

5 | **The Roles of Foreign Remittance and Financial Institutions in Recovery from Nepal's Earthquake Disaster**

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1. Introduction

A devastating earthquake hit the central part of Nepal on April 25, 2015, which, together with a subsequent aftershock on May 12, killed more than 8,700 people. Not only were many lives lost, but a huge amount of assets was lost as well. The Nepali government estimates that the total loss and damage incurred by the earthquake amounted to 706.5 billion NPR (Nepalese Rupee; 1 USD = 98.7 NPR, as of the fiscal year 2014–15), about one third of Nepal's GDP [Ministry of Finance 2015: 279]. The largest losses were incurred in the housing and human settlement sector, which comprised 350.5 billion NPR, 49.6% of the total loss. The number of the houses categorised as 'completely destroyed' or 'damaged beyond repair'¹ reached 502,000, nearly 8.5% of the total houses in the country,² and 33.7% of the highly affected 14 districts. Under these circumstances, the Nepali government developed a programme to construct more earthquake-resistant houses for the victims by providing grants and low interest long-term loans for reconstruction projects.

However, it becomes apparent that this major earthquake recovery programme is not an easy task when we understand the fact that Nepal is one of the poorest countries in the world, with a per capita GNI of only 729 USD (fiscal year 2013–14). Further complicating relief efforts is the fact that most of earthquake victims are scattered throughout hilly areas far from towns, making it difficult for them to access financial services from the major financial institutions (FIs). Given this situation, this paper aims to clarify the conditions necessary for achieving expedient housing reconstruction for all victims, and those aspects involved in bolstering the repayment capacity of the victims and ensuring successful collection of loan payments. Special attention is paid to the roles of

foreign remittances from family members of the earthquake victims, and to the small FIs that are excluded in the present housing loan programme.

2. Methodology

In order to assess the magnitude of the damage by the earthquakes of April 25th and May 12th, 2015 on a national level, the main source of data for this study was government reports. Several other sources of information like, newspapers, websites of international aid organizations, and others were used as well.

In addition to document-based research, the author conducted a small field survey in S VDC (VDC: Village Development Committee, an administrative village in Nepal), a village in Dhading, which is one of the districts most severely hit by the earthquake. The information regarding damage to the houses, present situation of daily life, future prospects of house reconstruction etc. were collected from 41 households. The financial aspects of housing reconstruction, namely how the fund for housing reconstruction would be mobilized, were determined by combining the household data and the information collected from the FIs near the surveyed VDC.

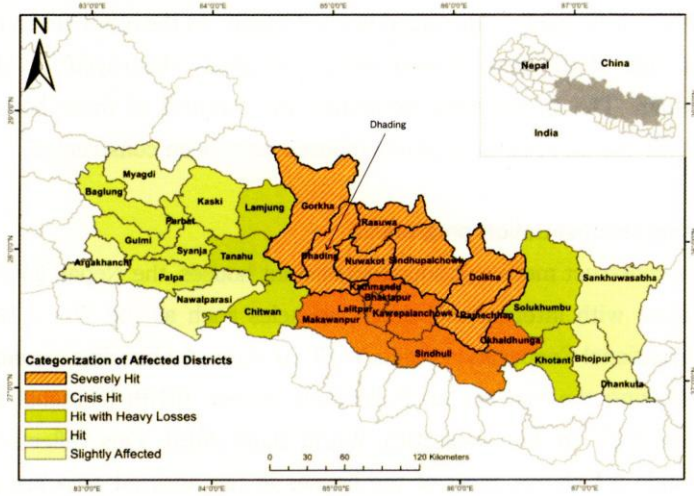
The importance of remittances from household members working abroad and the role of FIs in the housing loan programme were primarily discussed within the context of the household data of the surveyed VDC and information collected from the FIs in and around the surveyed VDC. National-level information by several reports regarding foreign remittances and Nepal's financial system was also used in the analyses.

3. Damage to the Housing Sector by the Earthquake and an Outline of the Housing Loan Programme

3-1. Damage to the housing sector

As stated above, 502,000 houses were 'completely destroyed' or 'damaged beyond repair' by the earthquake. The affected districts were concentrated in the central part of Nepal. **Figure 5.1** shows the districts affected by the earthquake, and **Table 5.1** shows the severity of the damage per district in the housing sector.

Figure 5.1 Districts Affected by the Earthquake



Source: National Planning Commission [2015a].

Note: Dhading District is situated in the centre of this figure between Gorkha District and Nuwakot District.

Table 5.1 Damage in the Housing Sector for Earthquake Affected Districts

(household, %)

District	Level of Damage		Total Households	Ratio of Completely Destroyed or Damaged beyond Repair Houses (%)	Ratio of Mud Bonded Bricks/Stone Wall Houses (%)	Ratio of Households Having Absentee* (%)
	Completely Destroyed or Damaged beyond Repair	Partially Damaged				
Dolakha	48,880	3,120	50,320	97.1	92.2	16.6
Nuwakot	57,943	4,200	65,238	88.8	91.2	18.7
Sindhupalchok	63,885	2,751	73,438	87.0	90.5	20.7
Rasuwa	7,040	2,410	10,736	65.6	86.8	24.9
Gorka	44,650	13,430	73,243	61.0	86.5	32.0
Kavrepalanchowk	49,933	23,714	88,885	56.2	82.4	14.6
Ramechhap	26,743	13,173	48,363	55.3	94.5	19.0
Dhading	43,741	18,720	81,381	53.7	85.3	23.1
Sindhuli	18,197	10,028	63,419	28.7	51.2	21.5
Okhaldhunga	10,031	3,107	35,781	28.0	94.6	23.8
Bhaktapur	18,900	9,090	75,557	25.0	38.0	11.7
Makwanpur	15,012	17,042	94,830	15.8	44.9	15.8
Lalitpur	17,444	8,064	120,685	14.5	29.5	15.1
Kathmandu	36,973	50,753	480,013	7.7	15.1	16.0
Highly Affected 14 Districts	459,372	179,602	1,361,890	33.7	49.8	17.9
Highly Affected Districts Excluding Kathmandu, Lalitpur, Bhaktapur	386,055	111,695	685,635	56.3	79.1	20.4
Other Districts	42,411	91,789	4,615,125	0.9	38.9	27.6
Grand Total	501,783	271,391	5,976,981	8.4	41.4	25.4

Source: Ministry of Health and Population (2015), Central Bureau of Statistics (2014).

Note: 1. The data of the damaged houses are as of May 29, 2015.

2. The numbers of "Total Households" are estimates made by the author using the date of the population census 2001 and 2011.

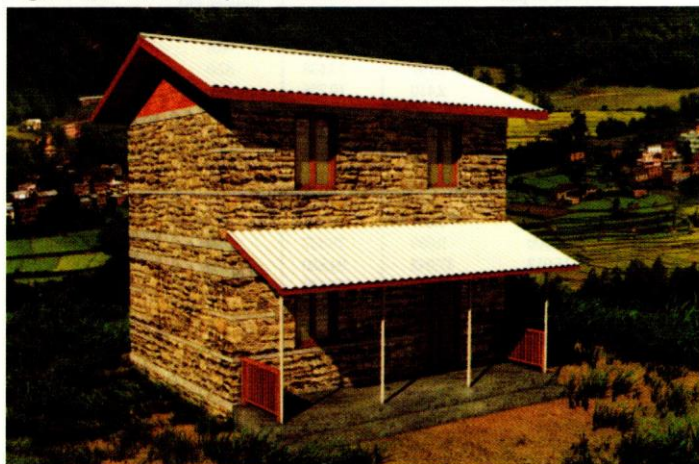
3. (*) "Absentee" here means those who lived abroad at the time of 2011 Census.

In Dolakha, the most severely hit district, almost all houses are categorized as 'completely destroyed' or 'damaged beyond repair'. In the other seven districts, more than half of the total houses were 'completely destroyed' or 'damaged beyond repair'. The government prohibited the dwellers of these houses from staying inside the structures until new houses have been constructed.

3-2. Housing reconstruction programme

In order to construct more earthquake-resistant houses, the Nepali government, in cooperation with international donor agencies such as the World Bank and Japan International Cooperation Agency (JICA), started a housing reconstruction project following the concept of 'Build Back Better' (BBB) [National Planning Commission 2015b: 8, Murooka 2015, World Bank 2015]. This reflects the fact that, as **Table 5.1** shows, most of the houses in the affected area are made of traditional mud-bonded stone and brick walls, which are highly vulnerable to earthquakes. Although implementation of this housing reconstruction project was delayed due to political conflict, the programme officially opened for operation in January 2016. The process of housing reconstruction is as follows.³

Figure 5.2 An Earthquake-Resistant Model House



Source: DUDBC(2015).

The Nepali government published the *Design Catalogue for Reconstruction of Earthquake Resistant Houses*, in order to provide a number of model designs for earthquake-resistant houses that are able to adjust to the different geographical and economic conditions faced by earthquake victims (**Figure 5.2**) [DUDBC 2015]. The government also revised existing codes and guidelines for construction of more earthquake-resistant houses. Victims of the earthquake who want to build a new house must do so following these new building codes and guidelines.

Table 5.2 Total Recovery Needs of Housing Sector

Details	Unit Price (NPR/House)	No. of Houses	Total Amount (million NPR)	Share (%)
Demotion		107,381	3,971	1.2
Debris Clearance		498,852	5,810	1.8
Transitional Shelter	24,540	609,938	14,968	4.6
New House Reconstruction (450sqft/unit)	405,000	609,938	247,025	75.4
Repairs and Retrofitting	121,500	256,697	31,189	9.5
Others			24,799	7.6
Total			327,762	100.0

Source: National Planning Commission (2015b).

It is estimated that 327.8 billion NPR will be needed to construct new earthquake-resistant houses, including the cost of demolition of the old damaged houses, debris clearance, construction of transitional shelter, and other expenses (**Table 5.2**). It is estimated that the average cost of making one new house will be 405,000 NPR. To meet the costs of housing reconstruction, the government will provide financial support in the form of housing grants and low-interest, long-term housing loans to the earthquake victims. It has been officially announced that the amount of the grant for each household is 200,000 NPR, and the maximum amount of the total low-interest loan is 2.5 million NPR inside the Kathmandu Valley and 1.5 million NPR outside the valley. The central bank of Nepal, Nepal Rastra Bank (NRB), will provide refinance facilities to the limited FIs with 0% interest, and these FIs on-lend it to the earthquake victims, adding at most 2% interest per annum as necessary margin [Nepal Rastra Bank 2015]

for a minimum period of 5 years and a maximum period of 10 years.

This refinancing facility is available only to those limited FIs that are under the supervision of NRB, namely Class 'A' (commercial banks), Class 'B' (development banks), and Class 'C' (finance companies) FIs. The reason only these FIs have access to refinance from NRB is not clearly explained, but it is understandable when we consider the nature of housing loans, namely ones dealing in large amounts over long periods of time. Only FIs that have sound and sustainable management should be allowed to implement this housing loan programme. These FIs can provide the housing loan refinanced by NRB to the clients of Class 'D' FIs (microfinance development banks) with the recommendation of Class 'D' FIs up to 200,000 NPR, which is much lower than the ceiling for 'A', 'B', and 'C' FIs. Microfinance development banks are also under the supervision of NRB and organize the poor into client groups to provide microfinance services, which are mainly based on the Grameen Bank model. Therefore, some poor people who do not have access to Class 'A', 'B', and 'C' FIs can take out housing loans through Class 'D' FIs (microfinance development bank). However, other small FIs (e.g. microfinance NGOs and savings and credit cooperatives), which are not under NRB's supervision, are excluded from this housing loan programme.

Considering the above situations, the following questions arise. (1) Are the government grant and housing loan enough for the complete reconstruction of lost houses? (2) Do all households, including poor ones, have access to the housing loan programme? (3) How can people, particularly poor people, repay these large loans? (4) Will the FIs that provide the housing loan be able to collect loan payments smoothly and efficiently from a wide pool of small borrowers? We will try to find answers to these questions mainly by the results of a field survey in an earthquake-struck VDC.

4. The Results of the Village Survey

4-1. Magnitude of damage to houses

In order to fully grasp the situation faced by the earthquake victims and their prospects for successful housing reconstruction, the author conducted a small survey in one VDC. The surveyed VDC, S VDC, is located in the southwest part

of Dhading, one of the districts most severely hit by the earthquake on April 25, 2015 (see **Table 5.1**). More than half of the total households in this district were 'completely destroyed' or 'damaged beyond repair'. Although no one in S VDC was killed by the earthquake, 1,400 of the total 1,429 households (98%) were categorized as 'completely destroyed' or 'damaged beyond repair'. Of the remaining 29 households (2%), all were 'partially damaged', and no household was categorized as having no damage. The survey was conducted mainly in three adjacent hamlets, which consist of high caste (Brahman), middle caste (mainly Magar), and dalits (mainly Sarki, the leather-worker caste).

The village survey was conducted three months after the earthquake, at which point the completely destroyed houses had already been cleared. Most of the houses categorized as 'damaged beyond repair', however, were left untouched. The government prohibited victims from staying in these houses. Despite official restrictions, approximately half of the surveyed 41 households reported living inside their houses, fearing the event of another disastrous earthquake. The other half of the respondents reported living in safer places, such as the simple cottages built in their premises after the earthquake, under the eaves of their old houses, in tents, and other makeshift shelters. (**Table 5.3, Figure 5.3, 5.4, 5.5**).

Although many houses categorized as 'damaged beyond repair' appear to have no damages on the surface (**Figure 5.6**), all of the houses displayed some form of cracks on their walls. Since the walls of the houses in this area are mostly made of mud-bonded stones and bricks (see **Table 5.1**), they are highly vulnerable

Table 5.3 Living Places of Surveyed Households at Night (multiple answers)

	No. of Households (household)	Ratio (%)
Inside Own House	19	46
Cottage	12	29
Under Eaves of Own House	8	20
Tent	5	12
Own Store House	2	5
Total	41	100

Source: Field Survey in S VDC in 2015.

Figure 5.3 A Victim's Tent for Night Stay



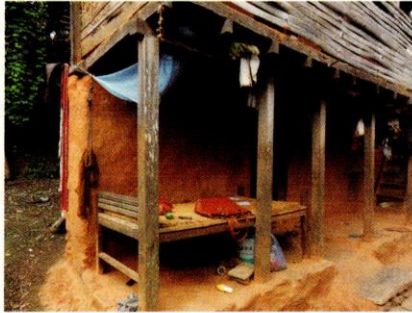
Source: Field survey in S VDC in August 2015.

Figure 5.4 A Victim's Cottage Built after the Earthquake



Source: Field survey in S VDC in August 2015.

Figure 5.5 Many Victims Sleep under Eaves at Night.



Source: Field survey in S VDC in August 2015.

Figure 5.6 A House Categorized as 'Damaged beyond Repair', Which Has No Serious Damage on the Surface



Source: Field survey in S VDC in August 2015.

to earthquakes. Following the concept of Build Back Better (BBB), these houses are categorized as 'damaged beyond repair', indicating that they need to be reconstructed to be more earthquake-resistant, in order to protect their inhabitants from future earthquakes.

4-2. Financial needs of the earthquake victims

Table 5.4 displays the financial needs of the victims and their future prospects for housing reconstruction. In response to the question of whether they are planning to build a new house, 31 households (76%) of the surveyed 41 households answered 'Yes', 3 households (7%) answered 'Undecided', 3 households (7%) answered 'No', 2 households (5%) answered 'Only repairing', and the remaining 2 households (5%) answered 'Make a cottage and live in it'. These responses indicate that the majority of households in the region will construct new houses.

Table 5.4 Expected Cost and Sources of Housing Reconstruction (multiple answers)

	Housing Grant	Housing Loan from FIs (bank, cooperative)	Debt from Money Lender	Foreign Remittance	Total Households
No. of Households (of which, dalit)	31 (19)	18 (7)	9 (6)	12 (8)	31 (19)
Average (NPR)	185,000	371,875	200,000	271,000	511,935
Median (NPR)	185,000	200,000	100,000	250,000	385,000
Max. (NPR)	185,000	2,000,000	500,000	550,000	2,685,000
Min. (NPR)	185,000	50,000	50,000	50,000	185,000
Total (1,000 NPR)	5,735,000	6,693,750	1,800,000	3,252,000	17,480,750
Share (%)	32.8	38.3	10.3	18.6	100.0

Source: Field survey in S VDC in 2015.

Note: 1. The data of households not planning to make a new house are not included in this table.

2. The data other than "No. of Households" are those of the households from which specific figures were obtained.

The average and median costs of housing reconstruction of the 31 households that are planning to build a new house are expected to be about 512,000 NPR and 385,000 NPR, respectively. However, construction costs vary significantly depending on these households' financial situations, which range from 185,000 to 2,685,000 NPR. It is expected that 185,000 NPR of funds will be provided for homeowners in the form of a housing grant from the government.⁴ Therefore, the net expenditure of housing reconstruction for each household is expected to be around 327,000 NPR, on average. Approximately one-third of the total reconstruction cost will be met by the grant, as **Table 5.4** shows.

In addition to the grant from the government, the majority of the surveyed households planning to reconstruct their houses reported that they plan to take out a housing loan from FIs, namely banks (4 households) or a cooperative. The most popular FI for this purpose in the surveyed area is a cooperative, S Small Farmers' Agriculture Cooperative Limited: S SFCL, located in the VDC. Although SFCLs are not eligible for direct refinance from NRB, some SFCLs are able to provide housing loans to their members, because SFCLs are associated with the Class 'D' FI, Sana Kisan Vikas Bank (Small Farmers Development Bank).⁵ However, many of the households having no membership in this SFCL expect that they will borrow from local moneylenders to get the necessary money for housing reconstruction, paying a usurious interest rate of 24% to 36% per annum, rates which are much higher than the government housing loan programme. Loans from FIs and debt from moneylenders account for approximately half of the expected total housing reconstruction costs, as shown in **Table 5.4**.

Another 19% of the total costs are expected to be funded by remittances from household members who work abroad. Income from agricultural production and other income, such as wages earned in domestic employment or business, would also be important sources of funding, especially for those households that have no family members working abroad.

Although nearly one third of the total costs of housing reconstruction will be met by government grants, the remaining expenses must be borne by each household, because borrowers must eventually repay the housing loans from FIs and moneylenders. Data on the main household income in the surveyed VDC

Table 5.5 Major Income Sources of the Surveyed Households

	(household)					
	Agriculture	Foreign Remittance	Wage / Salary	Business	Pension	Total
First Main Income (of which, dalit)	22 (9)	16 (12)	2 (1)	1 (1)	0 (0)	41 (23)
Second Main Income (of which, dalit)	15 (11)	4 (3)	6 (5)	1 (0)	2 (0)	28 (19)

Source: Field survey in S VDC in 2015.

Note: Some data are estimation of the author using the household information about landholding size and employment situation of household members etc.

shows that agriculture is the main source of income, followed by foreign remittances (**Table 5.5**). Although information regarding the amount of household income was not collected in this survey, the national average income for the average rural household is 171,950 NPR, and only 99,115 NPR for the bottom 20% of households (2010–11) [Government of Nepal, 2011]. Similarly, annual savings are 29,399 NPR for the average household, and 17,401 NPR for the bottom 20% of households. Repayment of the average loan amount, 327,000 NPR, means paying instalments of 32,700 NPR each year, excluding interest, if the loan is to be repaid in over a period of 10 years. This is a heavy burden for the average household, let alone for poor households, especially when the burden of the costs not covered by government grants are covered using high-interest debt from moneylenders. Heavy repayment pressure or failure to collect payments can result in deepening individual poverty and the deterioration of the financial system at the national level.

In order to avoid heavy financial pressure on the poor, which could result in the failure to collect loan payments, the following two requirements will be of crucial importance.

- 1) Expansion of repayment capacity for the earthquake victims, especially for the poor.
- 2) Efficient and assured loan repayments for the FIs implementing the housing loan programme.

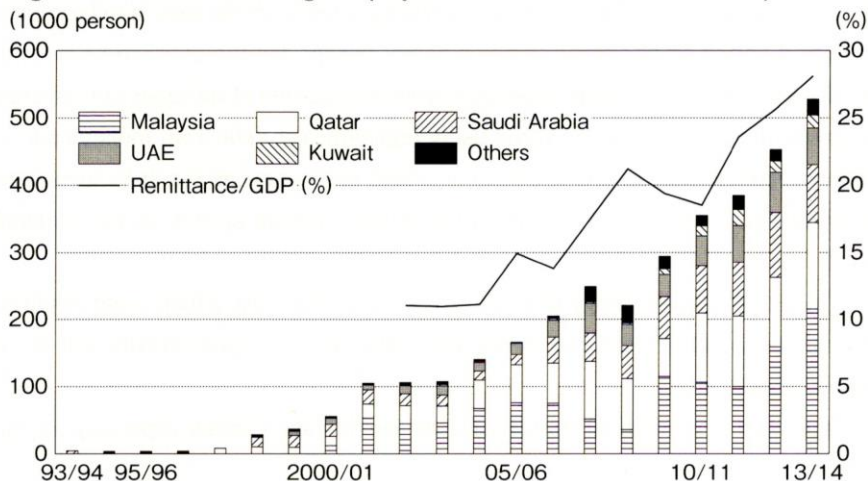
In the following sections of this paper, the author will discuss the importance of these requirements, and possible paths towards realizing them.

5. Two Important Requirements for Successful Housing Reconstruction

5-1. Expansion of repayment capacity of the poor by promoting foreign employment

The easiest and most realistic way of expanding the repayment capacity of local populations, particularly the poor, who need to borrow large amounts of money for reconstruction, is to increase their income by engaging in foreign employment, particularly employment in the Middle Eastern countries and Malaysia. Foreign employment is increasingly becoming a common option for Nepalese youth, especially those in middle- and low-income groups. As **Figure 5.7** shows, the number of people who receive government permission to pursue foreign employment is increasing rapidly. More than 500,000 people,⁶ mostly young men, left Nepal in search of employment in the fiscal year 2013-14. As of 2011, about 25% of all households in Nepal had at least one household member staying abroad.

Figure 5.7 Increase in Foreign Employment from and Remittances to Nepal
(1000 person)



Source: Ministry of Finance. *Economic Survey*. various issues.

Notes: 1. These numbers show those who got government permission for foreign employment in each fiscal year.

2. Employment in India is not included in this figure.

Nepal has a long history of sending her people abroad for employment, including to India to work for the Indian army. However, working in other countries, like ones in the Middle East and Malaysia, has become popular only recently. As **Figure 5.7** shows, employment in these countries began to increase after the political democratization of Nepal in 1990, especially after 2000, due to the government's active policies for promoting manpower export to Malaysia and the Middle Eastern countries.

The total amount of remittances Nepal received in the fiscal year 2013-14 reached 543.3 billion NPR (5.5 billion USD). The ratio of Nepal's remittance to GDP in 2013-14 is 28.0%, third highest in the world, behind Tajikistan and Kyrgyzstan [World Bank n.d.]. The remittances Nepal receives are so huge that a single year's remittances would be enough to allow the country to recover from the damages of the earthquake disaster. About 18% of the total households in the 14 districts severely hit by the earthquake have at least one household member working abroad, mainly in the Middle Eastern countries, India and Malaysia (**Table 5.1**). Remittances are the main source of income for many households. The average amount of remittances by one household member working abroad is about 26,000 NPR per month.⁷ If half of the remittance income is used for repayment of housing loans, it will take about 2 years for households with a family member working abroad to repay the housing loan (32,7000 NPR: average net expenditure for housing reconstruction) borrowed from FIs. If the loan (327,000 NPR) is to be repaid in instalments over a 5-year period, approximately one-fifth (22%) of the monthly remittance will be used for loan repayment.⁸ Generally, foreign employment is a stable source of income, and if one household member is working abroad, repayment of a housing loan will not be a heavy burden for earthquake victims.

Therefore, promotion of foreign employment will make it easier for less wealthy earthquake victims to repay their housing loans and recover quickly from the disaster. In the surveyed VDC, the author collected information regarding the employment situations of 85 households. As **Table 5.6** shows, high caste⁹ households have more land, especially irrigated land, but less household members working abroad. The main reason for this is that working in the Middle Eastern

Table 5.6 Caste-wise Landholding and Foreign Employment Situation in the Surveyed Households.

(household, ha)

	No. of Surveyed Households	Households with Foreign Employment	Average Agricultural Landholding	Of Which, Irrigated Land
High Caste (Brahman)	19	2 (11%)	0.71	0.34 (48%)
Middle Caste (Magar, Newar)	41	17 (41%)	0.67	0.14 (20%)
Dalits (Sarki, Damai)	25	13 (52%)	0.35	0.03 (7%)

Source: Field survey conducted in S VDC in 2013 and 2015.

Note: Traditional works of Sarki and Damai are leather work and tailoring respectively.

countries and Malaysia is considered to be hard, and the income is less attractive for educated, high-caste young people. High-caste youth tend to take advantage of their higher education and access to large capital, typically choosing employment in service sectors like banking and government jobs, or in the business sector. Middle- and low-caste households, however, generally have less land property and a lower education, and are therefore more likely to go abroad as unskilled labourers (Table 5.6). Their main destination country used to be India, but they have shifted towards the Middle Eastern countries and Malaysia since expected incomes in these countries are now higher than those in India. Other than increased income, foreign employment has another advantage, especially for low-caste people. As ILO [2005] indicates, migration is one strategy dalits use to escape from social discrimination and constraint. By migrating to cities and foreign countries, dalits can engage in various jobs free from the caste bindings enforced in rural Nepal.

Although living separately from one's family for a long time sometimes weakens family ties and causes tragedies like family breakup, promoting foreign employment of the poor, especially dalits, can have significant positive economic and social effects.

After the earthquake, the government introduced a 'zero cost migration

policy' to minimize the costs of gaining foreign employment.¹⁰ If this policy succeeds, the cost of foreign employment in the Middle East and Malaysia is expected to decrease dramatically, from 80,000–120,000 NPR to only 20,000 NPR per person. This measure will facilitate foreign employment of the poor, who had not been able to go abroad due to the high initial costs charged by manpower-exporting companies.

The benefits of promoting foreign employment are not limited to those households that have family members working abroad. Much of the remittances are consumed within the village or in nearby towns for housing construction and daily consumption like purchase of food stuff, daily commodities, electric goods, education of children, medical treatment, and others. Remittances therefore increase the income of all the people in the community by the multiplier effect. Thus, promotion of foreign employment of the poor will benefit the entire local economy and increase the repayment capacities of all earthquake victims. The government should therefore adopt active policies to promote foreign employment, especially of the poor and dalits.

5-2. A need for collaboration between the housing loan providing large FIs and other small FIs

The success of housing reconstruction regarding the housing loan programme will largely depend on whether large FIs, which implement the government's housing loan programme, can smoothly collect repayment of loans from their numerous borrowers, among which many are the poor. Most earthquake victims live scattered over a wide area, and far from towns where large FIs responsible for implementing the programme are located. The geographical variety will likely make it difficult for loan-providing FIs to efficiently collect repayment from their many small borrowers. If many borrowers do not repay regularly or, in the worst case, default on their loans, Nepal's entire financial system will be affected, and the nation's economy may deteriorate. In order to avoid this problem, housing loans must be collected smoothly and efficiently.

Information collected from FIs in Malekhu, a town nearby the surveyed VDC, shows that only two FIs among the 12 FIs the author visited provide

housing loans. These two FIs are branches of Class 'A' FIs, Machapuchari Bank (a private bank) and Rastriya Banijya Bank (a government bank). The number of staff in these banks is very limited; for example, there are only 5 to 6 persons in the branch of Machapuchari Bank. The area of the branch's operation is therefore limited to areas that are densely populated and easy to access, namely, only those areas along the highway road. It will be very difficult for these FIs to provide housing loans to the numerous households that are scattered and far from the main road. Although it is expected that microfinance development banks (Class 'D' FIs) will be involved in this programme and that their clients will get the housing loans, many poor households that are not members of these microfinance development banks will be unable to access the housing loan programme.

On the other hand, there are many small FIs like savings and credit cooperatives, as well as locally organized small NGOs and self-help groups, which provide small and short-term loans to lower-income households. These small FIs generally have weaker management and less funding than Class 'A', 'B', 'C', and 'D' FIs. However, the loan repayment ratio of these FIs is generally very high, as **Table 5.7** shows.

Table 5.7 Various Types of Financial Institutions and Their Performance

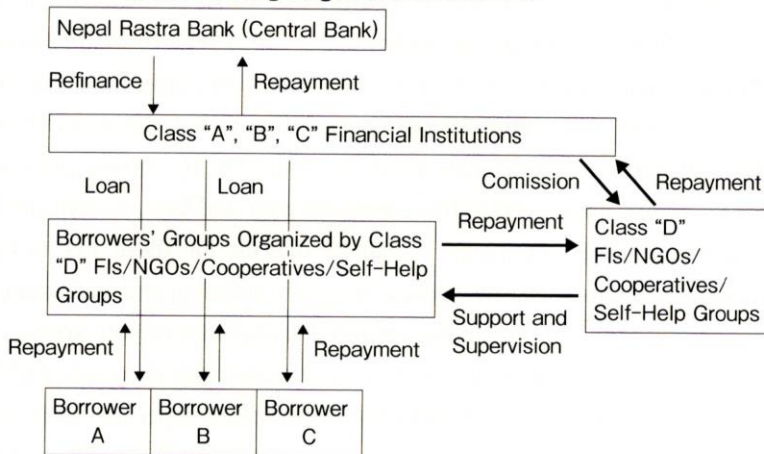
	FIs Involved in Housing Loan Programme				FIs not Involved in Housing Loan Programme	
	Commercial Bank (A)	Development Bank (B)	Financial Company (C)	Micro Finance Development Bank (D)	Financial NGO	Savings & Credit Cooperative
Number of FIs	30*	81*	52*	37**	N.A.	13,315*
Number of Branches	1,547*	818*	239*	861**	N.A.	N.A.
Ratio of Non Performing Loan or Overdue Loan (%)	2.9*	4.0*	14.9*	9.32**	0.69***	1.12***

Source: * Ministry of Finance (2015). ** Nepal Rastra Bank (2014). *** S. M. Shretha (2009).

Note: Ratio of Non Performing Loan or Overdue Loan of "Micro Finance Development Banks" and "Savings and Credit Cooperatives" are those of sample FIs and not those of all FIs in Nepal.

This is the main reason the author wants to propose a wider and deeper collaboration between housing-loan providing large FIs and other small FIs like NGOs, savings and credit cooperatives, and self-help groups. If these various small FIs become involved in the housing loan programme as partners or sub-contractors of loan providing large FIs (Class 'A', 'B', 'C') and take responsibility for supervision and loan payment collection (Figure 5.8), using their networks and close relationships with their small clients/members, the housing loan programme will have less difficulty in efficiently accomplishing these tasks.

Figure 5.8 The Structure of the Proposed Collaboration between Housing Loan Providing Large FIs and Small FIs



6. Summary and Conclusions

The large-scale earthquake of April 25th and its aftershock on May 12th, 2015 devastated the central part of Nepal. More than 7,800 lives were lost, and the houses categorized 'completely destroyed or damaged beyond repair' numbered about 5 lacs. In the 14 highly affected districts, the share of houses that need to be reconstructed reached 34% of the total households in the area. This share goes up to 56% when the comparatively less-affected 3 districts of Kathmandu, Lalitpur and Bhaktapur are excluded. In the most severely hit 3 districts, Dolaka, Nuakot and Sidhupalchowk, nearly 90% of the total houses need to be

reconstructed. Most of these victims live scattered throughout hilly and mountainous areas with poor road communication and far from towns.

In order to recover from this disaster and build housing that is more earthquake-resistant, the Nepali government, in cooperation with international donor organizations and countries, made a housing reconstruction programme which consists of a grant and low-interest long-term loan. The central bank of Nepal, Nepal Rastra Bank (NRB), will refinance to the limited FIs, namely, Class 'A' (commercial banks), Class 'B' (development banks), and Class 'C' (financial companies) without interest. These FIs on-lend these funds to the victims of the earthquake, adding a 2% margin to meet their costs of operation. These FIs can also provide limited-amount housing loans (200,000 NPR) to the clients of Class 'D' FIs (micro finance development banks) under the latter's recommendation.

After rebuilding a new house, each household must repay their loan to the FIs by instalments over a 5 to 10 year period. Given that the majority of the households in the severely affected areas are expected to borrow the housing loan, FIs must give loans even to those who are poor and live far from the loan-providing FIs. In such conditions, it will be difficult for these FIs to collect repayment instalments regularly, because they lack sufficient staff and experience to provide services to the poor living scattered throughout remote areas.

Considering the above situations, the author makes two proposals. First, it is necessary to increase borrowers' repayment capacities, especially those of the poor, by promoting their foreign employment opportunities. Migration to foreign countries for the poor (many of whom are dalits) will have not only a positive effect on household incomes, but also on a social level, promoting a less discriminative society based on their experiences gained in foreign countries.

Second, housing-loan providing large FIs should collaborate with various small FIs like local small savings and credit cooperatives, microfinance NGOs, and self-help groups as partners of the housing loan programme, or as sub-contractors of repayment collection. These small FIs have wide networks in remote rural areas by organizing local population including the poor into groups and have good performance in collecting repayment of loans. By supplementing each other, large FIs can reach numerous small clients and avoid the problems

of collecting loan repayments. Small FIs can also benefit their members and clients. If the Nepali government and various FIs adopt these proposals, Nepal will be able to recover from the tragedy of the earthquake and make a more earthquake-resistant society smoothly.

Notes

- 1) According to the village informant who worked for the author in the surveyed VDC, there is no separate figure regarding 'completely destroyed' and 'damaged beyond repair' houses.
- 2) The author obtained this figure by dividing the number of 'completely destroyed house' (507,000) by the estimated number of the total households (5,977,000 in 2015) using the data of Population Census 2001 and 2011.
- 3) In addition to the written information by various sources like National Planning Commission [2015a,b], Xinhua News Agency [2015], and Nepal Mountain News [2015], information from the village informant in the surveyed VDC was extremely useful to understanding the damage of housing and the housing reconstruction programme. He was engaged in the assessment of damage of housing in the surveyed VDC and, as a director of S SFCL (Small Farmers Cooperative Limited), has a rich knowledge of the financial situations of S VDC and S SFCL.
- 4) The total amount of the housing grant given by the government is 200,000 NPR for each household whose house was completely destroyed or damaged beyond repair. Of this, 15,000 NPR was already given to each household for the purpose of making a shelter soon after the earthquake. Therefore, the remaining 185,000 NPR will be given to the victims as housing grant when they construct their new house.
- 5) According to the information from the S SFCL, only a few good SFCLs in the region can avail themselves of the government's housing loan programme.
- 6) This figure does not include those who go to India. In order to go abroad for employment, people must get permission for foreign employment from the government. However, according to an agreement between Nepal and India, those who go to India for any purpose are not required to get official permission. Therefore, there is no official data regarding how many Nepalese people went to India for employment.
- 7) This is information collected from 28 overseas workers through their family members. The median value was 17,750 NPR.
- 8) Level payment of a 327,000 NPR loan with annual interest 2% over 5 years of instalments requires paying 5,732 NPR per month (for principal and interest). Therefore 22% (5,732/26,000) of the monthly remittance will be used for repayment of the housing loan.
- 9) The major high cast in this VDC is Brahman, the major middle casts (ethnic groups) are

Magar and Newar, and the major low caste (dalits) is Sarki (leather-worker caste).

- 10) This policy was not introduced for the purpose of facilitating recovery from the earthquake disaster. However, if the policy works well, it will facilitate foreign employment of the poor and increase their income. In this policy, employers of Nepalese workers in destination countries are obliged to bear the cost of acquisition of their worker's visa and travel expenses, costs that originally had been borne by the Nepalese workers themselves.

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