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Statement by the Hon. **YUBA RAJ KHATIWADA**,
Governor of the Bank for **NEPAL**

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Governor of the Bank for Nepal**

Mr Chairman

Mr. David Malpass, President, World Bank Group

Ms. Kristalina Georgieva, Managing Director, IMF

Fellow Governors and Alternative Governors,

Distinguished Delegates,

Ladies and Gentlemen!

1. It is truly a great honor and privilege for me and my delegation to participate in this 2019 Annual Meeting of the Board of Governors of the World Bank Group and International Monetary Fund. I must appreciate the entire management team of the Bank and the Fund for their tireless effort to make this annual meeting happen in a highly organized and successful way.
2. We are meeting at a time when the world economy is passing through a synchronized slowdown trend. We are worried that the growth momentum achieved after the financial crisis of a decade back is being threatened by the trade tensions and indications of growing protectionism which is against the conventional wisdom that trade openness would maximize output of countries and welfare of global people. Despite global growth remaining subdued in 2019, the optimistic note on revival of the economy in 2020 implies that we must be taking proactive national, regional and global policies to ensure larger investment, trade and financial flows. We should be cognizant of the fact that any attempt and protectionism measures against the full functioning of market and integration of economies may reverse the gains we have achieved so far. I firmly believe that this global forum is capable enough to highlight on the anticipated risks, act amicable policy measures and take robust actions for the successful normalization of global economy and attainment of higher potential growth path.

3. It is obvious that different countries have different economic strengths. We think advanced and larger economies being in the drivers' seat of global economy have bigger responsibilities not only for maintaining global economic stability but also for supporting growth of the least developed countries through enhancing seamless market access to their products, scaling up official development assistance through concessional windows of multilateral agencies like the World Bank, mobilizing FDI, and facilitating technology transfers, to name a few.
4. Income Inequality within and among nations has been a global threat to sustainable development and creation of peaceful societies. As such, high or even growing inequality has undermined the speed of poverty reduction in several countries. This calls for reorientation of global and national macro and sectoral policies along with redefining the roles of the state and the market. As such, this also calls for distributive justice assuring fair share to the people through a balance between 'inclusion' and 'efficiency' in the resource allocation, production and distribution process. I urge the World Bank and the IMF to work together with the governments towards strengthening smaller economies like ours through harnessing potentials and adopting credible policies which foster efficiency and equality so that every citizen can be reached out and benefited from the development outcomes.
5. Global collaboration and collective efforts have been very effective mainly to achieve social and economic development goals. The world has achieved a big success in lifting out more than a billion people from extreme poverty during the last two decades. However, it is worrying that not all the countries are able to reduce poverty at the same pace. Rising inequality within and among nations would continue to be threat to peace and sustainable development. For Nepal, we have been able to reduce absolute poverty by at least one percentage point every year during the last two decades, despite a decade long armed conflict and protracted political transition. Now Nepal needs to move up with higher economic growth with more equitable income distribution so that the growth process would help eliminate extreme poverty much before 2030 and take the country towards middle income path. Sustaining this achievement and

maintaining distributive justice with reasonable assurance of social security and safety net to the left out segment of the society can only be achieved through larger partnership to concerted national effort that the Government of Nepal is exercising.

6. While Nepal is striving to meet early on the fundamental rights of the citizens to food, education, health, water supply, and housing - to name a few, and graduate from the LDC status by 2022, we need a significant scaling up of domestic and external resources and improve capacity to implement development programs. But our efforts have often been thwarted by global headwinds, regional geopolitical relations, natural disasters and the impact of climate change. As such, Nepal is one of the 20 most vulnerable countries to climate change. Having recovered from the massive earthquake of 2015 and subsequent trade blockade in the Southern border for some time, Nepal now is passing through the state restructuring process from a unitary to a federal set up and making good progress towards devolved governance structure. The transition has so far been smooth, and Nepal expects international support to build institutions and carry on development work to meet the aspirations of Nepali people to benefit from the progress made under new political regime of federal system.

Mr. Chairman,

7. Long awaited political stability achieved along with the introduction of Nepal's constitution in 2015 and subsequent elections held at the three layers of the nation state has started to deliver services closest to the people and promote economic activities. Implementation of federalism has also started to pay off high and balanced economic growth in various sectors and levels. There is an optimism for rapidly getting out of poverty and moving towards prosperity which will be visibly reflected in the living standard of all Nepali people. Subsequently, as guided by the constitution, we have implemented several laws pertaining to the fundamental social and economic rights of the citizen. Perhaps, we would be among the very few countries which have smoothly implemented fiscal federalism. Now we have a deep-rooted democratic system and decentralized governance under the federal system with democratically elected people's

representatives at the all levels of government. This has created an unprecedented opportunity to us for ensuring inclusive development and creating a just society.

8. Having confined to a low growth trajectory for many decades, Nepal has now achieved a high and inclusive growth. The country achieved more than 7 percent GDP growth last year following the high growth rate of 6.5 percent in the preceding two years. Maintaining this high growth trajectory is essential not only for graduating the country from LDC status at the early date which Nepal aims for, but also for achieving the SDGs and reaching to middle-income country status by 2030. As we have a crystal-clear roadmap moving forward with a five-year plan and a perspective plan with 25-year vision in place, time has come to translate them to action through higher resource mobilization and building capacity to implement the programs. Along with financial resources, appropriate human and technological resources will be needed to deliver the results on ground. The government is committed to leverage the potential resources for maximizing finance for development through legal, regulatory and operational reforms in all sectors of the economy to keep up this high growth momentum.
9. Nepal has almost recovered from the massive shocks of earthquake of 2015 which affected nearly one third of the country's population with a loss of many human lives and physical infrastructure. So far, we have been able to reconstruct about 60 percent of individual nearly 1 million damaged houses, above 70 percent of schools, 56 percent of health facilities and 45 percent of archeological sites including heritages. As we plan to complete the reconstruction, we are far short of the necessary resources to complete the reconstruction work. We are working with the World Bank for additional financing to manage financing gap in post-earthquake reconstruction and look forward to scaling up the resources to meet the reconstruction commitments.
10. The government is committed to public finance reforms towards ensuring optimum mobilization of domestic resources and getting maximum returns on public spending. Ongoing reforms in revenue system such as revisions in the income tax rates and slabs, withdrawal of VAT exemption and VAT refund

system, making compulsory the Permanent Account Number (PAN) for income earners, introduction of online tax submissions, introduction of Vehicles and Consignments Tracking System (VCTS), and improvement in tax administration have created a solid foundation for expanding tax base along with achieving progressivity in the taxation approach. The Tax - GDP ratio at nearly 22 percent of GDP is one of the highest in South Asia. Despite having higher tax-GDP ratio, we have huge resource gap to finance for the programs related to the fundamental rights of the citizens along with the SDGs. Huge financing requirement -averaging to more than 48 percent of GDP- has been mapped out for achieving the SDGs by 2030. This implies a significant financing gap of more than 15 percent of GDP, on average, for the entire SDG period. The SDG financing gap remains the highest in the infrastructure sector. I see a pivotal role that the multilateral institutions like the World Bank Group can play for bridging the infrastructure financing gap.

11. We are fully aware that the public sector spending alone will not be sufficient to deliver the development as aspired by the country. We have then taken steps to mobilize resources from the private and cooperatives/communities sectors to achieve high economic growth and inclusive development. Introduction of Public Private Partnership and Investment Act, Foreign Investment and Technology Transfer Act, and Industrial Enterprise Act to address the issues concerning private sector investment and hosting of the Investment Summit early this year have paved way for a larger private sector stake in the country's investment and growth process. Our new development cooperation policy has opened up more options like blended finance and consortium financing for the projects. We expect the technical and capacity development support from WB group to pilot the blended finance projects in Nepal as per this modality.
12. At a time when the World Bank is near to the completion of IDA 19 replenishment, we urge that the concessional windows - particularly the IDA resources, be expanded with higher size of resource envelop being made available to the low-income countries. Nepal is in favor of an ambitious IDA 19 envelop following higher case scenario. Larger commitment, clear road map

and higher resource flow for financing SDGs by the donor countries and development partners will be instrumental at this particular time for the low-income countries like ours. Nepal would also like to urge that for countries graduating from the LDC status, transitional arrangement be made to avail the concessional financing windows continue for some more years after graduation to ensure that the the countries so graduated do not face the risk of falling back to LDC status.

Mr. Chairman,

13. The Government of Nepal is committed to expedite regulatory reforms to improve portfolio performance of aided projects, smooth implementation of private sector projects financed from both the domestic and foreign savings, and provide one stop service to the private sector investors. In this context, we have amended forest and land acts, made labour law investor friendly, and simplified land acquisition and forest clearance regulations and environmental standards. These reforms are expected to ensure conducive business environment to the domestic and foreign investors. I am happy to note that we have already initiated a reform for Maximizing Finance for Development (MFD) DPC with the World Bank which will contribute to streamlining the reforms, adopting international good practices and translating those in to action through sector policy and procedural reforms. We also look forward to substantive engagement of the World Bank Group and other development partners in other sector reforms in areas such as fiscal, financial, energy, and tourism.
14. Budgetary reform is also a high priority agenda of the government. We focus on allocation efficiency measured by the expected results from every single rupee we spent. In this regard, Financial Procedure and Responsibility Act has been enacted. It will make budget management fully transparent, rule-based and credible also ensuring efficiency and effectiveness in budget allocation and spending. Other major public finance management reforms include amendment in public procurement regulation, designing integrated expenditure reporting system on real time basis, expenditure tracking, and monitoring of results under inter-governmental fiscal transfers. Governance of public resources is made more credible through regular monitoring, evaluation

of major programs, zero tolerance to corruption and initiation of e-government in procurement and expenditure tracking. These reform initiatives are expected to make the public service delivery more efficient, effective and transparent.

15. Nepal being among the most recent countries adopting federalism, finds this as an opportunity to mobilize local resources at the optimum level, address poverty in a better targeted manner, expedite development activities, strengthen basic service delivery to the people, and thus achieve equitable and inclusive growth. For this, we have given top priority to strengthening coordination and developing institutional capacity of sub-national governments. Realistic and fair mechanism of fiscal transfer and revenue sharing have been adopted which has eased to perform the responsibility shared as per the provision of constitution. Eventually, the local governments have started to become the source of wider economic activities, socio-economic transformation and inclusive growth of the country.
16. We note that stable, resilient and credible financial sector is the key for economic development and thus undertaken continued reforms with the support of development partners. As such, we have been utilizing series of financial development policy credits of the World Bank, and as a result, we have been able to evolve a stable and credible financial system in the country. We are not only focusing on financial health of the bank and financial institutions but also focusing on widening the financial network to enhance financial access along with the adoption of IT friendly services, fostering digital payment system and adaptation of international financial reporting standards. Besides, we have been working towards introduction of standardized banking regulation and supervision, and applying financial system oversight practice based on international good practices.

Mr. Chairman,

17. Let me conclude by acknowledging role World Bank Group and International Monetary Fund have been playing for safeguarding and right tracking the world economy. I see even a greater role for these institutions in coming days in the contemporary world of greater trade and investment uncertainties and

downward risks to growth momentum. It is also a right time to remind these institutions to our shared shared responsibility to achieve the SDGs which will ensure to leave no one behind, transform the societies, and leave a better world for the next generations. I also strongly believe that global socio economic issues can only be addressed through multilateralism which allows and recognizes the voices of small countries like ours.

18. Let me also recognize the financial and technical support from the World Bank Group and the IMF, which has always been instrumental for socio economic development of smaller countries like Nepal. On behalf of the Government of Nepal and on my own, I would like to extend sincere thanks to the Bank and Fund for their continuous engagement with Nepal and also expect enhanced cooperation going forward to achieve our national goal of prosperity. I wish the Annual Meeting a grand success.

Thank you very much.