

SANA KISAN BIKAS BANK (SKBB)

Loan To Small Farmers

At a time when the commercial banks have been unable to distribute the concessional loan to earthquake victims, SKBB has found a way to reach out to them

By A CORRESPONDENT

When she signed the agreement one and a half years ago, in June 2016, with Sana Kisan Bikas Bank Ltd (SKBBL), in the presence of senior officials of Ministry of Finance, Apsara Adhikary, chair of Kegalpur Sana Kisan Krishi Sahakari Sangh (Kegalpur Small Farmers Agriculture Cooperatives), was upbeat -- she was receiving a check of over 20 million rupees.

She declared that her cooperative would distribute the concessional loan to all her members and pay back the loan, with interest, in the targeted period. As Nepal's own tendency of low distribution and recovery of such concessional loan remains bad, there were only a few to take her words.

Down the line, in eighteen months, Apsara has not only

distributed the concessional loan but also recovered it with interest from farmers.

Similarly, many Small Farmers Agriculture Cooperatives Limited (SFACLs) in Dhading, Nuwakot and Rasuwa have not only distributed the concessional loan but also been recovering the loan as scheduled. According to the program, concessional loan is of Rs. 50,000, to each farmer, at a rate of 5 per cent interest through SFACLs.

"We received 22 million rupees to distribute to over 400 small farmers who had lost their houses. Our members used the loan to revive their livelihood and are paying back the money to us," said Adhikary.

Sanu Bhai Khanal, president of Chhatre Deurali Village Cooperatives, Dhading, also shares a similar narrative. "Despite the amount of money being small, this money has helped revive the

livelihood of people. When we distributed the money, there were uncertainties over private housing grants by National Reconstruction Authority; this money gave the needy victims the needed relief."

Although the houses of 31832 small farmers were fully damaged with death of 79000 cattle, just over 12500 small farmers have received the concessional loan.

With support from the Asian Development Bank, SKBBL has launched 'Livelihood Restoration Credit for Earthquake Affected Communities' program to restore livelihood of smallholder rural poor farmers.

Besides the loan disbursement to the farmers, the support is also used for community based capacity building and training program for the restoration of earthquake affected communities of rural smallholder farmers in all 14 districts.

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Under this program, 2,400 rural poor farmers have already been trained in disaster resilient construction and disaster risk management capacity development. Approximately 1.5 million USD has been allocated for the training purpose.

Loan Distribution

At a time when a large number of people, aspiring for the concessional reconstruction loan, are still waiting, SKBB has already distributed the loan to 14847 families through its 53 cooperatives -- include 3 in Rasuwa, 38 in Dhading and 12 in

of Finance to make effective distribution of loan as well," CEO of NRA Yubaraj Bhusal said in a program recently. "It is frustrating to see the pace of distribution of concessional loan."

The situation with SKBBL is different. Although their target was just to distribute concessional loan to 12500, they have already provided it to more people. According to SKKBL, 14847 families have received the concessional loan because of high return.

Till now Small Farmers Bank issued Rs.71,28,40000 and collected 16,04,01000 They have to collect Rs.

themselves have information about who is needy.

As SFACLs are operated on the participatory decision making process, each important decision is taken with the meeting of people in a transparent and accountable manner.

"We don't have to hide anything from anyone. Our members are involved in the entire process of distribution, selection and recovery," said Adhikary. "This is the reason there is no complaint on selection and distribution of concessional loan."

Working with its member SFACLs, SKBBL has a direct reach at the



Mason training for small farmers

Nuwakot.

Although National Reconstruction Authority has directed several times, Nepal Rashtra Bank is yet to develop the guidelines for the concessional loan. As there is the credit risk involved, nobody wants to go to distribute the loan in rural areas, particularly to small farmers.

"We have to reach out to the small and marginal community farmers, with loan options. NRA has already held a meeting with Nepal Rashtra Bank and Ministry

55, 63,99000. According to banks, their recovery is hundred percent as per the schedule.

The Bank has been providing loan to cooperatives in the interest rate of 2 percent per annum and small farmers cooperatives are providing the loan at 5 percent to the small famers.

Why Is It Effective?

As the Small Farmers Agriculture Cooperatives Limited (SFACLs) is a grass root based organization constituted with the investment of small farmers, each member knows the state of others. Thus, farmers

grassroots level population. With efficient management and participatory decision making of SFACLs, SKKBL has found a way to send money quickly to the hands of poor and needy people.

Although almost 28 months have already passed since the first major tremor in 2015, many people are still struggling to get the necessary support to rebuild the houses and revive their livelihood. Out of over 8 million affected families, an overwhelming number of families are still living in shelters made from tarpaulins and corrugated iron sheets,



Earthquake victims of Dhading

certain contribution.

The fund that SKBBL received from the government at zero interest rate has a payback period of five years. Similarly, the SKBBL has fixed payback period of three years when extending such loans.

Nepal government's Post Disaster Needs Assessment, published shortly after the

which provide little protection from the harsh monsoon rains and cold. However, SFACLs members now have reasons to rejoice.

With its 85 cooperatives in affected districts, SKBBL has shown that well-organized grass root level institutions have a key role to play in providing relief and post-disaster support quickly. It has also shown that they can also reduce the cost of disaster recovery financing, while reducing aid dependency and building long-term resilience to disasters.

"Our member SFACLs have been distributing the concessional loan and recovering the loan as per the schedule. Since our system is based on bottom-up participatory approach, it is accountable and transparent," said Dr. Shivram Prasad Koirala, CEO of Bank.

Out of Nepal's total population of 27 million, 13 million have no access to formal financial services. Even before the earthquake, financial institutions were heavily concentrated in the most accessible cities and towns, and they only reached about 23% of the 14 million Nepalis who could access finance.

With all advantages, Ministry of Finance and Asian Development Bank chose SKBBL to issue concessional loan to the earthquake victims under the credit for livelihood restoration.

With \$15 million grant funding by

the Japanese government, the project aims to accelerate reconstruction and livelihood restoration of the earthquake affected areas, with a focus on small and marginal farmers and landless households that were

earthquakes, said that the disaster disproportionately affected the poor, who have few emergency funds to fall back on, especially those in rural locations where houses were less robust and



CEO Dr. Shivram Prasad Koirala

most heavily affected by the disaster.

Although the bank received Rs.640 million from Ministry of Finance to finance income-generating activities of the earthquake-affected districts and conduct reconstruction-related training, the bank also has made

poverty tends to be higher.

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EARTHQUAKE RECONSTRUCTION

Loan Delayed, Loan Denied

Although over two and a half years have elapsed since the government announced concessional loans to earthquake victims, only a few of these people have secured the loan, with a large number of victims still waiting for the subsidies. What has gone wrong?

Many victims of the earthquake of April 2015 are still waiting for rehabilitation and relief to become real for them even as two and a half years have passed since the tragedy occurred, killing nearly 9,000 people, and destroying thousands of houses and other structures.

Following the deadly tremors, the government carried out rescue and relief distribution promptly, announcing an initial grant of Rs 300,000 for the affected people to build new houses as well as other housing loan schemes.

Loan Scheme

Eligible families of quake victims could receive a maximum of Rs 300,000 in interest free loan in the lump sum, each loan against the community collateral or collateral of their under-



BY KIRAN BHATTARAI

construction house for house construction. A quake-hit family could take out a loan of up to Rs 2.5 million in Kathmandu Valley and Rs 1.5 million outside from different banks and financial institutions at subsidized

interest rate of 2 percent, to be repaid in three to five years.

Nepal Rastra Bank (NRB), the central bank of Nepal, announced a concessional loan scheme for the earthquake victims for the reconstruction of their houses destroyed in the earthquake of April 25 and its aftershocks.

According to the Bank, soft loan will be made available by commercial banks, development banks and finance companies at a meager 2 per cent interest rate.

For this, the NRB will, with the concurrence of the government, make refinancing available to the lending banks and financial institutions (BFIs) at 0 per cent interest for one year, which will be renewed thereafter.

No extra charges

Other than the interest, the BFIs will not be allowed to levy any other charges such as loan processing and pre-liquidation charges or other commissions. The loan will run from five to 10 years in tenure. The total loan amount under the scheme will be a maximum of 80 per cent of the core capital of a bank or financial institution. The NRB will not provide refinancing against the excess of the loan over the prescribed limit. The loan will have to be insured, which will provide a cushion to the lending banks and financial institutions.

However, it is hard to understand why the government discriminated between the victims of the capital valley, who are entitled to get Rs. 2.5 million in loan, and those living outside the valley, who are entitled to Rs 1.5 million in loan. An amount of Rs. 2.5 million is not adequate to build a concrete house. Therefore, the government should reconsider the loan entitlement and provide Rs. 2.5 million to all the genuine earthquake victims entitled to the loan, regardless of whether they are living in

scheme has not come into operation so far, while available data show only a few of quake victims have taken out the subsidized loan so far, thanks to reluctance of various authorized banks and financial institutions (BFIs) to issue the loans. The BFIs said confusion over the criteria and procedures to issue the subsidized loan have made the matter worse.

Failure to implement the scheme in full fledge is likely to hit the aim of the National Reconstruction Authority (NRA), an authorized body for carrying out post-quake reconstruction, to begin the loan process by the Nepali month of Asar of 2075 B.S.

The provision of interest-free loans was also mentioned in the speech of the government's annual budget 2016-17. The provision had got a nod from a Cabinet meeting. The Finance Ministry has also issued a work procedure in coordination with the Rastra Bank and the

NRA for the interest-free loan.

The NRA said the program was introduced targeting the lower income farmers, landless families, and labourers. Banks that are categorized into 'A', 'B', 'C' and 'D' classes and financial institutions recognized by the Rastra Bank can release the subsidized loans.

The work procedure imposes some terms and conditions for receiving such loans. People whose houses were destroyed in the quake and those holding the identity card as quake victims would be eligible for the grant.

According to the procedure, community collateral, against which the BFIs would disburse such loans, should be secured by the Credit Information Bureau.

The Financial Sector Management Division, under the Finance Ministry, of the government will establish a fund at the Rastra Bank, Banking Office, Thapathali, to pay interest, insurance and security charges on the disbursed loans. The Rastra Bank is required to pay the BFIs' interest, insurance and security fee claims on a quarterly basis.



Pradeep rayamajhi



Sitaram Koirala

the valley or outside.

No Implementation

These plans are, however, yet to be executed fully, either for failure on the part of the concerned authority to act accordingly or due to unawareness of the targeted people.

As for the interest free-grant, the

The interest rate, alongside the BFIs' investment, will be raised by two percent. A committee under the deputy governor of the Nepal Rastra Bank, with respective regional representatives, will be formed to coordinate and monitor the execution of such interest-free loans.

Other members of the committee will include joint secretary of the Finance Ministry, joint secretary of the NRA, and president of Nepal Bankers' and Association. Executive director for the Banks and Financial Institution Regulation Department at the Rastra Bank will be member-secretary.

Blame Game

The concessional loan of Rs 2.5 million and Rs 1.5 million announced by the government is yet to come into full implementation, thanks to various problems involved.

Under the scheme, Rs 1 billion and 42.2 million have been released through various 22 BFIs so far, according to the NRA.

The BFIs are yet to expand their service to the total quake-hit 126 municipalities and rural municipalities for the affected people to receive the loans.

On May 27, 2015, the Central Bank announced refinancing at zero percent interest to the BFIs under the loan

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scheme, and issued circulars to them to act accordingly. In return, the BFIs would have to issue the loans at two percent interest.

According to National Reconstruction Authority, 604 households received concessional loan between 1.5 million to 2.5 million rupees under 2 percent interest per annum.

In the initial days, the BFIs refused to issue the loans citing confusions over the criteria and procedures. Confusions

going through due processes, while claiming that no such victim has been returned empty-handed on such various pretexts as reported.

The only concern of the BFIs is whether or not the debtors can repay the loans, he said. A long halt in approving house design, elections, apathy of the victims themselves, and suspicions that the two percent interest on the loans may increase are some factors behind the reluctance of the

bank was facilitating the BFIs in distributing the loans to the victims. It has also been refinancing the BFIs by issuing loan again as well, he added.

The BFIs are worried, however, about their other loan schemes that are issued at normal market interest rate (10 percent on average) once the quake victims (approximately 800,000 households) are issued the subsidized loan at only two percent interest.

Lack of Awareness about



over quake victim's identity, documentation procedures, the requirement of for collateral and other factors, among others, are to blame for the delay of nearly six months for the loan scheme to come into full operation.

Acting President of the Nepal Bankers' Association Gynendra Prasad Dhunga said that eligible quake victims would get the loans hassle-free after

quake victims to take out a grant loan, he said.

The BFIs believed that the quake victims are attracted to the relief announced by the government shortly after the quake, rather than the loans as announced by the Rastra Bank before the relief government announcement.

For the part of the Central Bank, its Spokesperson Narayan Poudel said the

Concessional Loan

Unawareness about the subsidized loan has also made the matter worse. Pradip Rayamajhi of Temal rural municipality in the worst quake-hit Kavrelapanchok district, whose house was damaged in the quake, is ignorant about the loans. "I have heard about it but do not know where to go and whom to meet for it," he said.



Acting President, Nepal Bankers Association Dhungana,

Another quake survivor Sitaram Koirala of Indrawati in Sindhupalchok district complained that only those having connections with those in power could avail of the facility.

He said despite approaching the branch of the Rastra Bank, Melamchi, many times for the loan, he had not received it so far.

"The bank said it would release the loan only after studying an under-construction house. My under-construction house is around three-hour walk from the bank. One month has passed since, but the bank officials are yet to come and survey my house. I am running short of budget to continue the construction," he said.

Khila Prasad Dahal of Melamchi in the district, whose house was damaged completely, and who also lost his four member relatives in the disaster, is yet to begin to build a new house for want of budget.

He said housing grant provided by the government is not enough for building a new house.

Another quake survivor Mekh Narayan Shrestha of Ramechhap district accused the authorized financial institutions of trying to escape by showing ignorance about the subsidized loan of Rs 1.5 million.

On the interest-free Rs 300,000 loan, Dhungana said an agreement to this effect was yet to be reached due to lack of clear outline in relation to loan issuance.

He said the BFIs would not agree to the existing work procedure that states that interest on the loans will be provided

by adding only up to two percent point on operational cost.

"The work procedure has stated that the loans be issued to the quake victims. The authorised banks' base rate has double digits. They have six or seven percent cost of fund. If this procedure is obeyed, the loan is to be issued below the base rate, which is impossible," he said.

The BFIs' only concern is security of their loan issued to the quake victims, he said. Poudel said the BFIs were hesitant on issuing the loans due to confusions in some points of the procedure.

"Various rounds of discussion took place between the Rastra Bank, the NRA and BFIs in this regard. Efforts were on however to reach consensus by amending the existing work procedure," he said.



Spokesperson NRB, Narayan Paudel

The NRA said discussions on the issue were taking place with concerned stakeholders after forming a committee under the leadership of the chief of the NRA's development assistance coordination and facilitation committee.

Complicated Criteria

Although NRB argues that it wants to distribute the soft loan to the victims, the guideline formulated by the bank is very complicated and tedious. One needs to present several criteria to the bank or financial institution where they are applying for the loan.

According to the guidelines, the BFIs decide whom to disburse the loan and who earns "satisfactory" income to service the loan. They are also concerned about who can produce adequate collateral. Given the provision, not all the earthquake victims whose houses were made uninhabitable in the earthquake will be able to avail of the loan.

As far as collateral is concerned, an earthquake victim who has secured a loan defaults, the collateral will have to be auctioned off to recover the loan amount along with the interest accrued thereon.

This is because the BFIs will follow the credit policy guidelines while disbursing the loan. There will be no distinction between such borrowers (earthquake victims) and other general borrowers.

Also, the loan scheme is silent on levying penal interest on an overdue loan as it simply states that the BFIs cannot charge over 2 per cent interest on the loan and that the interest rate cannot be revised up throughout the

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loan tenure.

With so many complex and lengthy processes, only a few people can secure the loan and large numbers of people are yet to approach the banks, thereby making the concessional loan scheme useless.

Political Interference

Political interference and failure of the NRA to deliver on time are blamed for the delay. The NRA that was brought through an ordinance had to wait for eight long months to form after the quake due to political interference that was at work right from the beginning.

It witnessed a change of its chief executive four times within just two years of its establishment. It got its first chief executive officer Gobinda Raj Pokharel appointed by the then Nepali Congress-led government.

Thereafter Pokharel was dismissed, and Sushil Gyawali was appointed as its new CEO by the then successive CPN-UML-led government.

Power politics did not end here. Then successive CPN (Maoist Centre)-led government sacked Gyawali and appointed Pokharel again. Gyawali was charged with failure to expedite the reconstruction. The NRA was once again hit, however, after Pokharel resigned as its CEO to run in the recently concluded elections to the House of Representatives and State Assemblies.

Now the NRA has Yubaraj Bhusal as its head. Given the changing fate of the NRA, with each new government formed under the leadership of a new party, Bhusal's continuity in office may be in doubt once the next government

is formed.

What is interesting is that there is a change of its CEO every time on charges of failure to speed up the reconstruction work, but what has played a big role in the change is the political power.

The political power sharing took

efforts to continue Pokharel's tenure in office. This happened following long failed efforts to endorse the bill due to political parties' bargain for the post.

Under the housing grant, the government provides a grant of Rs 300,000 in three installments each to the family whose house has been damaged



NRA CEO Bhusal (center) at a discussion program

hold right from the formation of NRA. The then NC-led government had announced to form the NRA, an authorized body for the post-quake reconstruction. Despite the then coalition partner UML's bargain for the coveted position, Pokharel was appointed as its chief about four months after the quake.

Later the NRA was dissolved following the failure to endorse the Reconstruction Bill on time. Again the UML-led government appointed Gyawali eight months later despite NC's

in the quake. In the first installment, Rs 50,000 will be released, in the second Rs 150,000 and the remaining 100,000 in the third. Out of the total eligible 776,849 quake victim households, only 79,514 have reconstructed their houses, which is approximately 10 percent, according to the NRA. The total 194,196 new houses are under construction for the quake victims.

According to data published by the NRA on December 27, a Rs 300,000 housing grant agreement has been struck with the total 676,849 quake victim households so far. Out of them, 664,644 have got the first tranche of the grant, which is around 98 percent, while 115,192 second tranche, which is 17 percent. Likewise, 26,454 received the third tranche, which is only four percent.

Many quake victims are still taking shelter under the open sky, even more than two and a half years since the quake struck on April 25, 2015, killing nearly 9,000 people, and destroying around 800,000 houses.

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Waiting for reconstruction

Towards A Disaster Resilient Country

Resilience is a complex concept to define and even more complex to achieve as there are no set rules or processes that ensure it, but steps can be taken towards building a resilient family, community and ultimately country that can enhance their ability to bounce back from past disaster and be better prepared to bounce back from any future ones.

Resilience is a full-fledged concept that is not just limited to disaster preparedness or recovery. It is an interconnected process that involves improved preparedness leading to a greater degree of shock absorption at the time of disaster, with the end goal of returning the communities back to the identity and structures of the pre-disaster period. It is a continuous process that keeps on learning from past experiences. Moreover, building resilient households can lead to a resilient country with the ability to better withstand and survive any kind of hazard, be it earthquakes, floods or landslides.

Before beginning to unpack the concept of resilience and thereby trying to identify ways to moving towards a more resilient country, there is a need to understand its various components. It is an interplay of the systems (natural and human-built), agents and institutions. Natural systems have the inherent ability to regenerate themselves from shocks within a threshold. On the other hand, human-built systems like buildings, roads and dams, when affected by disasters, do not possess the ability to revert to their pre-disaster state without human interventions. Agents are the individuals, households, communities and businesses, among others, that are affected by the disaster. Not all agents in the society have equal capacity and in a highly stratified society like ours there are groups that are more vulnerable than others. They do not all have the same capacity to be better prepared for a disaster as well as bounce back from the damage to their livelihoods caused by the disaster, thereby making these groups more vulnerable. Moreover, there is a direct linkage between the systems and the livelihood of the agents, and disruptions in these systems are bound to have serious effects on the lives of the agents.

Institutions, another component in resilience building, are the governing bodies that provide the guiding policies, rules and social conventions that regulate and guide the interactions between the agents and their access to natural and human-built systems. Vulnerability exists when the agents are marginalized and do not have access to a well-conserved and managed natural system, and there are poorly built and maintained human-built systems with limited access to information and, above all, poorly regulated institutions. On the other end of the scale is a resilient community with strong institutions, access of the agents to well-conserved natural systems, well-designed and built human-built systems as well as enhanced capacity of the agents.

The earthquake of 2015 has revealed many weaknesses in our institutional and social systems when it comes to disaster preparedness and recovery. Resiliency seems to have been merely limited to a frequently used jargon in the policy as well as development communities with minimal implementation. As a multi-hazard prone country that had seen hazards prior to the 2015 earthquake, we were poorly prepared for the massive destruction to the natural and human-built systems



BY PRAGATI KOIRALA

that followed. Burdened with institutional amnesia, bureaucratic hassles, inefficient implementation, opaque and vague policies etc., the shortcomings of the existing institutions spawned their unraveling, exposing individuals and communities to unforeseeable hardships.

The widely popularized concept of 'Build Back Better' being used in the reconstruction and recovery phase post 2015 earthquake is one move towards building resilience but resilience cannot be achieved by just building back better infrastructures. These infrastructures need to be linked to improving the livelihoods of the communities. Resilience

should be holistic and inclusive of all types of agents so as not leave any marginalized groups behind and should involve, inter alia, building capacity of the agents, diversifying livelihood activities and strengthening our institutions.

The first step towards building a resilient community is to be better prepared. Disaster risk reduction and preparedness at the household and community level which can be achieved by creating disaster risk reduction awareness, increasing the community's access to information, formulating disaster risk reduction plans at the community level, providing training in response and rescue and creating community response teams, building community centers to be used at the time disaster, creating a stock of resources required for rescue and response, creating funds for preparedness as well as rescue and recovery, assessing the multi-hazard risk of the community and developing early warning system, etc. All these solutions seem simple and plausible and they are but there needs to be an enabling environment that can only be provided by a strong institutional structure. Communities need to be supported by their local governments in many aspects of the above-mentioned ways of disaster risk reduction. Reducing vulnerability of the marginalized group is also a responsibility of the institutions. These institutions should recognize the rights of the agents to access the available resources and information, ensure good governance in decision making through transparency in information flow as well as the maintenance of past knowledge so as to continually learn and adapt to changes as required. Resilience in no way provides certainty of completely fail-proof systems but moves the system towards one which is well prepared to absorb the shock and distress brought about by the destruction and can revert to its pre-disaster status.

The earthquake of 2015, although massively destructive, offered an opportunity for building a disaster-resilient country that is well-equipped to face any future disaster, not just earthquakes. A rather glass-half view of the disaster that disrupted the lives of million, but it seems this is the right time to talk about preparations for future shocks as we are recovering from the damages of the previous disaster. Therefore, holistic and inclusive resilience building is necessary. Reducing the vulnerabilities of the households could lead to reducing vulnerabilities of the communities and that of the whole country.

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