

Theme Address by the Honorable Dr. Ram Sharan Mahat
Finance Minister of Nepal

International Conference on Nepal's Reconstruction
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The Right Honorable Prime Minister,
Ministers and Dignitaries,
Your Excellencies, High Representatives and Delegates,
Distinguished Guests,
Ladies and Gentlemen:

We gather here today exactly two months after the devastating earthquake of April 25th. Nepal has not faced a natural catastrophe of this scale for over 80 years. This earthquake has caused a tremendous human suffering, and wiped off assets worth more than 5 billion US dollars. Some of the world's most precious architectural and cultural masterpieces lie in ruin. In addition to the massive damage to life and property, the earthquake has shaken the economy with immediate losses of about 2 billion dollars bringing the combined economic effect of the disaster to a minimum of 7 billion.

Very few countries that are hit by a force comparable to one third of national output can shake off the dust with the grit and determination with which the people of Nepal are trying. It is during this moment of need that we are very pleased to be with you – our closest friends and partners. I thank you for the grand gesture of solidarity that you have shown for the people and government of Nepal.

This conference is not about asking, giving, and taking. It is about our core human values and a common destiny. We are all bound together by a higher, noble cause. When one amongst us is wounded, we sprint to help. When one amongst us achieves, we partake in shared joy. This is how friends act; and with Nepal, this is how it has always been. From our immediate neighbors who rushed in help within hours of the disaster to development partners who are working with us to craft long-term recovery strategies,

we are eternally grateful. From this august gathering, we expect to benefit from your wise counsel and commitment towards a durable partnership for national recovery, reconstruction and renewal.

Your Excellencies, Distinguished Delegates:

When the last comparable earthquake occurred in Nepal in 1934, there were hardly any modern building or road, school or motorized vehicle. The pace of transformation since then has been dramatic. We evolved from a medieval kingdom to a modern nation-state in just a few decades.

After years of political instability, Nepal had just begun gearing up for a higher trajectory of economic growth. Over the past year, we made a transformative leap in the energy sector by signing power trade and development agreements that put the country on a course to increase electricity generation ten-fold in a decade.

The country was pursuing the next generation of economic reforms, enacting or revising several dozens of policies, acts, and regulations. Nepal was also on a path to achieving many of the Millennium Development Goals by the end of this year, including the target of halving absolute poverty. In 2010, Nepal was singled out by UNDP for being among the top performers in the world in advancing human development over a generation. This year, for the first time in the UN's triennial review, Nepal met the required criteria for graduation from its status as a Least Developed Country (LDC), possibly by 2022.

This earthquake halts this momentum – and upsets the nation's high aspirations for rapid progress. Annual economic growth this fiscal year is expected to be the lowest in eight years. The impressive progress in the social sector, such as cuts in infant mortality and access to improved sources of water and sanitation, will likely stall. In the absence of a swift recovery of livelihoods, hundreds of thousands of *additional* people might fall below the poverty line.

Tourism, real estate, and financial institutions have suffered big losses. In agriculture, the harvest of rice and maize had already been disappointing this year. What the earthquakes did was to destroy stored grains and devastate the livestock sector. Millions

of children were traumatized and could not go to school for weeks as nearly 26,000 classrooms were destroyed. Industrial activities are disrupted because of upheavals in the market for goods and labor. According to the Central Bureau of Statistics, just in 83 days between April 25th and July 15th, production losses are estimated to exceed 50 billion rupees.

Your Excellencies, Distinguished Delegates:

In the aftermath of the quake, Nepal's trade deficit will widen. Our foreign reserves are adequate, and transfers from the rest of the world are increasing. In the face of likely pressures on the balance of payments, Nepal is prepared to make policy adjustments. Where we are more anxious is our state of public finance. It is now certain that the target for revenue collection in the current fiscal year will face a shortfall of 8 percent. With only 3.9 billion dollars expected to be raised this fiscal year, the low base for next year will affect our efforts to ramp up reconstruction. This forces us to resort to a sizeable sum of internal borrowing which has its own costs. This is the reason why we are looking to our development partners to fill a growing fiscal gap for the next three to five years.

The Post Disaster Needs Assessment (PDNA) has been rigorously prepared by the National Planning Commission in line with international best practice and methods. This exercise was unprecedented in mobilizing all the ministries of the government and nearly 500 national and international experts representing about 30 development partners. Two volumes of assessment exceeding 450 pages were prepared in less than one month. What we have come up with are credible and realistic estimates of damages, losses, and needs for Nepal's immediate recovery. We believe we have set an exemplary standard for both the depth of content and the breadth of participatory consultations.

Our early assessments indicate that we need about 6.7 billion dollars to build back better in the immediate run. The nature of needs and the time horizon vary by sector. The demands placed on the public and the private sectors are also distinct. For instance, the damages and losses in the housing sector are predominantly private, but the government is committed to sharing substantial reconstruction costs. The rebuilding of

our heritage sites will also be a serious public undertaking with private and community participation in projects spread over several years. On the other hand, agriculture, commerce, manufacturing and tourism need immediate revival.

While the share of the public sector is about one-quarter of the total damages and losses, the recovery needs that will be borne by the government is estimated to be nearly 60 percent of total needs, unadjusted for inflation.

There has been some confusion in Nepal about the scope of the PDNA. What was done was to assess immediate needs to resume a normal national life. This was never about a Post Disaster Assessment of *Wants* and *Desires*. It is not helpful to conflate recovery needs with ambitious projects of national significance not related to the earthquake. The high and sustained economic growth needed to propel us to middle-income status by 2030 requires a strategy in which the government is already engaged.

We are absolutely clear that Nepal is not going to graduate out of under-development because of foreign aid alone. At best, this can be a catalyst. The ordinary process of development has to be pursued on the strength of economic reforms initiated and facilitated by the government to mobilize huge amounts of private capital, creativity, and entrepreneurship. It needs for an enabling climate for private sector investment in world class infrastructure and production. The strategic roadmap towards these national ambitions is reflected in the government's 13th periodic plan and our preliminary assessment of investment needs of at least 1.2 billion dollars per year on average.

Your Excellencies, Distinguished Delegates:

Let me now allay some of your concerns directly. I do so in the form of a solemn pledge on behalf of the government and in a manner that I hope will help us forge a new understanding on the path ahead.

First, a joint concern of both the government and our development partners in recent years has been the quality and pattern of public expenditures. We have been under-

spending on capital investment. Not to let the same bureaucratic and political hurdles slow the urgent task of rebuilding, the government has boldly announced the creation of the National Reconstruction Authority. It is an Extra-Ordinary Mechanism (EOM) that is informed by international practices and is grounded on past Nepali successes. It takes form of a binding institutional commitment to instill confidence in a system built around efficiency, transparency and accountability. I commit to you that there will be a substantial role for scrutiny and shared responsibility assigned to our domestic civil society and international development partners. The 2014 Development Cooperation Policy also internalizes best practices on transparency and government ownership on aid effectiveness.

Second, social and economic sectors that have borne the brunt of income losses need an immediate package for early recovery. We will address this in the forthcoming budget. The government stands ready to respond to challenges with unconventional policy instruments, from steps to prevent contagion in the financial sector to incentives for business recovery aimed at revitalizing enterprises. Nepal will also bring forth a policy to manage labor shortage, including large scale training on skills. We will keep a close watch on economic vulnerabilities, especially inflation. Overall, we shall do nothing irresponsible that strains macro-prudential norms and disciplines.

Third, the recently secured consensus among major political parties to promulgate a new constitution and to hold elections for local government as early as possible adds optimism to efforts aimed at restoring the trajectory of higher growth. A reform push will continue so that the investment climate is friendlier. In the aftermath of the quake, we saw a tremendous outpouring of goodwill on the part of our foreign friends and the growing Nepali diaspora. We will tap all emerging assets, including the spirit of volunteerism of our youth at home and abroad, and the creative sources of new-age philanthropy.

Your Excellencies, Distinguished Delegates:

We Nepalis are a resilient people. This is one of the strongest grounds for optimism regarding the future fortunes of our country. Let there be no doubt about the enormity

of the challenge we face. But with the right nudge from this democratically elected government, and continued support from our closest friends and partners, we can and will rise from the rubble.

I sincerely express my gratitude to you again for standing by Nepal's side at this hour of need. I am convinced that the bond of our partnership will assure the people of Nepal that their best days are still ahead.

Thank you and Namaste.