

US\$ 200 million World Bank credit to finance federalism draws flak

The World Bank's credit of US\$ 200 million (Rs 20.6 billion) to Nepal for financing federalism in the country has landed into controversy. The country's fiscal policies and plans have a priority of receiving development assistance for mega infrastructure projects such as expressway, railway, and hydropower plants, but the credit amount approved by the bank's board of directors on Tuesday is against such policies.

This credit is sufficient to finance a hydropower plant of above 140 MW or building a major national highway. But the bank has decided to allocate it to make laws and build institutions, which will not have any impact in the development of the country, according to experts and former bureaucrats.

According to the bank's press statement, the support is toward implementing intergovernmental fiscal arrangement act, establishing national natural resources and fiscal commission, and adopting fiscal responsibility and budget management bill. The other purposes of this loan is for strengthening public financial management systems, making improvements in budget execution, and improving revenue collection.

"It's not appropriate to receive credit for things such as making and implementing laws or establishing institutions as stated in the press statement," said Krishna Gyawali, former government secretary who also worked with the International Economic Cooperation Coordination Division at the Ministry of Finance.

Critics have long been blaming that allocating credit to such activities is meant to bring in foreign experts who take away most of the money in lucrative salaries, leaving the country's needs unfulfilled.

"Our development cooperation policy has clearly stated that the country is in need of financing of mega infrastructure projects such as railways and expressways, and not such policy supports," added Gyawali.

Kewal Prasad Bhandari, chief of International Economic Cooperation Coordination Division at the Ministry of Finance, has defended the bank's decision, stating that the credit is not for

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federalism. But contrary to his claim, the bank's statement has stated that the financing is for 'establishing a framework for fiscal federalism and improved public financial management.'

In response to the tweets by critics criticizing financing federalism, Bhandari claimed that the credit was for public financial management. However, he did not clarify as to why such financing was endorsed by the bank's board of directors. Bhandari did not respond to repeated phone calls and text messages on the matter.

Bhandari has criticized the media for 'misreporting' on the matter, referring to a report published by BBC Nepali Sewa. Approval by the Government of Nepal is needed before entering into the project implementation.

According to concerned officials, similar policy supports were received from the World Bank for drafting procurement laws such as Public Procurement Act 2007 and Public Procurement Rules, and setting up Public Procurement Monitoring Office in 2007. Some bureaucrats are of the view that the Act is one of the main reasons behind poor contract management as policies were framed in a way to strengthen the private sector and weaken the monitoring body.

Commenting on the issue, infrastructure policy expert Surya Raj Acharya said: "If this is true, it is unfortunate. The country should stop receiving any assistance for making laws and policies, which is the priority of donors, not the people of Nepal."

"Making policies and plans through foreign assistance have only weakened the government agencies including implementing bodies," added Acharya, who is also the spokesperson of Bibeksheel Sajha Party.

A similar public finance management project, financed by different development partners including the World Bank, is currently under operation through the Ministry of Finance.

Meanwhile, the bank has also approved a US\$ 66 million credit to modernize Phase 2 of the Rani Jamara Kulariya Irrigation Scheme. The project, which experts say falls in line with the government's policy on receiving foreign assistance, will modernize sub-branches, tertiary

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canals and water courses so that the irrigation water can reach farmers' fields with optimal flow.

Source : My Republica, 24th March, 2018