

**Intervention by Dr. Narayan Dhakal, Under Secretary, Ministry of
Finance, Government of Nepal, at the Preparatory Process for the Third
International Conference on Financing for Development (FfD), Second
Round of Substantive Informal Sessions**

9 December 2014, United Nations, New York.

Distinguished Co-Chairs,

On behalf of the Government of Nepal, I would like to express sincere thanks to the United Nations for engaging Nepal in both the first and second round of substantive informal sessions in preparation for the 3rd International Conference on Financing for Development to be held on 13-16 July 2015, in Addis Ababa, Ethiopia. In addition to the interactions during the sessions, I am pleased to register Nepal's interventions as follows for your record:

9 Dec 2014: Enabling and Conducive Policy Environment

Session-1: International monetary and financial system; regulations to balance access to credit with financial market stability.

- Impact of global financial crisis of 2008 was mild in Nepal because Nepal's financial market has not yet fully integrated with global financial market and still using conventional type of financial products. However, Nepal has experienced some downturns in tourism revenue, growth rate of remittance, commitment of external cooperation for financing development and value of export earnings, among others.
- Though Nepal may not be systemically important country for global financial system, the country level impact cannot be overlooked given the size of economy.
- As Nepal has been maintaining adequate buffer of capital reserves to absorb potential risks, implementation of financial regulatory reform like Basel-III was not found emergent in immediate term. Study showed that it can be adopted within next five years time.

- Nepal has been paying attention towards enhancing access to finance. Institution wise, central bank has a dedicated department for micro finance, D class financial institutions are incentivized to intermediate credit to remote area of the country. Similarly, financial cooperatives and savings are encouraged, financial NGOs are mobilized for semi-credit financial transactions
- Policy wise, many products, like- directed credit program, small farmers development program (SFDP), microfinance program for women (MCPW), rural self-reliance fund (RSRF), deprived sector lending, agriculture lending program etc are being implemented. Awareness and promotional programs, like financial literacy campaign are being conducted. UNDP, UNCDF, Norway, European Union and other bilateral donors have launched micro credit along with community development program. Regulatory measures like KYC, licensing, branch opening are made flexible and incentivized in the interest of financial inclusion.
- Development of regional financial market in Asia would open avenue for long term and sustainable financing for development in the region. This would also help meet the growing need of financing for development of infrastructure including hydropower projects in Nepal.

Session:-2: International tax cooperation

- From Monterrey through Paris to Busan and Mexico high level forums for development effectiveness, domestic resource mobilization is presented as one of the key and sustainable source of financing for development. Development of LDCs is dependent on external flow as ODA from developed countries. However, income tax of contractors using ODA is being exempted by developing countries. This is also against principal of international taxation that each and every income earning activities are subject to tax to maintain neutrality. Unlike, consumption tax and indirect tax, income tax does not inflate cost of ODA project. Therefore, developed countries should help developing countries by allowing contractors to pay tax in the recipient countries.

Session-3: Debt crisis prevention and resolution

- Nepal is strict to maintain its creditworthiness. Recent debt sustainability analysis carried out by the IMF showed that debt distress is improved to "low" from that of "moderate" of previous analysis. This progress is in line the IPOA and Nepal's goal to graduate from LDC status by 2022 and helped to improve Nepal's credibility in international financial market.
- This progress should be seen in the Nepal specific context where there is large gap of infrastructure development due to long domestic conflict and huge need of external financing for development of infrastructure including hydropower projects.
- The World Bank and ADB have recently changed their policy on basis of "one size fits all" decision that Nepal's debt distress is improved; therefore, Nepal will not be eligible for grant but loan. Such changes in policy seem punishing rather than rewarding the good performers posing threats of creating perverse incentives for development.

Thank you.