

Expertise, Labour, and Mobility in Nepal's Post-Conflict, Post-Disaster Reconstruction

Construction, Finance, and Law as Domains of
Social Transformation

Policy Brief #2

Finance

April 2021

This brief emerges from a three-year collaborative research project that explored how expertise, labour and mobility affected the overall reconstruction process after the 2015 earthquake by inquiring into the three domains of construction, law, and finance. Research was conducted from March 2018 to February 2020 in three study sites in Bhaktapur, Dhading, and Sindhupalchowk districts, with additional interviews in Kathmandu. The study was funded by Canada's Social Sciences and Humanities Research Council (SSHRC), and implemented through a partnership based at the University of British Columbia in Canada, and Social Science Baha and the Central Department of Anthropology at Tribhuvan University in Nepal. See details at <https://elmnr.arts.ubc.ca>.

Post-disaster reconstruction is a complex process of social transformation, whereby multiple forms of expertise, knowledge, and political-economic relations come into play, to reconfigure relationships between state and citizen as well as local, national, and international communities. Following the devastation of Nepal's 2015 earthquake, the Government of Nepal promulgated the Reconstruction Act 2015 and established the National Reconstruction Authority (NRA). The NRA subsequently introduced various reconstruction-related laws, policies and provisions with the objective of facilitating 'owner-driven' housing reconstruction as well as heritage reconstruction, under the 'Build Back Better' approach. For this purpose, the NRA deployed 2700 engineers to assist affected households with building 'earthquake-resistant houses'—a process incentivised by the provision of Private Housing Reconstruction Grants of NPR 300,000 (ca. USD 2500). The government also offered subsidised loans of up to NPR 2.5 million (ca. USD 22,000) in the Kathmandu Valley and NPR 1.5 million in other districts at 2 per cent interest for urban reconstruction.

Reconstruction Financing

In general, private housing reconstruction grants provided by the Government of Nepal through the NRA did not provide enough capital to completely rebuild what had been lost. Indeed, the NRA intended grants to provide only a partial subsidy. Householders were required to seek out additional sources of

finance, which ended up creating complex webs of financial obligations. Many householders interacted with various formal and informal financial institutions as well as with individual money-lenders. The reconstruction process created opportunities for those who became involved in various construction-related businesses, employment, and money-lending, all of which introduced new forms of financialisation.¹ These had the strongest impact in rural areas, where many householders had not previously opened accounts in formal financial institutions, but shifting economic realities affected social relations in urban areas as well.

The government offered financial assistance of NPR 300,000 (ca. USD 2500) to earthquake-affected households whose houses were completely destroyed, and NPR 100,000 for retrofitting partially damaged structures.² In addition, the cabinet announced an additional NPR 50,000 to vulnerable groups and homeowners within heritage areas to promote cultural features in their newly built houses.³

Within the Kathmandu Valley, the government promised subsidised loans of up to NPR 2.5 million, and in other districts up to NPR 1.5 million, both at 2 per cent interest rate. It also provided NPR 300,000 interest-free loans through *samuhik jamani* (social collateral)⁴ to members of micro-finance institutions.⁵ When the subsidised loans phased out in August 2018, the government backed another concessional loan up to NPR 300,000,⁶ whereby the government paid 5 per cent interest to banks on loans taken out by individuals on the condition that the banks make a profit of up

to only 2 per cent on their base rate. However, most affected people did not benefit substantially from this provision due to lack of information, complicated loan disbursement procedures, and reluctance on the part of financial institutions.

Although the NRA and its partner banks attempted to make loans accessible through awareness programmes about concessional loan provisions,⁷ banks continued to maintain very restrictive criteria for loan eligibility. Most importantly, housing loans could only be provided for reinforced concrete (RC) house reconstruction. In the case of Bhaktapur, 'heritage codes' presented a barrier. A recommendation from the municipality was required to apply for a loan, which the municipality would only provide if the reconstructed house followed the codes introduced by the municipality to retain the city's traditional architectural character. Further, loan recipients were not permitted to own any other house, and the reconstructed house had to be in the same place where the pre-earthquake house stood, and situated on a road at least four metres wide. Beneficiaries had to have a reliable source of income. Remittances from foreign employment, real estate, or business were not accepted as sources of income.

Bank officials in rural areas stated that although in theory subsidised loans were available, they hardly approved any applicants because they deemed the risk of default to be too high. There was also the fact that banks were more interested in pushing their own housing loan products, which earn higher interest rates of 13 to 15 per cent per annum, than the concessional loans. However, these bank loans were only provided for RC structures and the stone houses built by a majority in rural areas were considered ineligible for these bank loans.

People building stone houses were thus more inclined to access loans from informal sources such as friends, relatives, or *sahu* (money-lenders) at usurious interest rates. As affected households had to build the foundation of the house (i.e., up to the DPC level) before the NRA stipulated deadline, they were compelled to not only take loans from these sources at high interest rates, but also pay the high costs for construction materials, transportation, and labour. Many accordingly used remittances from household members abroad to finance reconstruction. Some households used savings or sold jewellery or livestock. If possible, people would have chosen not to incur any debt at all, but this was not an option for many, as

reconstruction had to be completed within the NRA deadlines.⁸

Post-Earthquake Opportunities

Large-scale reconstruction created a boom for many businesses, especially in trade, transportation, and construction materials.⁹ Some brick kiln owners doubled their investment, and transportation and hardware shops even took loans from cooperatives for expansion. Loans were also taken to open sand depots and buy trucks and tippers. This flurry of investment created a lot of competition that benefited homeowners, particularly in urban areas, who had multiple choices as to where and from whom to buy construction material. Contractors, labourers, masons, iron and aluminium welders, and carpenters were also in high demand due to the reconstruction boom, fetching higher wages than usual. The number of banks and banking transactions in rural district headquarters increased significantly after the earthquake.

Recommendations

- Reconstruction grant rates should be scaled up appropriately for people with different economic and social backgrounds, as well as those living in remote geographic areas. Each group has different financial needs. Hence, identification or mapping of socio-economic impacts and vulnerabilities before formulating reconstruction grant policies are of critical importance, and ideally done during the damage assessment process.
- Making grants and concessional loans easily accessible in a timely manner is crucial to facilitate reconstruction and mitigate risks of additional financial burdens or debt traps. Restrictive official procedures should be relaxed in times of disaster, with poor householders guaranteed access to basic financing and loans without collateral.
- It is essential that there be effective and strengthened coordination between government and financial institutions to prioritise the best interest of beneficiaries during post-disaster recovery and reconstruction activities. The government should also ensure that financial institutions adhere to the policy provisions related to loans and access to finance by the intended beneficiaries.
- The state should consider capping interest rates and prohibiting usurious practices while introducing policies to support the most poor and vulnerable populations to pay back such loans.

Sindhupalchowk

In Sindhupalchowk, the cost of reconstructing houses varied depending on size, number of rooms as well as the price and availability of materials and labour. People who built one-room stone houses spent NPR 100,000 to 300,000 (ca. USD 850 to 2500). Those who built stone houses with attic space spent NPR 400,000 to 800,000, while those who built RC frame houses spent from NPR 2,000,000 to 3,000,000 or more, depending on the size of the house.

Bhaktapur

In Bhaktapur it cost about NPR 2 to 5 million (ca. USD 17,000 to 42,500) to build an RC house, far exceeding the reconstruction grant. Many families accessed loans from different cooperatives at annual interest rates ranging from 8 to 18 per cent. Selling agricultural land was also a common financial strategy, but at cheap prices either to real-estate agents (brokers) or to neighbours. For some residents, business opportunities in trade, transportation, and construction materials such as bricks increased when reconstruction boomed.

Dhading

In Dhading, on average people spent between NPR 400,000 and 800,000 to rebuild or repair their old houses. Much of this work was done before the reconstruction programme was rolled out. Since reconstruction grants could not initially be applied to such repairs, many families built additional one-room houses with the reconstruction grant but continued living in their repaired old houses which were not earthquake-resistant.

- Prices for construction materials and transportation costs should also be closely monitored and regulated, with mechanisms such as increased transparency and competition, support for public provision of materials at affordable prices, and sanctions against companies responsible for abusive practices.
- Local governments should have concrete plans and strategies to mobilise different local resources for recovery and reconstruction after disasters, with the objective of reaching out to locally vulnerable populations. These should also be in line with the mandates and responsibilities delegated to local governments according to the National Disaster Risk Reduction and Management Authority 2017 and Local Government Operation Act 2017.
- Adequate and timely information about grant and loan disbursements and any amendments/changes in the same should be disseminated in clear and appropriate language that people can understand. Information and communication strategies should also identify possible barriers in accessing information and address these proactively.
- Authorities, civil society organisations, and the media should consolidate and build on the financial awareness and skills of affected populations through knowledge dissemination activities using the radio, social media, and community-level activities, covering issues such as grants, debts, interest rates, collaterals, remittances, construction costs, and asset sales.

Notes

1 Le Billon, P., M. Suji, J. Baniya, B. Limbu, D. Paudel, K. Rankin, N. Rawal and S. Shneiderman, 2020, 'Disaster Financialization: Earthquakes, Cashflows and Shifting Household Economies in Nepal', *Development and Change*, 51: 939-969, <https://doi-org.ezproxy.library.ubc.ca/10.1111/dech.12603>.

2 'Home: Publication: Procedures: Grant Disbursement Procedures for Private Houses Destroyed by the Earthquakes 2073 (2016),'

National Reconstruction Authority, accessed October 16, 2019, <http://nra.gov.np/np/resources/details/ebUVxZtX4uarwnliddilrr4la7SwaOb-KpVmXg2wpApCs>.

3 'Revisions to the Grant Disbursement Procedures for Private Houses Destroyed by the Earthquake (Second Amendment), 2075, 'Home: News: Housing grant distribution process simplified,' National Reconstruction Authority, accessed November 15, 2019, <http://>

nra.gov.np/en/news/details/vvIBeet91TypYfswcltzVJyubwoP7IH-W1H8wq7qS72L.

4 In a social collateral loan process, a group of people who are usually relatives, neighbours or friends stand guarantee that the loan beneficiary will repay the loan. If the borrower is not able to pay the loan, the guarantors agree to pay the loan on his/her behalf.

5 'Home: Publication: Procedures: Procedure for Private Housing Reconstruction Subsidised Loan for Earthquake Affected Households 2015,' National Reconstruction Authority, accessed October 16, 2019, http://nra.gov.np/resources/details/lDeFXwDc2J1HIIsAWIYsyUMVkjWdH9Z0UXk7ZSKmP_c.

6 'Home: Publication: Procedures: Integrated Working Procedures for Subsidised Credit 2018,' National Reconstruction Authority, accessed October 16, 2019, http://nra.gov.np/resources/details/zufzZqk-cwOgper_YSVhL9FZrwZAZUPR6p8IVDRonYCW.

7 'Home: News: Understanding Reached to Make Subsidized Loan More Convenient,' National Reconstruction Authority, accessed August 11, 2019, http://www.nra.gov.np/np/news/details/oBx_f_jHZ-5zaDgUMM-zCdnAKVoZC1YKfVUoodODBuHU.

8 The deadlines for beneficiaries to receive all tranches of the reconstruction grant was originally mid-July 2018. The first tranche was to be disbursed by 13 January 2018, the second by 13 April 2018, and the third by 15 July 2018. Since all of these deadlines were missed by a large number of beneficiaries, the NRA extended the deadlines time and again, but the initial pressure to meet deadlines significantly impacted building decisions. A notice on 6 November 2020 set 15 December 2020 as the final extension by when the grant agreement would have to be signed, the first tranche would have to be received by 28 December 2020, the second by 12 February 2021, and the final one by 14 May 2021.

9 Le Billon et al, op cit.

This policy brief summarises in-depth research findings available in publications from our collaborative research project 'Expertise, Labour and Mobility in Nepal's Post-Conflict, Post-Disaster Reconstruction: Construction, Law and Finance as Domains of Social Transformation', funded by the Social Sciences and Humanities Research Council of Canada (SSHRC), Partnership Development Grant Number 890-2016-0011 (<https://elmnr.arts.ubc.ca/publications>). Team members who contributed to this policy brief through research, writing, editing, coordination, or feedback throughout the partnership include: Omer Aijazi (University of British Columbia/UBC), Emily Amburgey (UBC), Jeevan Baniya (Social Science Baha/SSB) James Binks (UBC), Philippe Le Billon (UBC), Jonathan Eaton (UBC), Katherine Hacker (UBC), Dan Hirslund (University of Copenhagen), Kristian Cedervall Lautu (University of Copenhagen), Bina Limbu (SSB), Subin Mulmi (Nationality for All), Courtney Balaz-Munn (UBC), Bishnu Pandey (British Columbia Institute of Technology), Ramjee Parajulee (Capilano University), Dinesh Paudel (Appalachian State University), Katharine Rankin (University of Toronto), Nabin Rawal (Tribhuvan University), Sara Shneiderman (UBC), Ratna Shrestha (UBC), Prakash Chandra Subedi (SSB), Manoj Suji (SSB), Deepak Thapa (SSB) and Cameron David Warner (Aarhus University).

