

NEPAL's POST DISASTER RECONSTRUCTION EXPERIENCE : CURRENT STATUS AND LESSONS LEARNT

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OUTLINE OF PRESENTATION

- Background
- Objectives of the study
- Impact of earthquake in different sectors
- Fiscal, monetary and external responses
- Implication for economic management
- Way forward



BACKGROUND

- **Devastating earthquakes of April and May 2015 resulted in nearly 9000 deaths, and imposed a loss of property worth about \$7 billion or one-third of national output.**
- **Economy couldn't expand in FY 2015/16 as an immediate effect of the earthquake; both public & private sector investments slowed; real GDP growth decelerated to < 1% in FY 2014/15 from 5.5 percent in FY 2013/14.**
- **Government intervened with the accommodative fiscal and monetary policy with higher spending and credit flows.**
- **The growth impact was short-lived as economic growth rebounded to about 7 % in FY 2016/17.**



OBJECTIVES OF THE STUDY

Broad objectives are to:

- **Increase understanding of the wider economic and financial impacts of 2015 earthquake through analysis of the income, productive capacity, employment and investment.**
- **Analyze the macro sectors of the economy while providing cursory reflection of the implications on fiscal and trade balances.**
- **Assess fiscal & monetary policies formulated post-earthquake.**
- **Recommend measures and course correction mechanisms for the stakeholders for more credible post disaster economic management.**



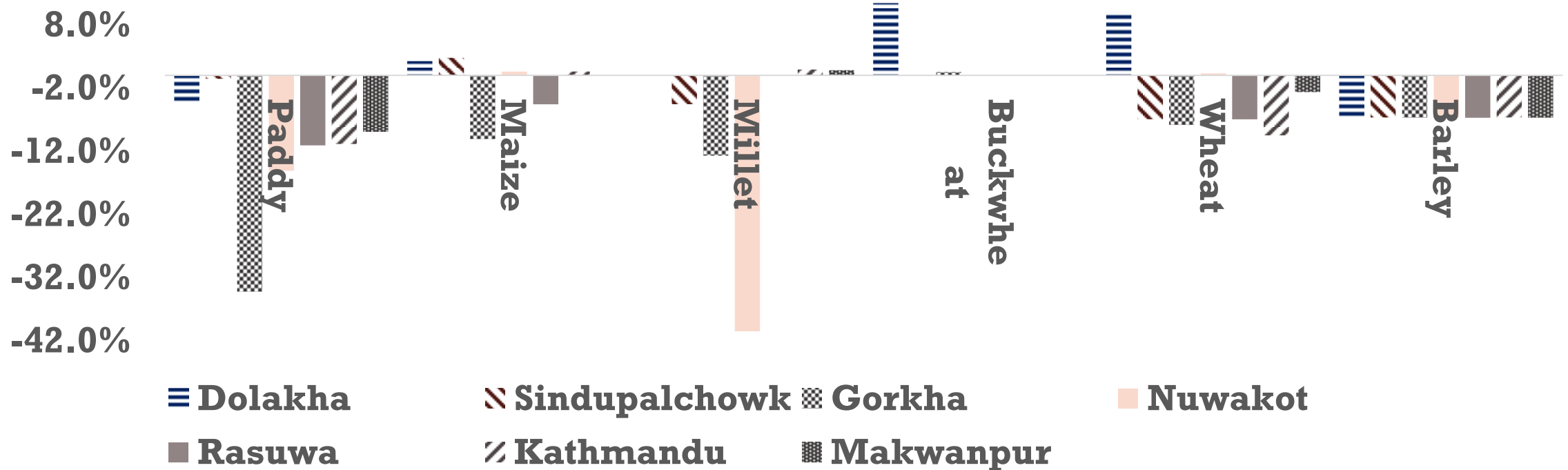
IMPACT OF EARTHQUAKE: AGRICULTURE SECTOR

- **PDNA estimate of loss of output and production in agriculture was Rs 10 billion.**
- **Effect on other sources of production like labor, machinery, seeds and live stocks, coupled with impact on agricultural infrastructure such as irrigation system and roads ensued loss of output and productive capacity.**
- **Comparison of the two subsequent fiscal years 2014/15 and 2015/16 reveals an impact on agriculture yield in the later year (see next slide).**



IMPACT ON AGRICULTURE YIELD

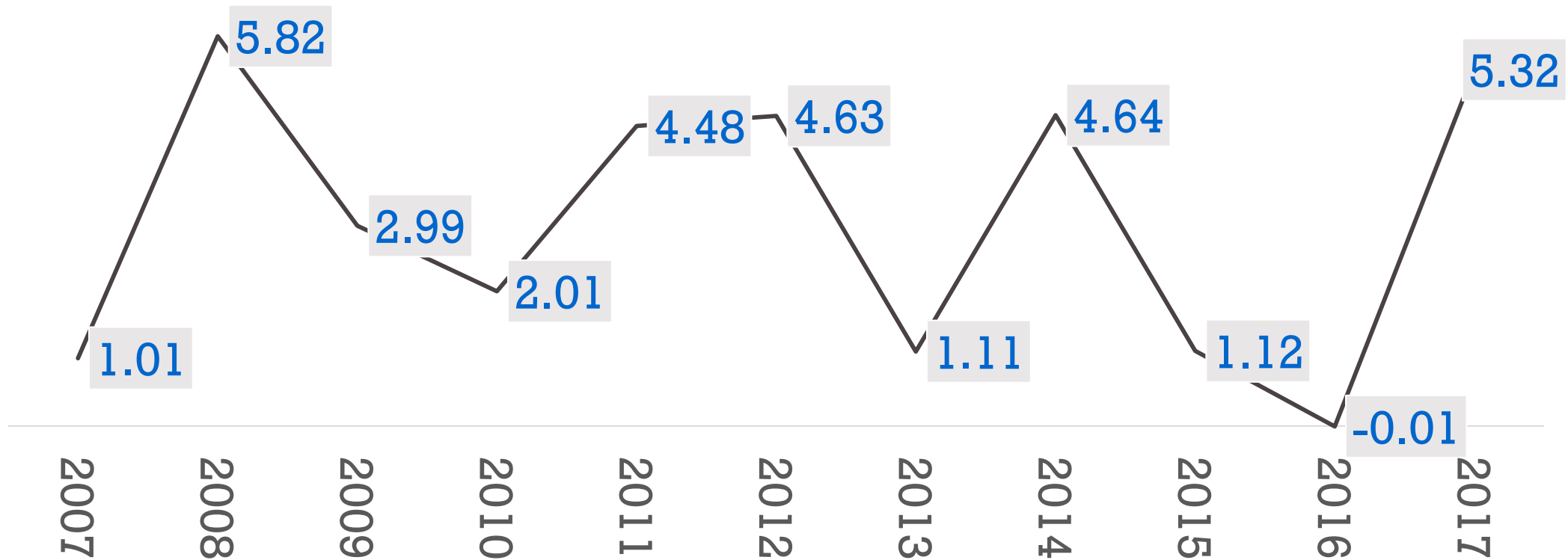
2015- 2016 (Change in yield %)



Source: (Ministry of Agriculture Development, 2016) (Ministry of Agriculture Development, 2015)



GROWTH RATE OF AGRICULTURE SECTOR (%)



Source: (The Ministry of Finance, 2007-2017)



IMPACT OF EARTHQUAKE: MANUFACTURING SECTOR

- **The districts housing core manufacturing corridors were relatively unaffected by the earthquake; but a fall in demand of the industrial goods resulting from earthquake, energy shortage, and disturbances in supply of fuel and raw materials dampened manufacturing growth to < 1.5 % in FY 2014/15.**
- **In FY 2015/16, manufacturing growth was negative by 6.5 %, while that in FY 2016/17 bounced back with 11 % growth.**
- **Upward trajectory reflected the regular supply of electricity, availability of raw materials, and improvement in post-earthquake reconstruction activities along with the lower base of the previous year.**



IMPACT OF EARTHQUAKE: SERVICES SECTOR

- **Services sector grew by 4.6 % in FY 2014/15.**
- **But there was a drag in service sector in FY 2015/16 with 2.1% growth, also because of the trade blockade.**
- **Tourism industry, a major source of local private employment and livelihoods, was in disarray; PDNA estimated revenue losses for the tourism sector of US\$450 million over the next three years.**
- **80% of hotel bookings in three months after earthquake were reported to be cancelled, & hotel occupancy rates stood at 5 % in several of the subsequent months.**
- **There is almost full recovery in this sector with tourist arrival reaching 1 million in 2017.**



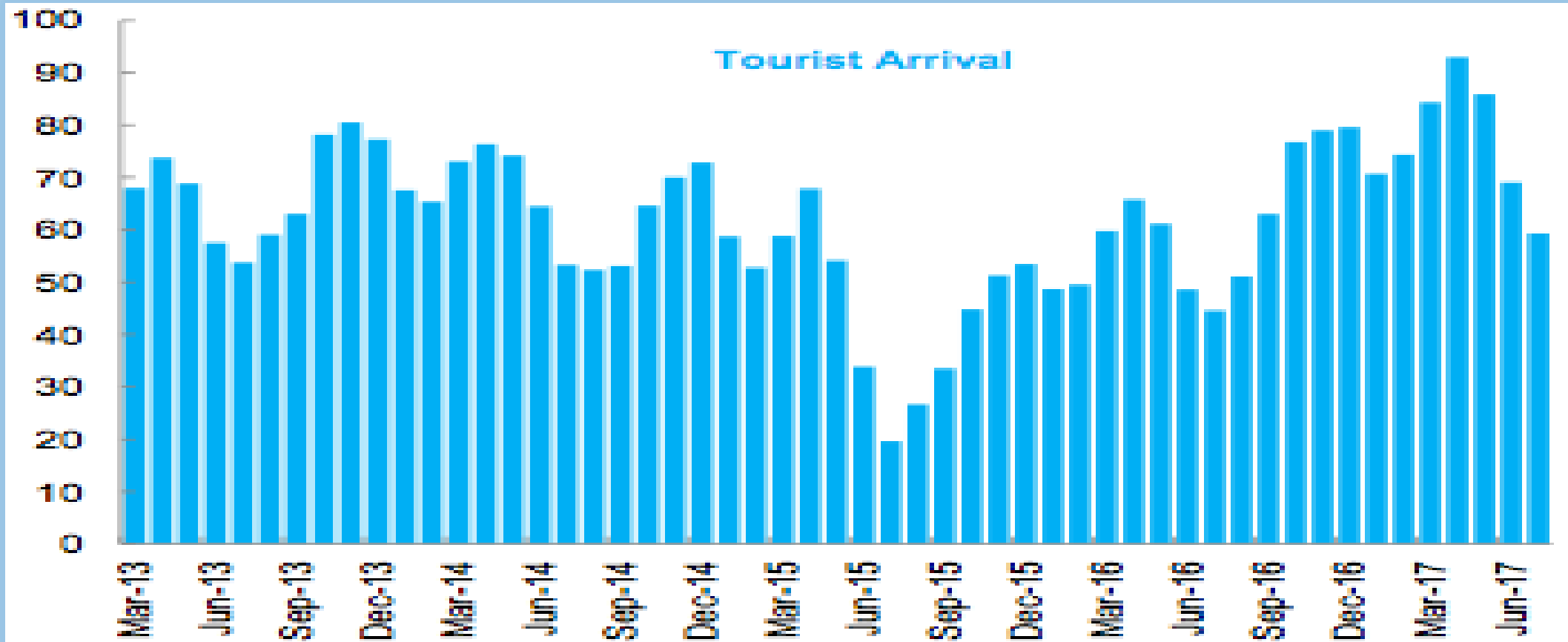
SERVICE SECTOR GROWTH RATE



Source: (The Ministry of Finance, 2007-2017)



TOURIST ARRIVAL



Source: WB (2017) and Ministry of Tourism



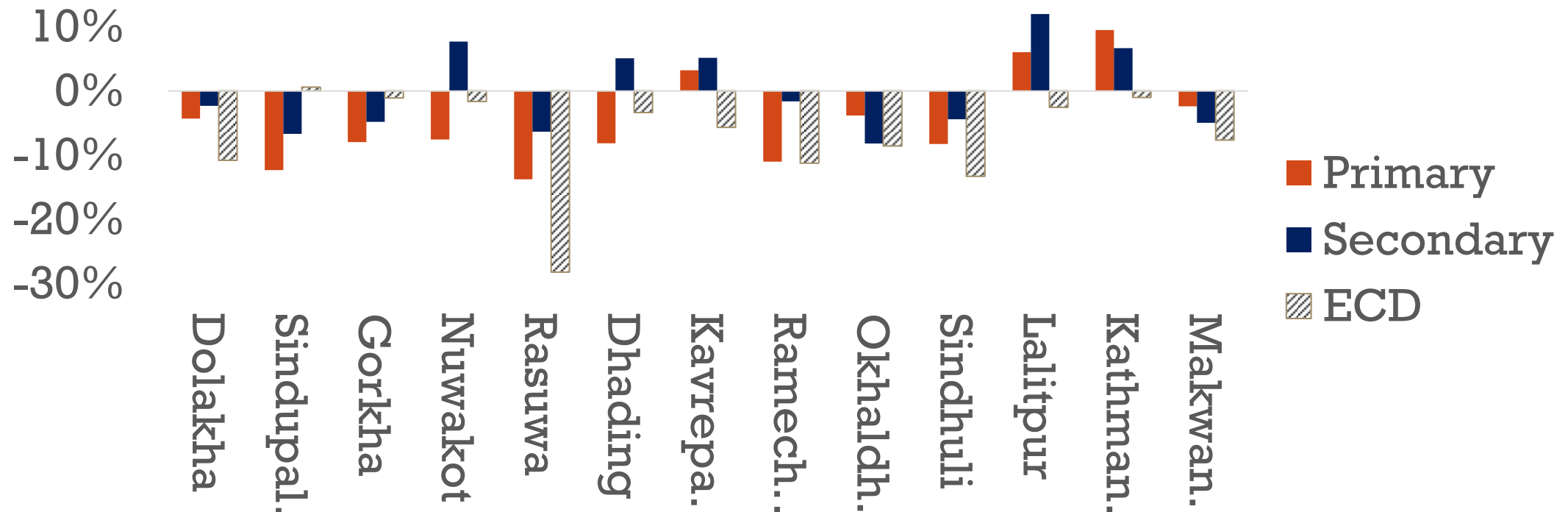
IMPACT OF EARTHQUAKE: EDUCATION SECTOR

- **Among the most affected sectors - 2472 higher secondary schools, 31907 primary schools & 413 ECD centre affected.**
- **Negative impact on student enrollment mostly apparent in primary level and ECD centers, the places like Rasuwa, Sindhuli, Dolakha, Ramechhap and Okhaldhunga experienced a fall in enrollment rate at double digits.**
- **Some study revealed that reason for not attending the school were parents far of aftershocks (46.1%) and damage to school building (45.5%).**
- **Other reasons included economic problems in the family (5.6%) and falling sick or being injured due to the earthquake (2.8%).**



CHANGE IN ENROLLMENT (2015-2016)

Change in Enrollment 2015 to 2016 (%)
(Primary, Secondary, ECD)



Source: Flash reports (2014/2015) and (2015/2016), Ministry of Education.



IMPACT OF EARTHQUAKE: LABOR MARKET

- **Labour market was adversely affected due to loss of lives and trauma in the aftermath of the earthquake.**
- **Estimate of 5.6 million workers affected by earthquake, impacting livelihoods and reducing incomes compelling earthquake-affected families to be dependent on relief and rehabilitation.**
- **Reconstruction affected by lack of skilled labor force such as plumbers, carpenters, electricians, technicians.**
- **In the affected districts the estimated number of skilled human resource is 60000, whereas Ministry of Urban Development has trained 15000 so far.**

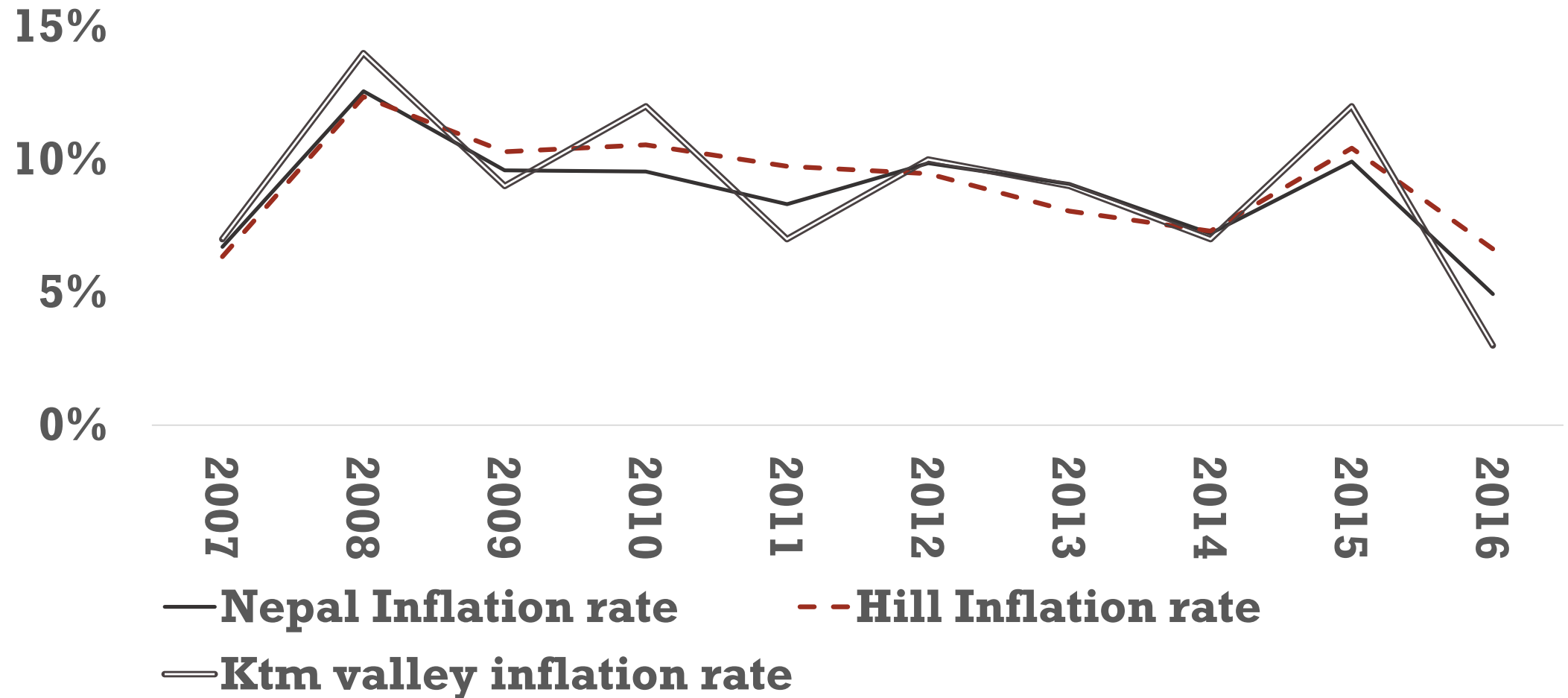


IMPACT OF EARTHQUAKE: INFLATION

- **In last 3 months of FY 2014/15 national prices rose by 2.46% compared to 2.1% in the same period of FY 2013/14.**
- **In the hills where earthquake effect was high, inflation was 2.5 % in the last quarter of FY 2014/15 against 1.84 % in the previous year.**
- **High prices in cereals grains and vegetables, fruits and the shortage of fuel and higher transportation costs ensued inflation to edge up to 9.9 % in FY 2015/16 compared with 7.2% in previous year .**
- **The inflationary pressure has subsided since then with inflation remaining less than 5% in FY 2016/17.**



MACROECONOMIC SCENARIO: INFLATION



Source: Nepal Rastra Bank

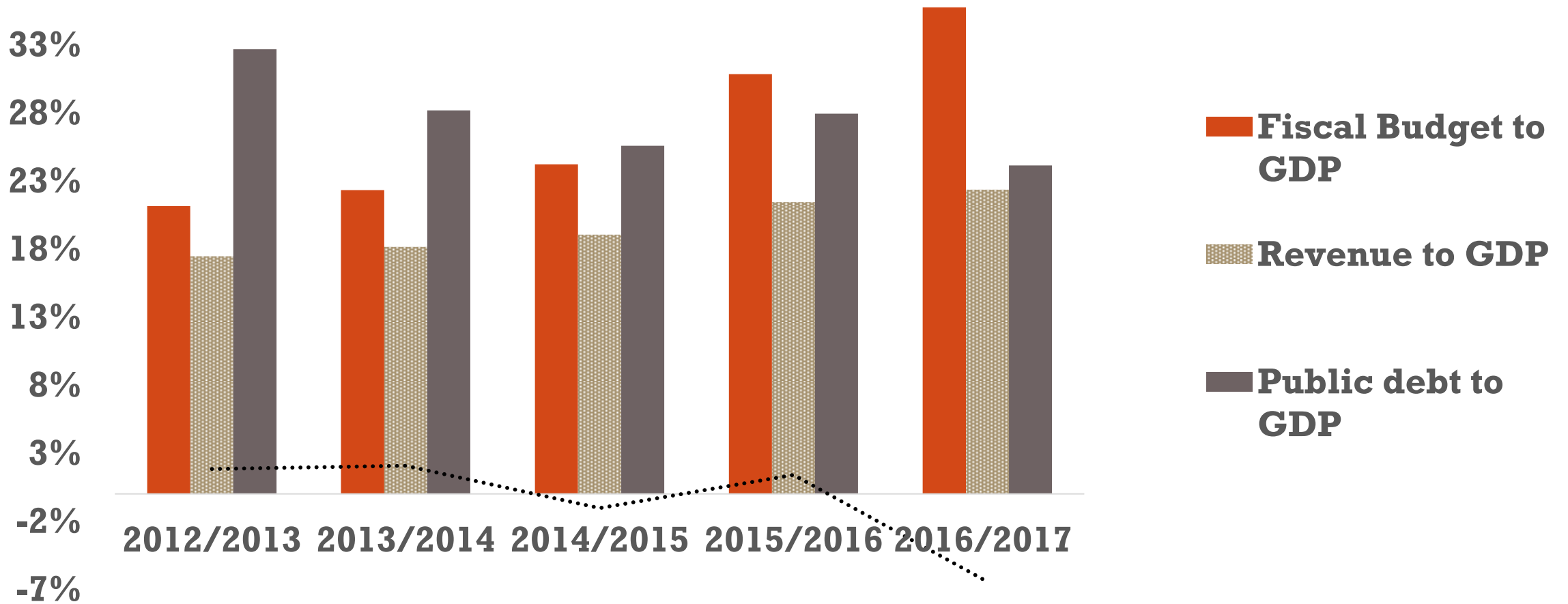


IMPACT OF EARTHQUAKE: FISCAL SECTOR

- **Government allocated Rs 91 billion in FY 2015/16 of which Rs 17 billion was allocated through sectoral ministries and other public agencies before NRA began operations; other Rs 74 billion was allocated for NRF.**
- **But only 35 % of planned reconstruction budget was spent.**
- **In FY 2016/17, about Rs141 billion was been allocated for post-earthquake reconstruction and rehabilitation of which only .. was spent.**
- **In FY 2016/17, budget deficit was 6.4 % of GDP - due to substantial increase in recurrent & capital spending against a surplus in FY 2012/13 (1.8 per cent of GDP), and FY 2013/14 (2.1 per cent of GDP), & a small deficit (1% of GDP) in FY 2014/15.**



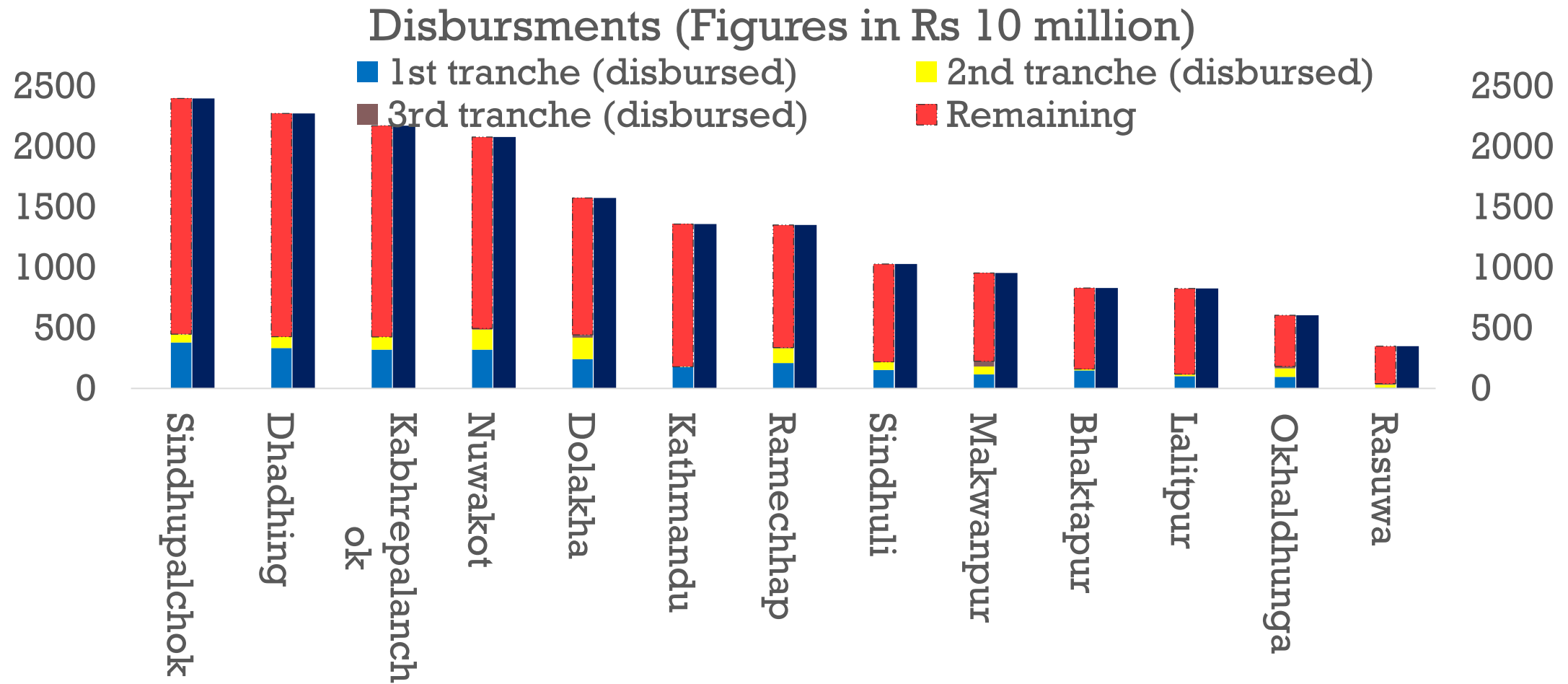
FISCAL SECTOR SCENARIO



Source: (The Ministry of Finance, 2012-2017)



HOUSING GRANT DISBURSEMENT IN 14 EARTHQUAKE AFFECTED DISTRICTS

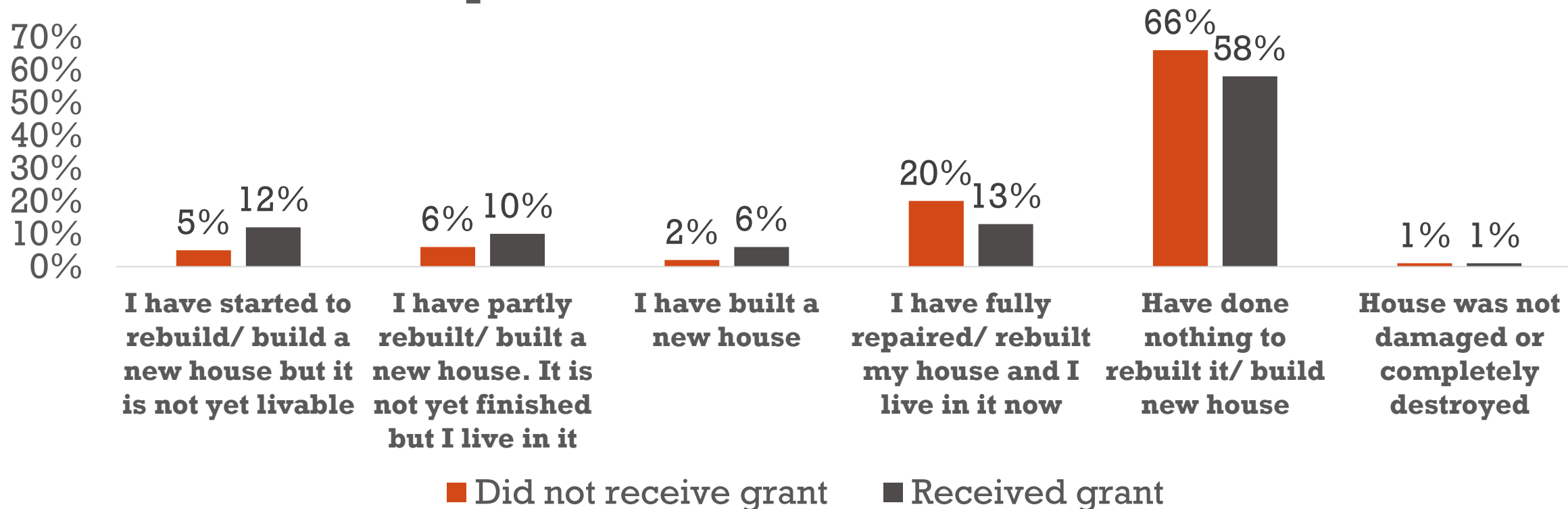


Source: NRA 2017, Author's calculation



PROPORTION WHO HAVE STARTED TO REBUILD

Proportion who have started to rebuild



Sources: IRM 4



MONETARY POLICY RESPONSE

- **NRB - Refinance facility to banks and financial institutions at 0 % interest rate, which in turn, would provide loans at subsidized interest rate of 2 % to earthquake affected households.**
- **NRB circular - Financial institutions to provide concessional loan up to Rs 2.5 million inside Kathmandu Valley, and upto Rs 1.5 million in outside quake affected districts.**
- **Uptake of concessional loan not in an optimal volume - Rs 816 million to 382 survivors even after two years of the earthquake, while over 505,000 private houses were fully damaged, & around 279,000 houses partially damaged.**

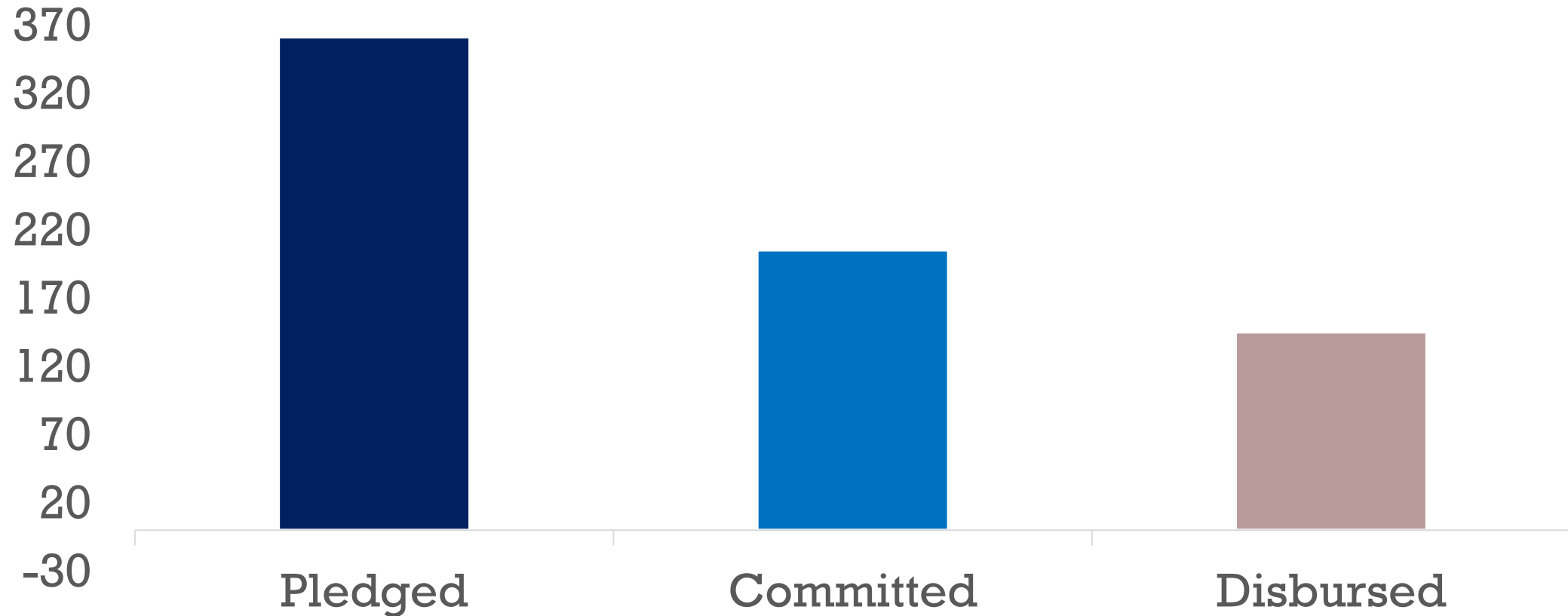


MONETARY POLICY RESPONSE

- **Loan mobilization was exclusively directed towards individuals with descent income, adequate collateral, and those who can present evidence from the respective local bodies that they don't own any other habitable house.**
- **Technical ambiguity ensued by the grey areas of circular such as penal interest on an over due loan made financial institutions reluctant on providing loan under this scheme.**
- **As government spending did not spill over to monetary system through borrowings and as bank financing to earthquake affected families was dismal, there was no significant monetary implication of the earthquake in the monetary sector.**



GLOBAL RESPONSE IN TERMS OF FINANCIAL FLOWS (IN 10 MILLION \$)



Source: (Earthquake Open Nepal, 2017)

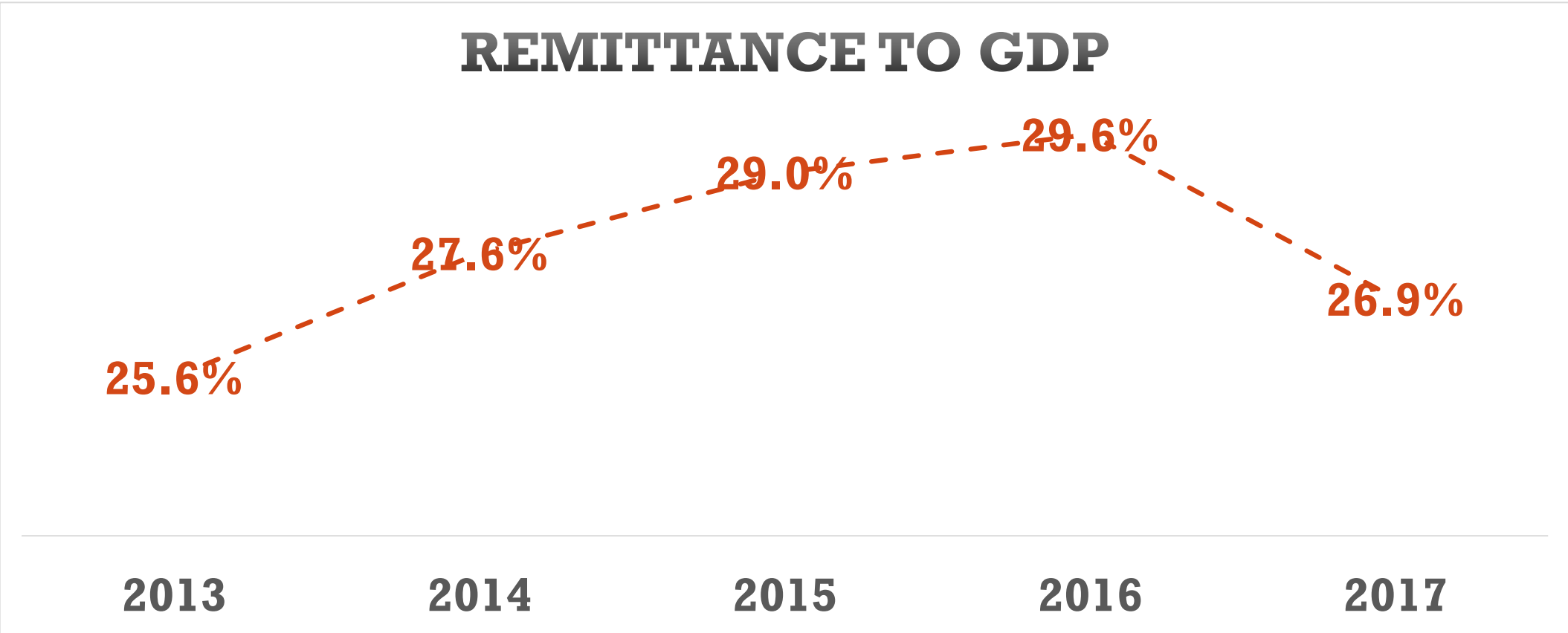


GLOBAL RESPONSE IN TERMS OF FINANCIAL FLOWS

- **Aid commitments were high; but disbursements were marginal.**
- **According to the open data earthquake response transparency portal, almost 23 multilateral and government organizations have pledged more than USD 3.5 billion cash support to the government of Nepal, 13 organizations have pledged USD 6.1 billion.**
- **Only 6 have disbursed USD 1.4 million which is mere 20 per cent of the total sum. This includes USD 1 million cash from Bhutan.**
- **Remittance flow was higher –mainly to support families.**



DIASPORA RESPONSE AND REMITTANCE



IMPLICATION FOR ECONOMIC MANAGEMENT

Issues and challenges

- **The real challenges for post-earthquake reconstruction are related more to the legal, regulatory, institutional and structural than monetary and fiscal matters.**
- **Structural factors include prompt and practical decision of the NRA in releasing funds, availability of technical and manual workers, and willingness of the household and public sector entities to expedite construction.**
- **Coordination among government, central bank and banking system, donors and local government bodies remained a challenge, as usual in other cases.**



IMPLICATION FOR ECONOMIC MANAGEMENT

Labor market issues:

- **There exists an acute mismatch between job opportunities available in the labour market and the interest or priority of the job seekers.**
- **There is scarcity of labour in agriculture, construction and reconstruction areas while a large number of Nepali youth is vying for a low paid foreign employment – which compared with daily wages prevailing in Nepal is much lower, particularly in destination countries in the Middle East.**
- **There is no labour market equilibrium even within a region of the country.**



IMPLICATION FOR ECONOMIC MANAGEMENT

Monetary and financial issues:

- **Central bank's pro-active approach in supporting earthquake affected households has been flawed by commercial banks.**
- **The conditions set for borrowings and reluctance of the banks to lend credit to the affected households remains unresolved issue.**

Donors response to the pledged amount

- **Slow donor response to the pledged amount, particularly for some of the bilateral development partners.**
- **Pledged amount mostly in loan and still insufficient to meet reconstruction work; aid conditions stringent.**



WAY FORWARD

- **There exist both fiscal & monetary space for accommodative macro policies to expedite reconstruction.**
- **May resort to deficit financing for reconstruction, as capital constraints would otherwise hinder the economic growth process and perpetuate low-investment-low growth-low saving-low investment cycle.**
- **Need to foster investment in sound infrastructure development to create jobs –also for the earthquake affected people.**
- **A renewed pledge for higher grant in the aid commitment would be necessary to ensure that the country does not fall in debt stress due to debt accumulation.**



WAY FORWARD

- **The government and the central bank must ease terms and conditions for housing grant.**
- **There is a need to involve private consulting and housing construction companies for public sector housing, given the weak capacity of the Ministries responsible for housing construction.**
- **The government should hold another external donor meeting to reassure pledges for necessary resources.**
- **Need to make NRA a well functioning and stable entity with the support of all stakeholders.**

