

Nepal Donor Consultation Meeting 2008
Kathmandu, NEPAL.
February 21, 2008
Address by Dr. Ram Sharan Mahat, Minister of Finance

Right Honorable Prime Minister
Honorable Ministers
Excellencies
Mr. Liqun Jin, Vice President of Asian Development Bank
Distinguished Delegates
Ladies and Gentlemen

I would like to welcome you all to this meeting. These four years, after the last meeting of Nepal Development Forum in 2004, were eventful in Nepal's history. The changes that took place and those that are taking place will shape the country's future. The immediate task before us now is to hold the election of Constituent Assembly in an acceptable and credible manner.

It was precisely because of rapidly changing political scenario in the last four years, we could not hold a biannual NDF meeting. We had periodic meetings at the local level with our development partners. It was not adequate in the absence of NDF meeting. Therefore, we proposed to hold a broader donors consultation meeting to exchange views on Nepal's peace process and immediate development priorities. At the same time, we are holding this meeting also to express our gratitude to international community for the moral support extended to us two years ago when the people of Nepal were rising against autocracy and for the cause of inclusive democracy. In this sense, this meeting is not a full-fledged NDF meeting. For our development partners, this is also not a pledging meeting. We are here to communicate to each other face-to-face on issues that Nepal is grappling with today. In the course of meeting, we will also be setting up a round-table on Nepal's peace process and development imperatives, where you will have chance to interact with a broader range of people from political parties and civil society.

Nepali people through mass movement of April 2006 have asked for total transformation in socio-economic and political system of the country. Democracy, at least, is the irreversible desire of Nepali people. Democracy should be such that it is inclusive and gives political space to every community and groups of people. After having experienced hard-won democracy snatched away thrice in the past, Nepali people do not want any compromises. It is for this reason it took us a while in agreeing the format of Constituent Assembly election. We were also careful that we do not leave anyone behind. We worked on every detail until the consensus was achieved. In the process, we missed a few milestones, a few deadlines. But we were focused. Consequently, the nation now is headed for CA elections on April 10, 2008. We still face some problems. But we stand ready to resolve through dialogue and peaceful means.

While we are putting all our efforts on peace process, we are mindful that economic agenda should also be in the forefront. From this year onwards, we are implementing three-year interim plan with the modest aim of restoring economic confidence, promoting social equity and creating a base for socio-economic transformation. The plan aims to lay foundation for creating a modern, prosperous and just Nepal. The three-year interim plan will guide our fiscal priorities.

Pre-NDCM Consultations

Before coming to this meeting, we organized six pre-consultation meetings involving political leaders, parliamentarians, development partner representatives, representatives of civil society, business leaders, experts, professionals, media, government representatives and other stakeholders. The debates were lively and there were many differing viewpoints. These broad public consultations, and the high level of interest in them, indicate the national concern regarding the development needs to meet rising aspirations of people. Their eyes are upon us as we convene here in Kathmandu for the NDCM 2008.

I am hopeful that this meeting will help build common understanding of the problems that Nepal is facing today. It will also set the stage for larger Nepal Development Forum meeting sometime in fall 2008, wherein Nepal will seek international funding for Nepal's development priorities.

Recent economic and development performance

Before we get into the meeting, it would be relevant here to briefly highlight Nepal's economic and development performance in the years after the last NDF meeting. Since 2001 economic growth rate has been declining. The average growth rate in the first five years of this millennium has been 3.4 percent, which is just about 1 percentage point more than population growth. The prospects this year look somewhat better. Even during these low-growth years, the government was able to maintain macro-economic stability by being prudent in public expenditure management and fiscal deficit. The growth of private sector investments has been low. The investment climate is yet to improve further. Government's capital spending also remained low until 2006. In the rural areas, just to keep things going, community development approach was adopted by transferring increasing amount of resources directly to communities. As situation improved, government capital spending increased substantially in the last fiscal year. We are expecting even further improvement in this front in the current year.

Nepal's rural side is now impatient--wanting developments to happen quickly. The people want better quality infrastructures--every settlement to be connected by roads, electricity and telephone. They want better schools for their children and better health facilities. They want change in their lives and they feel that the government is not up to the mark. Substantial financial resources are required to meet these aspirations. The government must prove that it is worth their expectations. We expect international community to come forward and help us generously, but we also have a duty to strengthen our resource base. In this context, we have been strengthening our revenue collection efforts. Last fiscal year, government revenue grew by 21.3 percent pushing the Revenue-GDP Ratio from 11.2 percent a year ago to 12.2 percent. The revenue performance this year is even more encouraging. The latest numbers show that revenue is increasing by 28 percent. We will continue these efforts.

In spite of difficulties, Nepal has made tremendous progress in education and health sectors. Critical education and health indicators have shown improvements. A recent report shows that Nepal's child mortality rate declined sharply by 48 percent to 61 per 1000 births in ten years. In the same period, infant mortality rate declined from 79 per 1000 births to 48. There has been similar improvement in maternal mortality rate and total fertility rate. While this is largely due to reforms implemented in these sectors, it is also due to pragmatic funding approach adopted by our development partners.

The most notable of our achievements has been the reduction in the number of people living below absolute poverty. The Nepal Living Standards Survey 2004 showed that poverty level declined by almost 11 percentage point in a period of eight years. Remittance income, increased public investment in rural areas with emphasis on infrastructure building and social sector, expansion in micro-finance coverage and urbanization has been attributed for this feat. But no less is the contribution of economic reforms and higher growth rates achieved in the last decade.

Government investments in rural infrastructures are implemented with the participation of local communities. As a result, network of roads has expanded. There is now a need of massive financial investment for its upkeep and upgrading to all-weather standards. At the same time, investments in trunk roads connecting district headquarters and other strategic locations have been increased. Tele-density has improved significantly in the last four years, rising from 4 percent to over 10 percent this year. With private-sector participation and ensuing competition in telecom sector, the coverage and quality will further improve in the future. As government is increasing investments in rural electrification through expansion of transmission link, supporting communities in constructing small hydro and tapping other forms of alternative energy, the country is now facing severe power crisis. This limits our ability to accelerate rural electrification in the scale that rural people want.

Reforms in tax and other commercial laws, introduction of new laws on securitization, insolvency and anti-money laundering are aimed at creating better investment climate. However, due to perceived insecurity and political instability, the growth in private sector investment including foreign investment has remained low.

Challenges and immediate strategy

I agree that the development aspirations of the people can be better addressed in an environment of political stability. It is in this direction that we are collectively moving. After the election to constituent assembly a new constitution will be drafted for the country. There will be a new democratically-elected government with popular mandate. The new government will come up with a new development strategy that addresses the aspirations of the people, one that can translate the vision of a modern, prosperous and just Nepal into reality. Until then, however, we cannot and should not ignore the immediate economic and development challenges. We must address them effectively. Only then, we can earn the confidence of people in the government and the state. In this connection, three-year interim plan is a consensus document that needs to be implemented effectively.

We are a post-conflict country. Therefore, the first and foremost task before us is correcting everything that went wrong due to a decade-long armed conflict. There are some 19,000 verified ex-combatants waiting in the camps to be integrated and rehabilitated as per the recent 23-point agreement between political parties. Some 4,000 youths were disqualified

during verification by UNMIN. These discharged combatants need to be reintegrated into their family and society. Thousands of people were displaced during the conflict. Most of these people want to go back to their original place of livelihood. They need support for their rehabilitation. Government has already started supporting these three categories of people.

In many places, critical public assets and infrastructures were destroyed or damaged during conflict. Their restoration and reconstruction has been government's priority.

The conflict also displaced government system and machinery from rural areas. In many places, police posts have been reinstated, but other service delivery agencies of the government have not yet been fully restored. We are giving this a high priority.

As I mentioned earlier, people have high aspirations and they expect that the democratic dispensation must fulfill them immediately. Much of what they expect cannot be fulfilled in a short period, but we must show them that the government is moving in right direction.

At a time when Nepal is struggling to manage post-conflict political transition, international commodity prices, particularly, petroleum prices have hit us hard. While we try to pass the burden of price rise on the consumers, we often face strong resistance. It is placing an additional fiscal burden on government. We need to communicate properly with the civil society and find a permanent solution to pricing and supply of petroleum products. At the same time we also feel that oil-producing countries need to find certain mechanism through which reasonable price stability can be maintained.

Youth unemployment has been a burning problem in Nepal. Due to low investments in non-agricultural sector and limited diversification and commercialization of agriculture, the domestic employment market is growing at a much lower rate than the rise in number of new job-seekers. Many youths, therefore, seek foreign employment. But due to skill deficiencies, they mostly find menial and low-paying jobs in the most insecure environments. The problem of unemployment is further exacerbated by rampant under-employment in agriculture sector. These problems need to be addressed as a priority and the solutions lie in (a) enhanced skills training to prepare youths for either better jobs in foreign employment market or for domestic self-employment, (b) scaling up expenditure in rural infrastructure that can immediately provide short-term employment opportunities. In the medium-term, however, we must work to improve private sector investment climate. There is increasing interest of foreign investors in hydro-power development, which we must tap to the best interest of Nepal and Nepali people.

Under-employment and rural poverty problems can be addressed only by commercialization of agriculture. We will, therefore, increase investment for market access improvement and market information system in the rural areas. Our success in community approach to development has been widely appreciated. We shall be following the community model in implementing rural infrastructure and agricultural development projects, as well.

Tourism sector has recovered in the last one year. With further improvement in security situation, this is going to grow even further. But there are critical infrastructure problems for higher growth in tourism sector. We are, therefore, planning to build, on a public-private partnership basis, a second international airport and fast track road connecting Terai with

Kathmandu. Tourism sector in future is expected to generate more jobs than any other sector.

In education and health sector, we are focusing on improving critical sector-specific indicators. With accelerated government spending and active participation of local communities in these sectors, we will achieve better results in future. Our priority will also be on improving school and primary healthcare infrastructures. However, the existing sources can hardly match high investment requirement of this sector

We have recently completed public expenditure and financial accountability assessment. The assessment identifies areas of weakness and measures for improvement. We will implement reform measures so that our government financial management system becomes credible.

Nepal's effort in maintaining macro-economic stability even in the face of worst conflict has been lauded by international community. Macro-economic stability is even more necessary for higher growth in the coming years. Therefore, we will take due care in our public finance management and monetary operations.

In sum, the coming days will be full of challenges in steering through a development agenda to meet popular expectations within a sound and stable macro-economic framework in the critical phase of our political transition. International cooperation and support has always been vital in meeting our development needs. This will continue to be so for some time in the days ahead. We need your support and understanding.

Finally, I would once again like to welcome to you all in this meeting. I am expecting fruitful discussion today and tomorrow.

Thank you,

Jai Nepal !