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**DOCUMENTATION OF
NEPAL HOUSING RECONSTRUCTION
LOAN PROGRAM
FOR
EARTHQUAKE DAMAGED HOUSING**

BY

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FOR

EARTHQUAKE DAMAGED HOUSING

I. PURPOSE

In response to the earthquake of August 21, 1988, the Nepal Earthquake Affected Areas Reconstruction and Rehabilitation Project (EAARRP) has been executing a credit and technical assistance program for reconstruction of earthquake damaged houses. The program, which began shortly after the earthquake, covers 27 districts of Eastern and Central Nepal. As of April, 1989, the program has been assisted by a World Bank IDA credit which was effective retroactively to November, 1988. The housing loan portion of the program is being implemented through three commercial banks while the technical assistance aspect is being implemented by Project field staff which at full complement would be 27 engineers and 252 overseers.

The main purpose of this report is to document the experience of the housing reconstruction loan program gained over the past 18 months. The report is therefore divided into four sections: a brief description of the program; documentation of the program according to organizational, legal, financial and management aspects; actions necessary to undertake a field documentation of the program; and lessons learned from the experience with respect to the feasibility of applying various aspects of the program on a nationwide basis.

Given the limited time to undertake this assignment as well as the difficulties in getting to the field, the staff of the Project unit as well as the participating banks and relevant Government officials are commended for their full cooperation and complete accessibility without which this report would not have been possible.

II. PROGRAM DESCRIPTION

According to existing data, a total of 65,453 houses in all 16 districts of the Eastern Region and 11 districts of the Central region were affected by the earthquake. Although an additional 7% composed of families who were not on the original eligibility list has now been added to the program, of the original total some 63,000 houses were in the rural areas, 410 in District Centers and 2340 in urban areas. These figures are based on the original relief list of eligible families which was composed by the Panchayat system, i.e., from ward chairmen, through Panchayat and Ilaka committees to the District Committees and chairmen and up to the National Earthquake Relief Committee.

Based on the location of the house, there are three types of loans:

- | | | |
|-----------------------------------|---|------------------------|
| - rural loans | : | maximum of Rs. 10,000; |
| - District Center loans | : | maximum of Rs. 20,000; |
| - Nagar Panchayat or urban loans: | | maximum of Rs. 50,000. |

The repayment terms, however, differ by amount as follows:

- first Rs. 5,000: 1% interest for eight years with a 2 year grace period on principal and interest;
- second Rs. 5,000: 10% interest for eight years with a 2 year grace period on principal only;:
- above Rs.10,000: 15% interest for eight years with a 2 year grace period on principal only.

Loans are made by three major banks: the Rastriya Banijya Bank (RBB), the Nepal Bank Ltd. (NBL), and the Agricultural Development Bank (ADB). Under the program the RBB and the NBL are to receive Rs. 259 million each and the ADB Rs. 126 million from Government for onlending. The terms from Government to the Banks are 14% for 8 years with a two year grace period. Government, however, is to pay the banks annually the difference between their standard lending rate for housing credits, 19%, and the weighted average onlending rate to the affected households.

Disbursement of the loans is being done in two installments, which in the majority of cases are equal, i.e., Rs. 5000 and Rs. 5000 for rural loans, Rs. 10,000 and Rs. 10,000 for District Center loans, and Rs. 25,000 and Rs. 25,000 for urban loans. For rapid disbursement the first installment was based on field verification by the Panchayat Chairman and Ward Chairman or member. To ensure proper use of the loan and to motivate builders to adopt earthquake resistance measures, technical verification by the Project's district engineer or overseer is a requirement for the second installment.

Further, to improve the health and sanitation aspects of the affected households, a grant of Rs. 600 was made to rural households for the construction of a smokeless stove (Rs. 100) and improved latrine (Rs. 500). Although at first the adoption of the stove and improved latrines by urban households without a grant was mandatory in order to receive the second instalment, grants are now being given to these households in order to stimulate the program.

III. PROGRAM DOCUMENTATION

A. ACHIEVEMENTS

Since the first loan installments were disbursed in November, 1988, the Project has made substantial progress on both the Housing Loan Program and the smokeless stove ('chulo') and improved latrine ('charpi') construction. Table 1 shows that out of the original 65,453 eligible households, 48,776 had been served with loans amounting to nearly Rs. 388 million. The smallness of the loan size, average just under Rs. 8000, is indicated by the fact that 75% of the eligible households have been served with 60% of the available funds.

As illustrated by Table 2, of the 48,776 households served, 25,118 or 51%, have either completed construction or the house is under construction. This figure is understated, however, since it is based on houses certified by overseers which have incorporated earthquake resistance measures. It seems that many other families have rebuilt their houses either before receiving the first installment and/or before the overseers had an opportunity to visit them. In

TABLE 1

EARTHQUAKE AFFECTED AREAS RECONSTRUCTION & REHABILITATION PROJECT

PROGRESS ON HOUSING LOAN PROGRAMME

(2046/10/29)

FEB. 11, 1990

NAME OF THE DISTRICT	HOUSEHOLDS ELIGIBLE FOR HOUSING LOAN	HOUSING LOAN		PERCENTAGE SERVED	AVERAGE LOAN SIZE
		HOUSEHOLD. SERVED	AMOUNT (Rs)		
EASTERN					
BHOJPUR	5,582	3,958	21,264,200	70.91	5,372
DHANKUTA	8,576	7,232	89,677,000	84.33	12,400
ILLAM	3,285	2,853	18,491,000	86.85	6,481
JHAPA	47	36	360,000	76.60	10,000
KHOTANG	8,294	5,846	33,615,320	70.48	5,750
MORANG	1,097	689	7,719,000	62.81	11,203
OKHALDHUNGA	2,138	1,688	8,050,000	78.95	4,769
PATCHTHAR	4,417	3,915	24,867,500	88.63	6,352
SANKHUWASHAVA	2,338	1,656	8,324,700	70.85	5,027
SAPTARI	2,206	789	5,573,400	35.77	7,064
SIRAHA	826	608	5,219,000	73.61	8,584
SOLUKHUMBU	810	627	3,342,000	77.41	5,330
SUNSARI	2,513	1,747	45,748,860	69.52	26,187
TAPLEJUNG	827	793	4,131,000	95.89	5,209
THERATHUM	3,622	2,134	10,169,000	58.92	4,765
UDAYAPUR	6,036	5,107	27,173,695	84.61	5,321
SUB TOTAL	52,614	39,678	313,725,675	75.41	7,907
CENTRAL					
BARA	0	0	0	0.00	0
BHAKTAPUR	1,826	1,044	21,343,407	57.17	20,444
DHANUSHA	721	520	2,860,030	72.12	5,500
DOLAKHA	1,201	1,034	6,498,000	86.09	6,284
KABREPALANCHOKE	1,920	1,421	10,129,000	74.01	7,128
KATHMANDU *	201	119	920,000	59.20	7,731
LALITPUR	513	390	3,050,000	76.02	7,821
MAHOTARI	30	28	201,000	93.33	7,179
RAMECHHAP	2,391	1,783	11,571,750	74.57	6,490
SINDHULI	2,847	1,863	10,572,489	65.44	5,675
SINDHUPALCHOKE	1,189	896	6,995,000	75.36	7,807
SUB TOTAL	12,839	9,098	74,140,676	70.86	8,149
GRAND TOTAL >>>>	65,453	48,776	387,866,351	74.52	7,952

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* including those households (16) recommended by Jilla Panchayat

TABLE 2

EARTHQUAKE AFFECTED AREAS RECONSTRUCTION & REHABILITATION PROJECT

PROGRESS ON HOUSE, CHULO AND LATRINE CONSTRUCTION

(2046/10/29)

FEB. 11, 1990

SR NO	NAME OF THE DISTRICT	HOUSEHOLD SERVED	HOUSE CONSTRUCTION		PERCENTAGE OF TOTAL SERVED			
			CONSTRUCTED UNDER CONST.		COMPLETE OR UNDER CONST.	NOT YET CONSTRUCTED	CHULO	LATRINE
EASTERN								
1	BHOJPUR	3,958	1,586	54	41.4	58.6	157	61
2	DHANKUTA	7,232	4,078	233	59.6	40.4	970	669
3	ILLAM	2,853	1,598	122	60.3	39.7	331	106
	JHAPA	36	3	0	8.3	91.7	0	0
5	KHOTANG	5,846	2,192	0	37.5	62.5	258	150
6	MORANG	689	298	78	54.6	45.4	79	73
7	OKHALDHUNGA	1,688	719	16	43.5	56.5	310	165
8	PATCHTHAR	3,915	1,269	88	34.7	65.3	1209	944
9	SANKHUWASHAVA	1,656	582	55	38.5	61.5	65	40
10	SAPTARI	789	379	306	86.8	13.2	25	15
11	SIRAHA	608	140	160	49.3	50.7	9	6
12	SOLUKHUMBU	627	264	336	95.7	4.3	6	3
13	SUNSARI	1,747	888	0	50.8	49.2	82	61
14	TAPLEJUNG	793	497	0	62.7	37.3	268	214
15	THERATHUM	2,134	1,654	199	86.8	13.2	482	305
16	UDAYAPUR	5,107	2,318	695	59.0	41.0	243	43
SUB TOTAL		39,678	18,465	2,342	52.4	47.6	4454	2855
CENTRAL								
17	BARA	0	0	0	0.0	0.0	0	0
18	BHAKTAPUR	1,044	464	200	63.6	36.4	32	33
19	DHANUSHA	520	25	0	4.8	95.2	0	0
20	DOLAKHA	1,034	503	251	72.9	27.1	56	55
21	KABREPALANCHOKE	1,421	384	53	30.8	69.2	9	14
22	KATHMANDU	119	81	14	79.8	20.2	10	17
23	LALITPUR	390	243	125	94.4	5.6	238	168
24	MAHOTARI	28	12	14	92.9	7.1	NA	NA
25	RAMECHHAP	1,783	468	202	37.6	62.4	165	97
26	SINDHULI	1,863	265	317	31.2	68.8	72	43
27	SINDHUPALCHOKE	896	565	125	77.0	23.0	132	97
SUB TOTAL		9,098	3,010	1,301	47.4	52.6	714	524
GRAND TOTAL >>>		48,776	21,475	3,643	51.5	48.5	5,168	3,379

order to correct this gap, instructions have been issued to district engineers to begin counting all reconstructed houses with separate categories for those which have and have not incorporated earthquake resistance measures.

Table 2 also shows that a total of 8547 smokeless stoves and latrines have been constructed as of February, 1990. Although this is only about one third of the total houses constructed or under construction, a campaign has been mounted to increase the awareness of the benefits as well as the construction of these items. This is evidenced by the fact that for the previous quarter 3633 stoves and latrines were built.

B. ORGANIZATION.

Given the topography and the geography of the earthquake affected areas, the organization of the Project is necessarily widespread. Chart I attached shows the overall organization of the Project. Essentially, the organization parallels that of the Panchayat system with the EAARRP Central Committee chaired by the Minister of Housing and Physical Planning and each of the Regional Committees chaired by Assistant Ministers. Under the EAARRP Project office there are two regional offices and 27 district offices each headed by a district engineer. Some 272 overseers and sub-overseers, with at least one in each Ilaka, report to the district engineers.

At the end of the last quarter, November 1989, the Project employed 17 district engineers, and 228 overseers/sub-overseers. Although additional staff has recently been hired, one of the major problems has been retaining qualified engineers and overseers. There has been a substantial turnover in these two categories due in large part to hardship working conditions and the fact that the private sector can pay significantly higher salaries.

The Project headquarters, which at the end of the year employed 56 staff, is the center of Project operations. Chart II shows that six divisions are reporting to a Deputy Project Officer for Credit 1, the housing program. Credit 2, which covers the school reconstruction program, has a separate though smaller staff. At the present time the Deputy Project Officer post is vacant which means that division chiefs from both sections are reporting to the Project Director. Thus, decision making at present is quite centralized putting a great deal of pressure on the Project Director.

Some of this pressure might be relieved not only by appointing a Deputy Project Officer but also by reorganizing the divisions somewhat. Presently, the divisional structure reflects the components of the Project, of which there are a total of six on the housing side. Given the size of the housing loan program, viz a viz the other components, it would seem to be more organizationally efficient if components such as demonstration houses, improved material production, district center planning and compact settlements could not be grouped under a special projects division which would report to the Deputy Project Officer.

A vital aspect of program control which is beginning to overwhelm the headquarters staff is Project data. Not only do all the districts report bi-weekly, but the three participating banks are now beginning to report on loan disbursements at least once a month. Data from both of these sources have to be collated as banks cannot receive reimbursement from the Project Special Account unless all the borrowers are certified by the Project Director as being on the

eligible beneficiary list. This certification presently has to be done manually as the bank reports, although being submitted on a standardized format, are being done manually. The need for such a data unit has been recognized by the Project staff and consultants are being hired under the UNDP Programme Advisor budget to establish a data control unit.

C. LEGAL ASPECTS

There are two major legal aspects of the Project: the overall loan agreements between the World Bank/IDA and Government and between Government and the three participating banks. The latter is further interpreted in detailed instructions from the banks to their branch offices. The second aspect is the legal security, i.e., the collateral, for the housing loans to the beneficiaries.

1. Loan Agreements. The subsidiary loan agreement (SLA) between Government and the banks reflects in general terms and conditions of the Development Credit Agreement (DCA) between IDA and Government. The banks are to repay Government (the Ministry of Finance) at 14% over 8 years with a 'two year grace period'. It is not mentioned in the SLA nor in the relevant paragraphs of the DCA if the grace is on interest and principal, or principal only. The SLA, however, provides for repayment from 1993 to 2001 instead of to 1999 which would be six years after the two year grace period from 1991 to 1993

In addition, the SLA does not provide for a repayment schedule for the participating banks. One is mentioned in the Agreement but is not attached. In any case, as will be seen below, it is difficult if not impossible to devise a repayment schedule if it is based on repayments to the banks by the beneficiaries as these repayment schedules do not exist.

With respect to the branch offices of the banks, the operational document for the program is the list of 'instructions' which they have received from their head offices. If any activity/condition/required document is not in the 'instructions', it is not performed/asked for by the branch offices. For example, no third installments are allowed even if the borrower took less than the maximum loan in the first two installments. Also in cases where households had more than one house destroyed, more than one loan is not allowed. Perhaps most serious is the instruction that the banks are to charge 19% to the beneficiaries. While this has mostly been corrected with a note on the back of the loan agreement as to the actual loan rate, in remote districts it seems that 19% is still being charged with the difference to be reimbursed when the bank receives its subsidy from Government.

2. Collateral. In addition to the terms of the loans, size of the installments, etc., a major portion of the instructions have to do with the type of loan collateral to be obtained by the banks. While Schedule 5 of the DCA provides for collateral on land, the ownership of which can be demonstrated by Land Entitlement Certificates, Land Revenue Tax Payment Slips or other legal means, in reality the provision/documentation of collateral has sometimes proven rather difficult. The instructions therefore go into detail in order that the branches can obtain adequate collateral under various circumstances. For example:

- Only the land on which the house is located is taken as collateral. If this is not enough, another property is taken.

- The collateral should be at least twice the value of the loan.
- If the LEC is already mortgaged to another bank, e.g., the ADB which is common in rural areas, the bank can take another piece of land on the title.
(N.B. The 'title' in Nepal usually includes all the pieces of land owned by the individual. Thus, if one piece is mortgaged, transactions on all the remaining pieces are frozen.)
- If the borrower has only one parcel which is already mortgaged, he must take the loan from the same bank whether or not it is in his Ilaka.
- If the owner of the land is absent, e.g., in the Army, the bank will not give the loan; i.e., notarized powers of attorney are not recognized.
- If the borrower does not own the land on which his house was, he can obtain a Certificate of Occupation from the District Committee. As in other cases, the reconstructed house can also be used as collateral.

In spite of the detailed instructions on obtaining collateral, although the banks took land as collateral for the first installment, it seems that in the interest of expeditious disbursements, they often did not consider whether the value of the land was at least twice that of the loan. The signatures of the Ward and Panchayat Chairmen were the main requirements for the first installment. However, the value of the land and the certification of the overseer are the main requirements of the second installment.

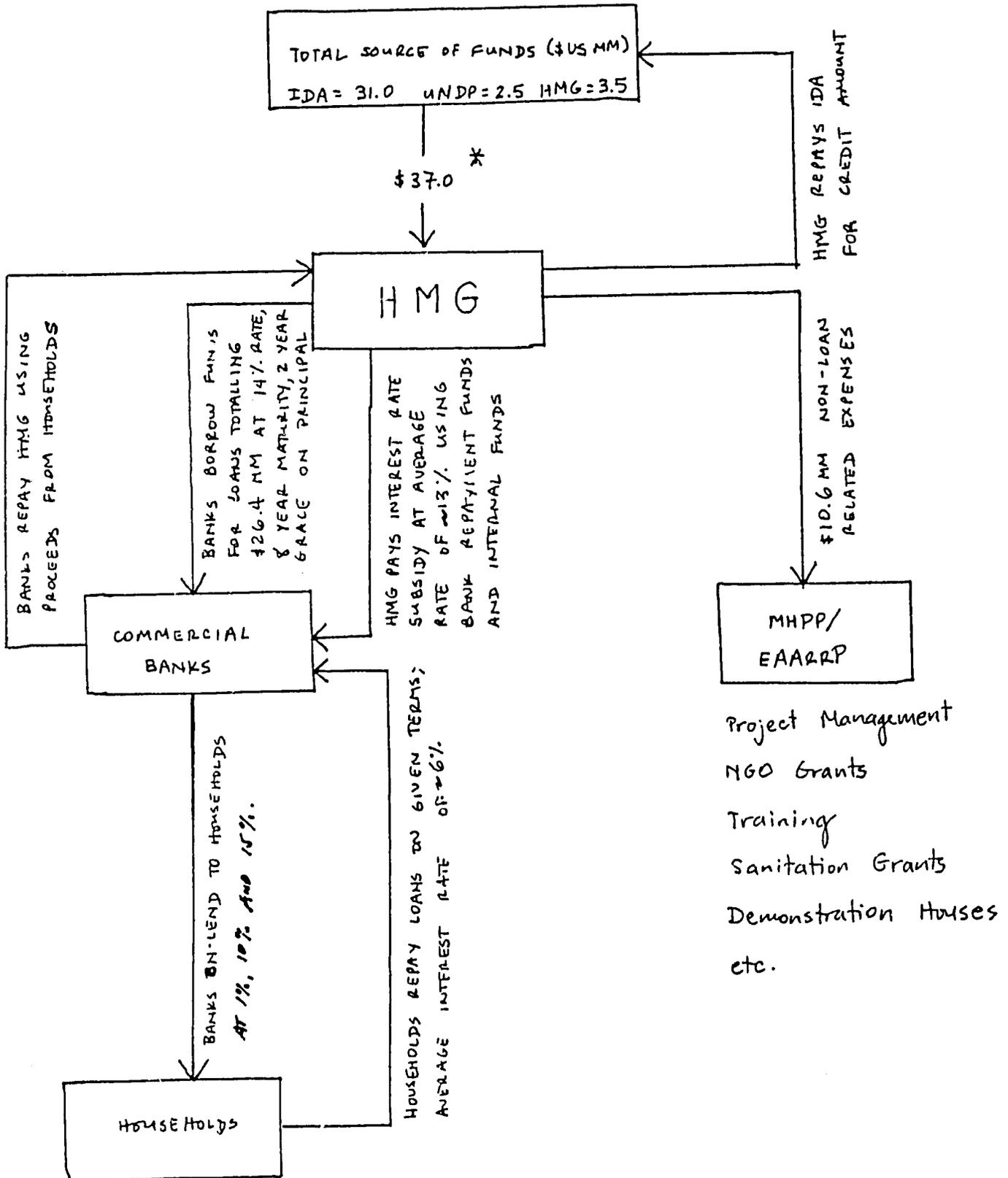
D. FINANCE

1. Amount of Subsidy . It can be seen from the foregoing that financially the Project is complicated. This can be readily appreciated from Figure 1 which shows the overall flow of funds for the Project. While all of the various lending rates are codified in the DCA and respective sub-loan agreements, the one key rate that is not known is the weighted average lending rate to Project beneficiaries. This rate subtracted from the market rate of 19% will determine the amount of subsidy which Government must pay to the participating banks. However, without knowing the number and size of disbursements for the first installment, if not the second installment, this rate cannot be calculated.

At the present time bank records are not categorized by size or type of loan, i.e., rural, District Center and urban. While many branch offices deal only in rural loans, banks in District Center and urban areas deal in District Center and rural loans and urban and rural loans, respectively. It took the branch offices visited quite some time to separate their loans by type. Once this was done, practically all the first, and the second installments where they had been taken, were the maximum amounts. Thus, since the rural loans are 96% of the total and the effective rate is 5.5% if the maximum loan is taken, the weighted lending rate should be only slightly above this rate. At present it is assumed to be 6% which seems fairly realistic.

FIGURE 1

FLOW OF FUNDS



* FUNDS ARE CHANNLED TO HMG VIA A SPECIAL ACCOUNT, WHICH IS DRAWN UPON THEN REPLENISHED BY IDA AS FUNDS ARE DEPLETED

In an effort to overcome this problem, the branch offices are calculating the amount of annual interest subsidy by individual borrower on the schedules that are submitted to the Project office. Without knowing the size of the second installment, however, the total interest subsidy cannot be calculated. Since disbursements of the first installment are due to be terminated March 15, 1990, at least the amount of subsidy on the first installment can be calculated.

2. Cost Recovery. Up to now the major emphasis of the Project has been on disbursing loans to beneficiaries and seeing that they were used for house reconstruction. Thus, not much thought has been given to cost recovery of the loans. As will be seen in the next section, one of the major problems of the bank branch offices is that they have no repayment schedules issued from the bank head offices as these were not a part of the 'instructions'.

In addition, none of the banks seems to have calculated the effective interest rates of each type of loan. This is complicated by the fact that the interest rate varies by the size of disbursement. Thus, if the full loan amounts for each type of loan are taken, the effective rates for rural loans would be 5.5%, for District Center loans 10.25%, and for urban loans 13.1%. It seems that loan repayment could have been made simpler for the banks as well as the borrowers if the interest rates were set by type of loan, e.g., 6% for rural loans, 10% for District Center loans, and 13% for urban loans. This would also have facilitated the calculation of the overall subsidy.

It might be added here that due to the poverty and remoteness of many of the rural beneficiaries, there is some doubt as to whether they will be able to repay. Although the banks hold their land as collateral, it will most likely be politically difficult to auction villagers' land in foreclosure proceedings. Additional aspects of cost recovery are discussed in the next section.

E. MANGEMENT/OPERATIONAL PROBLEMS

1. The Banks. According to visits to various bank branch offices as well as head offices, the banks are beset with several problems under the Project. Some of these problems have been mentioned previously and most are related to the problem of loan recovery. In the interest of brevity, they can be summarized here.

- Due to the emergency nature of the Project, no affordability criteria were taken into account for loan eligibility. The recipients had to be on the original relief list and had to be citizens of and live in Nepal. Thus, many of the banks are worried as to ability to repay, especially of rural villagers.
- There seems to have been a misunderstanding of the grace period. Most banks did not understand that a grace on interest was to be given for 1% loans only. Thus, they have been accumulating but not collecting interest on all loans.
- As mentioned above, no repayment schedules have been calculated. All the banks and the people know is that the loan has to be repaid within eight years. Thus, without repayment schedules and the collection of interest, the banks are exacerbating future cost recovery problems.

- Related to the above is that records are not summarized by type and size of loan. Thus, it is not possible to calculate the effective interest rate. Interest, which is simple for all loans, is presently being accumulated daily by installment.

From the foregoing it can be seen that the banks are not treating the housing loans as commercial loans. Although collateral has been obtained, no interest has been collected, and neither the banks nor the people know how much is to be repaid when. Since no normal affordability criteria were taken into account in extending the loans, the banks are making a poor cost recovery situation worse by not issuing full loan repayment schedules and beginning the collection of interest at least on a bi-annual basis.

2. The Field Staff. Since it was not possible to take an extended trip to the field, the following is based on information obtained on short field trips and interviews with Project staff. The two major problems for field staff seem to be lack of transport and difficulty of communications. Given the large number of districts and the vast areas that have to be covered, the first problem is essentially a condition of employment, i.e., field staff know when they are hired that transportation will not be available. Due to the remoteness of many of the villages, any type of wheeled transportation would usually be impossible in any event. However, if transportation were available in accessible areas, field staff could increase the frequency of their rounds proportionately.

The other major problem seems to be the difficulty in communications not only from the overseers in the Panchayats and Ilakas to District offices, but also from District offices to the Project office and vice versa. Not every District office has a telephone and only a few radios exist. Thus telegrams, which often take days, between the head office and district offices are often necessary to communicate instructions and gather information. The Project has solved this problem in part by employing a large number of field runners whose main purpose is to carry communications between district offices and overseers. As of late 1989, the Project employed 256 field runners vs. 242 overseers and suboverseers.

Other problems mentioned by field staff in carrying out their work are:

- a language problem in remote areas;
- difficulty of the families in understanding and following instructions;
- increasing documentation required by headquarters staff in the payment of incentives to overseers and suboverseers. The field staff are supposed to receive Rs. 50 per house which incorporates earthquake resistance features, Rs. 35 per improved latrine and Rs. 15 per smokeless stove.
- political pressure from local Panchayat politicians to certify second installments and/or 'chulo/latrine' grants.

In spite of the foregoing, most of the field staff stand to be commended for carrying out their work under extreme hardship circumstances. The major question is what is to become of this now well trained staff when the Project ends some time in 1991.

3. The Beneficiaries. Since only a few families were interviewed, more comprehensive information will have to be obtained from the field portion of this Report (see next section). However, some impressions were gained from the interviews as follows:

- In the urban areas and District Centers most of the beneficiaries had no problems in obtaining the loans; their collateral was many times greater than the loan; their investment was several times greater than the loan; and they knew they had to repay the loan.
- As expected no one knew how much they were supposed to repay, but they did know they had a grace period in urban areas.
- All of the urban recipients wanted another loan either to complete the reconstruction or to build extra rooms to rent.
- The rural recipients took a longer time to receive the loan because of problems with the 'title' (land in father's name which had to be divided among the sons); built much less with the loan (Rs. 19,000 vs. a loan of Rs. 10,000); didn't know about the grace period, but did know they had to repay within eight years; and didn't know what the repayments would be.
- The rural families were also very happy with the program because the moneylenders would charge 20-25% on a small amount of Rs. 2-3000.
- The rural families were satisfied with the overseers which came several times and gave good advice on earthquake resistance measures and 'chulos' and latrines. This can be compared with the urban families which felt that they didn't need the overseers since they had skilled masons to do the reconstruction.
- One rural family wanted to repay the loan, but the bank told them to wait for two years since they had a two year grace period.

IV. FIELD DOCUMENTATION

It can be seen from the foregoing that interesting observations were obtained from the few families interviewed. In order to better document the reactions of the families to the Project as well as the problems of the banks, a field documentation phase of the study has been proposed. Based on the foregoing sample interviews and the knowledge gained at the Project office, questionnaires for both bank branch offices as well as Project beneficiaries have been developed (see Attachments 3 and 4).

It is proposed to undertake a 1% stratified sample of the beneficiaries and a random sample of the banks in the area of the survey. The latter would include rural branch banks, District Center banks and urban center banks. With respect to the beneficiaries, a 1% sample of families who have received a loan installment would be about 500 families. Since 96% of the beneficiaries are rural, the sample should be skewed in that direction. A proportionate sample would mean some 480 families in rural areas, 5 families in District Centers and

15 families in urban areas. However, since such a sample would not be representative of the latter two areas, it is suggested that perhaps 400 families be interviewed in rural areas, about 25 in District Centers and 75 in urban areas. If it is found that 500 families are too many to be surveyed in the time allotted, the sample could be halved.

In order to undertake the survey, it is assumed that a surveyor, who should know the area, could interview about eight households per day in urban areas and District Centers and four or five per day in rural areas. Thus, a daily average would be about six households. Given a five day week with one day in the office, it would take three surveyors five to six weeks to do 500 households. Data processing plus report write-up should take another two to three weeks, giving eight to nine weeks for the field work and report in total.

V. LESSONS LEARNED: APPLICABILITY OF THE PROGRAM ON A NATIONWIDE BASIS

Over the past 18 months a great deal has been learned about the start-up, implementation, administration and financing of a nationwide housing loan program. From the first few days after the earthquake to the present, it has been a learning by doing experience. Qualified staff both at headquarters and in the field were trained; communications were improved; application forms, loan agreements and various reporting forms were drawn up; field data was computerized, loan data is being computerized; and loans were extended with a minimum of paper work until today some 75% of the affected households have been served.

Nevertheless the program was designed as and remains essentially a reaction to a national emergency. Although it was never meant to be a commercial loan program, Government is to be commended in that from the first the program was designed to be a loan and not a grant effort as earthquake reconstruction efforts in the past had been. Substantial experience has therefore been gained in the operation of a loan program. Drawing on the foregoing, some of the significant experiences and lessons learned from the present program which might be used in a nationwide housing loan program can be listed as follows:

1. EXPERIENCE

- a. Collateral. Although the banks take collateral for other loans, they have never done it on such a massive scale. Among participating banks in the affected areas this is now routine. Even when the borrower was not on the title, it only took a few weeks for the title to be transferred and another few weeks for loan processing. If the program were to be expanded on a nationwide scale, however, other banks would have to gain this experience.
- b. Field Inspection. The field staff of district engineers, overseers and even runners have gained invaluable experience in house inspection, incorporation of earthquake resistance measures, and basic technical assistance to affected families. This body of experience and people must somehow be incorporated in any expanded housing loan or development effort.

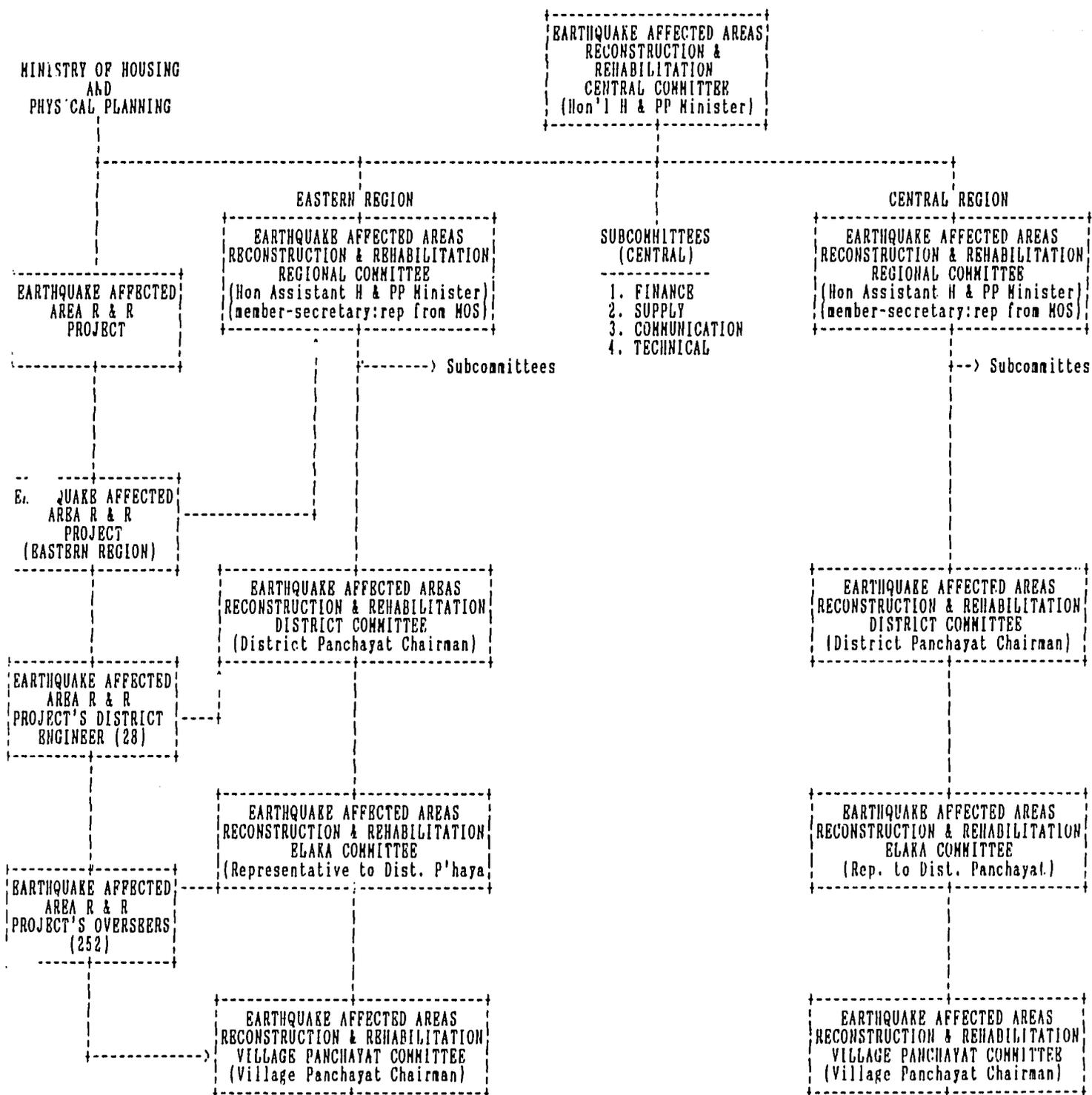
- c. Recordkeeping. The system of records, forms and data collected will be invaluable to any new program. However, while the Project office is in the process of computerizing its data base, the banks are still keeping records and reporting manually. This will inevitably hinder any expanded program.

2. LESSONS LEARNED

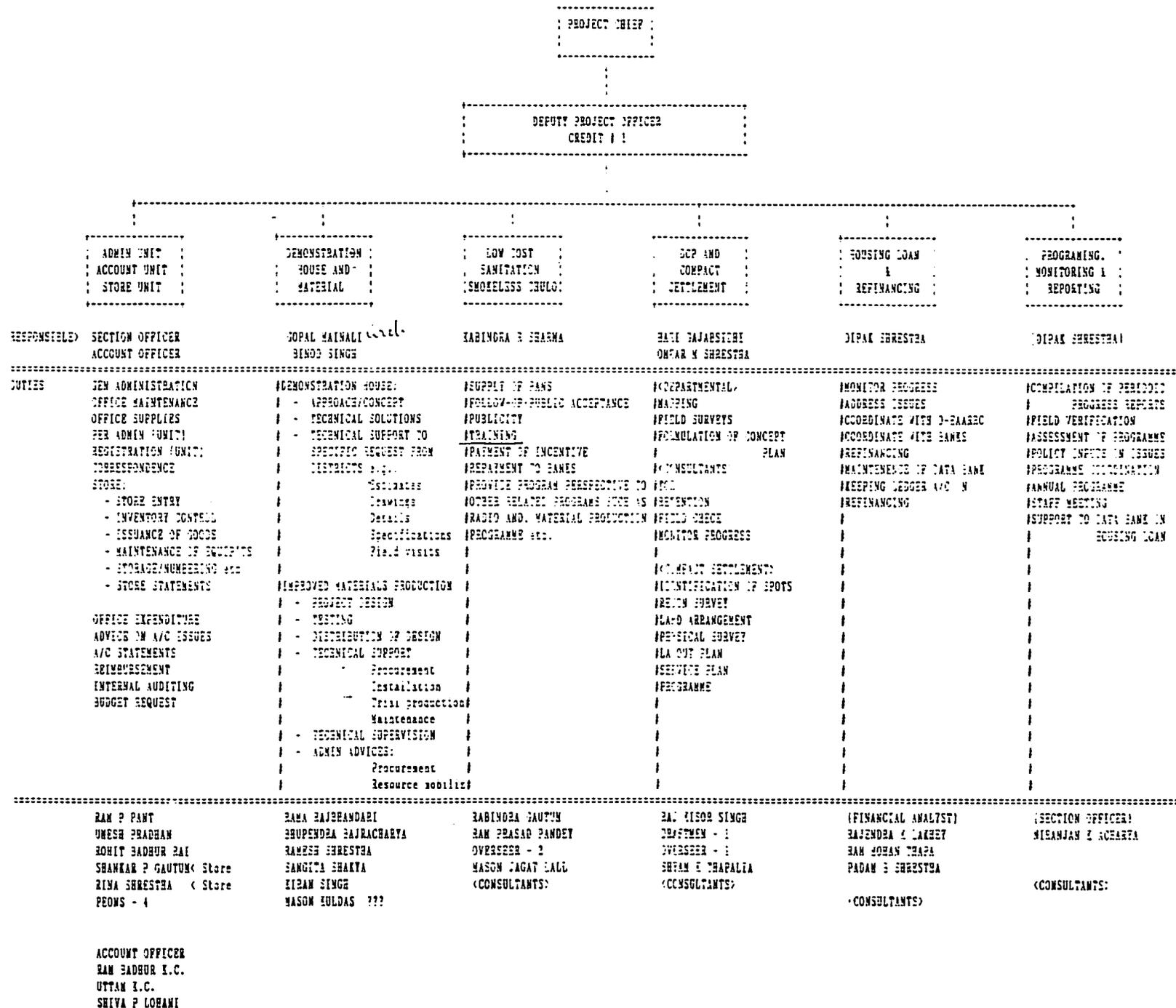
- a. Affordability. Any future housing loan program will have to be based strictly on the ability of the borrowers to repay the loan. Given the emergency character of the present program, this has not been the case. There is therefore justified concern about the repayment of loans, especially in rural areas.
- b. Subsidies. The present program is substantially subsidized in order to reach the rural poor. If an expanded program is to be financially viable, any subsidies will have to be applied judiciously, quantified and placed on the budget.
- c. Repayment Schedules. Knowledge by the bank branches and the borrower of repayment amounts and dates and when interest is due, if there is a grace period on principal, is mandatory if any loan program is to be self-sustaining. Corrective action must also be taken as soon as possible in the present program to encourage the habit of repayment, especially of interest during the grace period on District Center and urban loans.
- d. Loan Recovery. The extent to which the banks make a positive effort in collecting payments during the loan period, and whether they will attempt to exercise the use of collateral in cases of default remains to be seen in the present program. However, if loan recovery is not enforced or is politicized, it will set a precedent for any future housing loan program.

Some 75% of the affected families have now been served under the present program. It would therefore now seem expedient to begin definite moves toward the loan recovery stage. This will entail not only issuance of repayment schedules and positive actions by the banks to effect collections, but also the enforcement of the closure date for the first installment and the setting of a closure date for the second installment, perhaps at the beginning of the next fiscal year. In this manner the total size of the loan program can more quickly be known, the amount of subsidy to be paid by Government to the participating banks determined, and the Project staff and banks mobilized for effective cost recovery.

CHART 2



MOS: Ministry of Supplies



QUESTIONNAIRE FOR BANK BRANCH OFFICES

1. NUMBER OF ELIGIBLE FAMILIES IN AREA. _____
2. TOTAL NUMBER OF LOANS (FIRST INSTALLMENTS) _____
 - a. NUMBER OF RURAL LOANS (MAX. RS. 10,000) _____
 - b. NUMBER OF DISTRICT LOANS (MAX. RS. 20,000) _____
 - c. NUMBER OF URBAN LOANS (MAX. RS. 50,000) _____
3. AVERAGE SIZE OF RURAL LOANS _____
AVERAGE SIZE OF DISTRICT LOANS _____
AVERAGE SIZE OF URBAN LOANS _____
4. NUMBER OF SECOND INSTALLMENTS _____
 - a. RURAL LOANS _____
 - b. DISTRICT LOANS _____
 - c. URBAN LOANS _____
5. NUMBER OF 'CHULLO/CHHAPI' GRANTS
 - a. RURAL _____
 - b. DISTRICT _____
 - c. URBAN _____
6. ANY INSPECTION OF SECOND INSTALLMENT LOANS?
7. IS INTEREST ON DISTRICT (CENTER AND) URBAN LOANS BEING PAID? YES _____, NO _____
8. HAS ANYONE BEGUN REPAYING INTEREST? YES _____, NO _____
IF YES, HOW MANY? _____
IF YES, TOTAL AMOUNT _____
9. TOTAL NUMBER OF LOANS REPAYED THUS FAR _____
 - a. RURAL LOANS _____
 - b. DISTRICT LOANS _____
 - c. URBAN LOANS _____

QUESTIONNAIRE FOR AFFECTED HOUSEHOLDS.

NAME OF FAMILY _____
DISTRICT _____
WARD _____

1. TYPE OF LOAN: (1) RURAL _____ (1)
(2) DISTRICT CENTER _____ (2)
(3) URBAN _____ (3)

2. SIZE OF ~~LOAN~~ ^{FIRST} INSTALLMENT: Rs. 0 - 5000 _____ (1)
Rs. 5 - 10,000 _____ (2)
Rs. 10 - 25,000 _____ (3)

3. SIZE OF SECOND INSTALLMENT: Rs. 0 - 5000 _____ (1)
Rs. 5 - 10,000 _____ (2)
Rs. 10 - 25,000 _____ (3)

4. FROM WHICH BANK DID YOU TAKE THE LOAN?
RBS _____ (1), IVAL _____ (2), SPTS _____ (3)

5. WAS IT DIFFICULT TO OBTAIN LOAN? YES _____ (1)
NO _____ (2)

IF YES, WHY

6. HOW LONG DID IT TAKE TO OBTAIN LOAN?
LESS THAN 2 WEEKS _____ (1)
2-4 WEEKS _____ (2)
4-8 WEEKS _____ (3)
MORE THAN 8 WEEKS _____ (4)

7. APPROXIMATE VALUE OF CONSTRUCTION:
Rs. 0 - 10,000 _____ (1) Rs. 30 - 100,000 _____ (4)
Rs. 10 - 20,000 _____ (2) Rs. 100 - 200,000 _____ (5)
Rs. 20 - 100,000 _____ (3) Rs. ABOVE 200,000 _____ (6)

8. VALUE OF COLLATERAL TAKEN BY BANK
Rs. 0 - 20,000 _____ (1) Rs. 100 - 200,000 _____ (4)
Rs. 20 - 100,000 _____ (2) Rs. 200 - 100,000 _____ (5)
Rs. 10 - 100,000 _____ (3) Rs. OVER 100,000 _____ (6)

9. DO YOU KNOW WHEN YOU HAVE TO REPAY THE LOAN?
 YES (1) , NO (2) .
10. HAVE YOU PAID ANY INTEREST TO THE BANK?
 YES (1) , NO (2) .
 IF YES, HOW MUCH?
11. DO YOU WANT TO START REPAYING THE LOAN NOW?
 YES (1) , NO (2) .
12. DO YOU KNOW HOW MUCH YOU HAVE TO REPAY?
 YES (1) , NO (2) .
 IF YES, HOW MUCH?
13. DO YOU THINK YOU CAN REPAY THE LOAN ON TIME?
 YES (1) , NO (2) .
 IF NO, WHY NOT?
14. HAVE YOU RECEIVED A 'CHULO/CHARPI' GRANT?
 YES (1) , NO (2) .
15. HAVE YOU BUILT A 'CHULO' OR CHARPI?
 YES (1) , NO (2) .
 IF NO, WHY NOT?
16. HAVE OVERSEERS COME TO SEE YOU:
 SELDOM (1) , OFTEN (2) , MANY TIMES (3)
17. HAVE THEY BEEN HELPFUL IN YOUR RECONSTRUCTION?
 YES (1) , NO (2) .
18. HAVE YOU USED THEIR SUGGESTIONS IN YOUR CONSTRUCTION?
 YES (1) , NO (2) .
 IF NO, WHY NOT?
19. ARE YOU SATISFIED WITH THE HAUSING LOAN PROGRAM?
 YES (1) , NO (2) .
 IF NOT, WHY NOT?
20. DO YOU WANT ANOTHER LOAN? YES (1) , NO (2) .
 IF YES, WHAT FOR? COMPLETE CONSTRUCTION (1) ,
 ADD ROOMS FOR FAMILY (2) , FOR RENT (3) , BUILD ANOTHER HOUSE