology that has been operationally rejected in most countries of our planet. We must be able to convince the people by our efforts and action that most of the issues of deprivation, social exclusion and oppression that have been raised can be solved in a constitutional monarchy and democratic multiparty system.

Second, we also face a political challenge in the country at the present. The political parties and political actors in our democratic system have yet to form a common front to confront the Maoist at the political level and generate a new sense of hope and optimism among the masses for a better future. The inability of the political parties to engage in a process of introspection of their achievements and failure as it related to the people and to forge a new unity against the so called Maoist paradigm points out the nature of political challenge that lies ahead of us. There is a need to build an ability to form a broad alliance among all segments who believe that the new awareness among the masses about the nature of social and economic oppression in our country can be addressed positively in an inclusive process of nation building in a multiparty democratic system.

Third, our nation also faces a transformational challenge. It is the challenge of building a structure of socio economic transformation that is economically dynamic and geared towards reducing income inequalities, promoting equality of opportunity and eliminating social exclusion. Transformational challenge is rooted in the nature of development that takes place in the county. In the past we have not appreciated this perspective. Often times we have been engaged in peripheral changes hoping that it will somehow address that problems of inequalities and exclusion on its own. We are now beginning to realize that peripheral changes in policies or structure is no substitute for changes at the core. It is this realization that has brought poverty alleviation, reducing income inequality, and achieving social inclusion that includes women and disadvantaged groups all over the country as the main focus of our developmental efforts.

All the three challenges that I have mentioned above are interrelated. They have to be tackled in a parallel rather than in a sequential manner and for this purpose new methods or reaching the people in the rural areas will have to be considered . The best way to overcome this problem will be to increasingly rely on local level institutions, non governmental organizations and community based groups to undertake development works wherever possible . Success in this task can be an effective response to the Maoist ideological challenge apart form forging new link between the government and the people.

Making democracy work in favor of the common people, the downtrodden, the poor and the excluded is also a cognitive challenge for both the government and our development partners whose assistance and goodwill is of great importance at this critical juncture. Nepal is an old nation but it is a young democracy. The learning process involving the institutionalization of democratic values not in favor of the elites but for the common masses has not been easy. If we look at history, we know that it was never easy even for the developed countries and mature democracies of the world today. On the other hand democracy is a system of governance that offers continuous opportunities for creative reconstruction and it is this resilience based on the sovereignty of the people that is its strength. We have to build on this strength. It is with this perspective that HMG is committed to a road map to peace that includes (a) starting the election process within a year (b) negotiated settlement with the Maoist under an overarching framework of multi-party democracy and constitutional monarchy (c) strengthening the constitutional process (d) the formation of an elected representative government and (e) the protection and promotion of human rights in the nation. Any other approach to derail this road map is only going to add to the present complexities. Our development partners, I am confident , comprehend this reality.

I am confident that this meeting will prove yet another milestone in our collaboration and carrying forward the comprehensive and ambitious poverty reduction agenda of Nepal. Finally, I once again thank you for your valuable participation in this meeting a wish you a pleasant stay in Nepal.

Thank you.