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Nepal Credit Mechanisms For Financing Low-Income Housing

Cooperative Housing Foundation

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I. Executive Summary

A. Background

The Ministry of Housing and Physical Planning (MHPP), of His Majesty's government (HMG) in late 1988 requested CHF's assistance in the development of community-based finance mechanisms to mobilize local capital resources for housing purposes. CHF provided the first phase of this assistance in January-February 1989.

B. Housing Construction Approaches and Needs

Nepal housing construction approaches and needs were reviewed as a basis for determining what financing would be most appropriate. Nepal's population probably will reach 20 million in 1990, comprising approximately 3 million households. The urban population in 1984, including communities with populations over 5,000, was 20 percent and growing at 8 percent per year. There are more than 4,000 local communities in Nepal, nearly all rural villages.

Key housing indicators for Nepal include: (1) high proportions of owner-occupied single-family houses in both urban (76 percent) and rural areas (96 percent); (2) toilet facilities, private water supply, electricity, and/or permanent building materials, in only one-half the urban houses with fewer services provided to rural houses; (3) a predominance of permanent building materials (brick, stone, concrete) more than (50 percent) followed by bamboo (40 percent) in both urban and rural areas; (4) heavy dependence on wood for

cooking (54 percent urban and 97 percent rural).

The estimated increase in households in 1989-90 is 100,000. Total housing demand also includes houses needed by in-migrants and replacement of dilapidated houses and houses destroyed by natural disasters. Also, there is a substantial need for major improvements to existing houses.

C. Review of Existing Credit Mechanisms

Presently, Nepal has neither specialized housing finance institutions nor any significant number of community-based thrift and credit mechanism The two major commercial banks and the Agricultural Development Bank of Nepal (ADB/N) have begun to make shelter loans as part of rural integrated development programs and the earthquake reconstruction project Also, there are various informal ways in which housing is financed. Further, HMG's Department of Cooperative Development (DCD) has begun to promote the creation and development of rural thrift and credit societies by assisting the groups formed for economic development purposes under other programs.

D. Proposed Strategy for Financing Housing through Community-based Mechanisms

To be feasible initially and sustainable over the long term, any new housing finance mechanism must be integrated into Nepal's social, economic, physical, policy, program, and institutional structure and mobilize local capital resources in order to meet national economic development needs.

1. Key Present Realities

HMG's Basic Needs Program includes housing as a priority. Nevertheless, housing needs are being met unsatisfactorily in large measure because financing is unavailable from formal finance institutions. The extensive networks of commercial and agricultural development branch banks are demonstrating a capability to make large numbers of loans quickly. Those programs which are structured and promoted to achieve high repayment rates have been successful in doing so.

There is a long-standing and widespread tradition of informal cooperation among the residents of Nepal's rural communities, including mutual help in building houses and providing basic community services.

There is a growing commitment by government officials, cooperative leaders, and other nongovernmental organizations (NGOs) and private voluntary organizations (PVOs) to foster the creation of thrift and credit cooperative societies for various purposes, including housing loans. Although there are hundreds of indigenous NGOs/PVOs in Nepal (of which nearly 150 are registered with HMG) as well as at least 30 international NGOs, few have shelter or shelter-related programs. Most provide services to youth, children, and women regarding health, welfare, and training. Thirty are classified as community service organizations. Some NGOs/PVOs would have the capability and interest to participate in shelter activities.

2. CHF Perception's on Housing Finance in Nepal

Nepal's overall strategy for housing finance should address the need for a set of coordinated financial institutions and programs which marshal various housing finance resources for different loan purposes. Nepal's commercial and development banks, as well as other financial institutions, should be encouraged to mobilize investments and savings for housing finance purposes. Government policies and programs for housing finance and development should position housing properly in the overall context of economic development and human needs of society. Housing finance mechanisms and programs should be built on the strengths of existing formal institutions and programs as well as informal arrangements and practices.

Community-based cooperative societies potentially constitute an appropriate mechanism for housing finance. New societies are most likely to become viable when they are created by interested members with a common bond, democratically controlled, properly trained, and encouraged to practice thrift and self-reliance.

Based on accumulated experiences throughout the developing world, the role of private, non profit NGOs should be facilitated. They have a role to play - especially as a bridge between formal and informal sectors.

3. The Proposed Strategy

The essence of the strategy is to create local community financing mechanisms which mobilize personal savings as capital to lend to households for housing improvements

and core house construction. The basic approach (1) adapts selected existing financing mechanisms to expand and extend funding for housing and (2) fosters and facilitates new arrangements for the systematic development of a permanent country-wide network of viable, self-reliant, community-based organizations for housing finance purposes. This overall approach helps to meet national economic development needs by mobilizing local capital resources.

The first half of this housing finance approach includes the following primary actions:

- Systematically expand the ADB/N's housing/land/income generation financing scheme, assisted by MHPP, from the current four pilot projects to a nationwide program including all of ADB/N's branch banks (expansion to 30 ADB/N offices is planned for next year).

- Adapt and expand the Earthquake Affected Areas Reconstruction and Rehabilitation Project's housing finance scheme through commercial banks to a permanent national program.

- Broaden the scope of the Production Credit for Rural Women (PCRW) Program, part of the Intensive Banking Program of the commercial banks, to include housing loans for building materials and loans for building material production enterprise development.

The second half of this housing finance strategy is to foster and facilitate the creation and development of local community-based cooperative societies engaged in savings and loans for housing and enterprise development.

a. **Planned outputs.** The plan is to eventually have multipurpose cooperative societies in all Nepal villages and towns where local residents decide to create them. A six-month pilot project will include five societies, one in each region. Then one or two societies will be created and assisted in most of the 14 zones. During the second year, one or two societies will be established in other selected districts. Then the development of new societies and nurturing of established ones would continue as an on-going activity on an increasingly private, decentralized basis. The creation of community-based cooperative societies throughout Nepal is an important planned output. Even more important is their sustained self-reliance, viability and stability.

These societies would make housing loans to their members and encourage regular savings. As they grow in assets and management strength some may undertake lending for enterprise development and, perhaps, engage in housing construction for their members.

b. **Planned inputs.** There are several major types of inputs required to implement the development of community-based cooperative societies throughout Nepal:

- The people will provide their time, energy, skills, and savings/investments through their own societies.

- HMG's MHPP will provide policy and program leadership as well as technical staff. Concurrently, the DCD will promote and support community groups in creating and managing their societies. The ADB/N will assist the societies by providing technical assistance on financial management and extending small loans to societies for on-lending to their members.

- CHF is proposing to establish a staff of American and Nepalese experts to manage the implementation of this intensive development program. The CHF team will serve as the TSO during the first two years, at least.

- A permanent technical service organization (TSO) will be established near the end of the intensive development program to work with MHPP, DCD, ADB/N, and participating NGOs on both cooperative development and housing aspects of this program.

- Selected local NGOs will provide volunteers to work in the districts, ilakas (nine district divisions), towns, and villages assisting in the formation and development activities of the community-based cooperative societies.

c. **Major activities.** The implementation of this strategy involves an intensive promotion and development program for at least two years followed by continuing support of the growth and development of community-based societies throughout Nepal.

These societies initially will borrow capital from ADB/N to on-lend to their members for housing improvements and core house construction. By fostering savings by members, increasingly the societies will be able to make housing and enterprise development loans to their members using their own capital resources.

The intensive program includes preparation activities followed by three phases of implementation:

- program preparation
- phase one (first six months) - pilot project
- phase two (second six months) - program refinement and expansion
- phase three (second year) - program refinement, expansion, decentralization, and privatization

II. Background

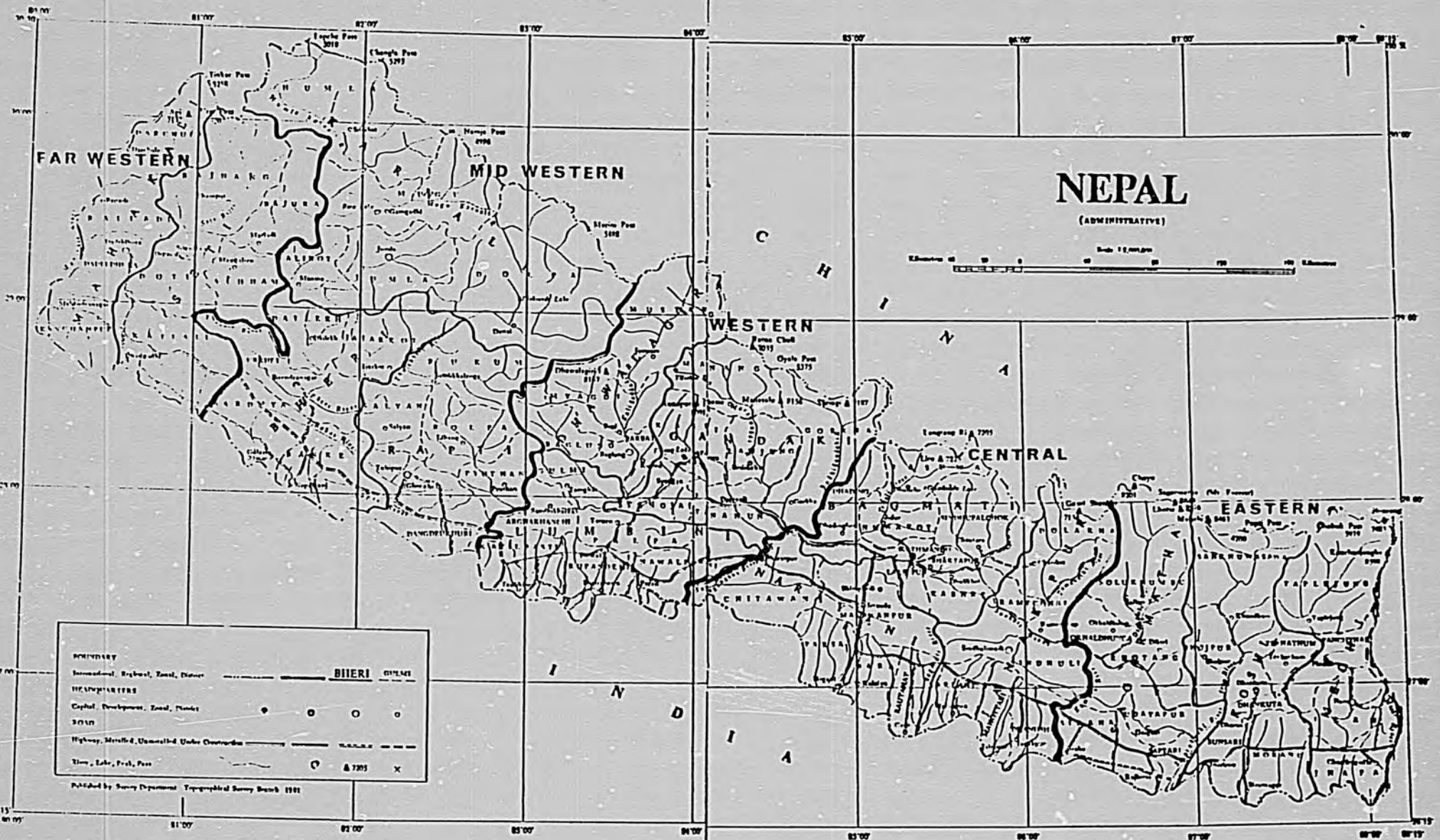
The Ministry of Housing and Physical Planning (MHPP) of His Majesty's government (HMG) in late 1988 requested CHF's technical assistance and training regarding the identification of formal and informal housing finance mechanisms leading to the development of an appropriate community-based housing finance system in Nepal to mobilize personal savings and make loans to members for housing improvements and construction of basic houses as part of HMG's Basic Needs Program. This request for assistance was approved and processed by the Ministry of Finance, the United States Agency for International Development's (USAID) mission in Nepal, and USAID's Regional Housing and Urban Development Office (RHUDO) for Asia. CHF agreed to provide the first phase of this assistance to identify the needs and opportunities regarding the financing of low-income housing in Nepal, including the (1) analysis of present credit mechanisms, (2) identification of key issues, (3) description of financing options, and (4) suggestions for project development and training.

CHF's Robert DeVoy, housing advisor for Asia and team leader, and Eduardo Perez, country director for CHF in Honduras, conducted this first-phase study in Nepal during a three-week period in January-February 1989, including a RHUDO debriefing in Bangkok.

Research in Nepal included (1) approximately 30 interviews with Nepal officials, international donors, and leaders of both international and national nongovernmental organizations (see contact list); (2) review of relevant documents with the focus on housing and community development financing and construction; and (3) 10 person-days of field trips

to learn about house construction and financing approaches and to inspect both urban and rural development in several communities in the Kathmandu Valley of Nepal's central region, Pokhara and nearby communities in the hill area, Butwal in the Terai plains of the western region, and in the Terai plains and hill area of the Rapti and Bheri zones of the midwestern region. (See Nepal map on the following page).

A preliminary report on the CHF teams findings and tentative conclusions was presented to and discussed with MHPP's additional secretary and USAID/Nepal senior officials.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III. Housing Construction Approaches and Needs

A. Introduction

Nepal housing construction approaches and needs were reviewed in general. Findings are summarized here to provide an adequate understanding of the kinds of housing currently being developed and improved as a basis for determining the financing priorities and how best to deliver such financing.

B. Housing Construction

Nearly all housing in both urban and rural Nepal is single-family detached homes with one or two stories (sometimes three). Housing designs, building materials, and construction techniques vary by climate, topography, and cultural traditions, as described below. Extended families in one house are common, although becoming less so because of migration.

Land is privately owned and a major form of wealth. In the larger towns and cities, land prices are high; thus, the purchase of a plot is a major investment beyond the reach of the poor. Many middle-income families may own land they inherited, but often lack the wealth or access to capital to build a house. Land commonly is leased, which is a reason that illegal squatting is not prevalent. However, because of the significant rural-urban migration by the poor seeking work, squatting is increasing.

In the colder mountain areas, small communities are located in high valleys. Houses are built of stone and, to a lesser extent, unfired brick and mud. Wood is scarce, so it is used

sparingly. Roofs are either flat or pitched, depending on amounts of snow and rain (many of these high valleys are arid). Flat roofs are made of concrete, and most pitched roofs are slate. Most houses are built by the owners, usually with the assistance of relatives, friends, and hired labor.

The hill areas cover about two-thirds of Nepal's land area and include about one-half the population. Climate, topography and cultural conditions vary greatly. Stone is the most common building material for foundations and walls. Slate roofs vary from rough, thick slate requiring huge timber structures to fine slate. In the larger towns and cities, fired brick walls and galvanized metal sheet roofs are prevalent. Concrete block is gaining usage. Tile roofs also are increasing.

The population in the southern Terai plains along the border with India has been growing rapidly in recent years since malaria was eradicated. Here, most house walls are built of wood, bamboo, or reed and covered with mud or cow dung (wattle and daub). Houses sometimes are elevated by post and beam construction. Roofs are mostly thatch, but tile roofs are used on better houses, which usually have walls of brick. Rural families tend to build their own houses, while in villages and towns craftsmen and laborers are hired when affordable by the family.

In summary, there are significant differences in house design and building materials among Nepal's regions. House designs, building materials, and the use of craftsmen and laborers also varies significantly between farm villages and the more urban towns. In all places

except the larger cities, indigenous nonmanufactured building materials are used, houses are single-family, and water supply and sanitation are basic. Incremental construction is common throughout Nepal, with households buying materials as they have cash and building as their available time and housing needs dictate.

In some of the larger towns, there are some row houses. In Kathmandu Valley cities, there are a few apartment developments. More are projected.

Nepal's forests have been largely depleted. Thus, wood supplies are limited for house construction. Population growth is mostly in the larger towns of the Terai plains where permanent building materials are in short supply. Fired brick for walls and tiles for roofs will become increasingly necessary, but may be too expensive for low-income households. Concrete block and metal roofs also will be used increasingly, but are expensive as well.

C. Housing Needs

1. Population Growth and Migration

Nepal's population growth rate has increased from 1.6 percent a year during the 1950s to 2.7 percent during the 1970s. The total population was 17 million in 1984, according to the last census estimate. At a likely 3 percent annual growth rate, the total population would reach 20 million in 1990.

Because of improved health measures, life expectancy has been increasing. In 1987 it was 57 years for men and 54 for women (both slightly higher in urban areas).

Average household size was 6.8 persons in rural areas and 5.5 in urban areas. There were about 2.5 million households in 1984; projected at the same growth rate as population, there would be 3 million in 1990.

The urban population was estimated at 8 percent of the total Nepal population in 1984. Adding smaller communities with populations over 5,000, the total was 20 percent. Recently the urban population has been growing at 8 percent a year because of the combination of natural increase, in-migration, and the increasing number of urban communities (i.e., from 23 towns in 1981 to 29 in 1984).

Nepal migration includes rural to rural, rural to urban, and international migration. Rural to rural migration is by farmers moving from mountain and hill areas to the more fertile Terai plains. Rural to urban migration includes farm to town as well as small town to larger town. The Terai towns of Birgunj, Lahan, and Jankpur are growing most rapidly, from 9 to 14 percent a year. International migration includes Nepalese moving to India and other countries for employment reasons, Indians moving across the border into the Terai area, and Tibetan refugees.

The largest urban concentration is in the Kathmandu Valley, where the adjoining towns of Kathmandu, Lalitpure, and Bhaktapur have a combined population of nearly one-half million. The towns of Biratnagar in the eastern Terai and Birgunj in the central Terai area are projected to be among the largest urban centers in the next decade. Pokhara, in the hilly region's western zone, also continues to grow

rapidly (8.5 percent between 1971 and 1981). Birendrangar in the midwest region and Hetauda in the central region are two other hill area towns expected to grow rapidly.

2. Housing Characteristics

Key housing indicators for Nepal are shown in Table 1 (see the following page). The high proportions of owner-occupied single-family houses in both urban and rural areas are important indicators of potential demands for home improvement loans. Similarly, potential demand for home improvement loans is indicated by the fact that only one-half the urban houses have toilet facilities, private water supply, electricity, and/or are built of permanent building materials, while rural houses are predictably less well serviced with private water supply (20 percent), toilets (8 percent), and electricity (5 percent).

Urban houses are of the lowest quality in the Terai area, where incomes are the lowest and growth rates are among the highest. Another important feature is the heavy dependence on wood for cooking (54 percent urban and 97 percent rural), considering that the wood supply is dwindling.

Table 1

Key Indicators of Nepal Housing Characteristics

Housing Characteristic	Urban	Rural
	(percent of total housing units)	
Owner occupied	76%	96%
Single family occupied	69	89
Water Supply:		
Private	50	20
Standpipe or well	41	61
Distant source	8	18
Toilet facility	51	8
Electricity	51	5
Building material:		
Brick, stone, concrete	52	54
Bamboo	40	38
Wood	6	4
Temporary	1	3
Cooking facilities:		
Kerosene stove	37	2
Gas stove	2	-
Electric stove	7	-
Wood	54	97
Housing expenditure as share of monthly household income (range by low-high levels)	20-35%	15-18%
Median household cash income (1988)[a]	NRs 1,560	NRs 600
Kathmandu	2,390	-
Hills	1,990	600
Terai	1,130	590
Mountain	-	520

Sources: Nepal Rastra Bank (1988), *Multi-Purpose Household Budget Survey: A Study of Income Distribution Employment, and Consumption Patterns in Nepal*; Burkhard von Rabenau (1989), Land Development and Housing: Policy and Institutional Requirements, Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ), (photocopy).

[a] Household income estimates for 1988 are 1.47376 times the 1984 survey data by the Nepal Rastra Bank and published in 1988.

3. Housing Demand

The estimated increase in households from 2.5 million in 1984 to 3 million in 1990 (based on a 3 percent rate of increase) is an annual average of 83,000 units; however, in 1989-90 the estimated growth in the number of housing units needed as a function of new household formation is 100,000 and probably will become larger each succeeding year. Total housing demand also includes houses for those who migrate within and to Nepal as well as the replacement of dilapidated houses. Also, there is the need to replace houses destroyed by disaster, such as the 65,000 houses destroyed by the earthquake on August 21, 1988.

In addition to the demand for new houses, there is the demand for improvement of existing houses, which effectively reduces the need for new house construction.

Overall, Nepal housing demand takes many forms, including the following:

- core houses for landless farmers in rural areas
- core houses for expanding rural families
- core houses for rural migrants to market towns and larger towns, especially those households currently illegally squatting on public and private lands

- core houses for low-income urban families, especially those that are currently renting

- expansion of existing rural homes to accommodate growing families

- expansion of existing urban homes to accommodate growing families

- upgrading of existing rural and urban houses from traditional materials (primarily earth) to more modern and permanent brick or block structures

- miscellaneous home improvements (rural and urban), such as water-seal latrines, individual tube wells, cement or tile floors, replacement of existing roofing thatch with either new thatch or more permanent materials (e.g., corrugated iron sheets or cement tiles), smokeless *chula* stoves, enlarging windows for better lighting and ventilation, and so on

- modifications to existing homes to make them more earthquake resistant (e.g., ring beams, reinforcing gables, strengthening corners, and so on)

- replacement or rebuilding of homes destroyed by earthquakes and other natural disasters

D. Housing Affordability

House construction costs excluding land range from NRs 2,000 to NRs 3,000 for modest wattle and daub houses to NRs 20,000 for two-story sun-dried adobe block houses and NRs 40,000 for one-story houses made from kiln-dried bricks. With a few exceptions (described below), no formal system exists to finance housing activities.

Monthly median cash incomes are estimated at NRs 600 for rural households and NRs 1,560 for urban households. (See appendix B on Housing Loan Affordability Calculations). Assuming that households would be able to pay approximately 25 percent of their monthly incomes for housing loan payments at market interest rates (presently 15 to 18 percent), one-half of urban households could afford to borrow up to NRs 20,000 with monthly payments for seven years or longer.

For median-income urban households to afford a NRs 40,000 house, would require a loan at 15 percent interest, down payment of 30 percent, and the NRs 28,000 loan amortized for 15 years. However, since the 30 percent down payment on a NRs 40,000 house of NRs 12,000 is 2.56 times the median annual income, it is probable that the majority of Nepal's urban households would not have such an amount available to them. It is likely that most urban households would be able to afford a house costing at most NRs 30,000.

The majority of rural households, with a median income of NRs 600 (38 percent of the urban median), would be able to afford a loan of NRs 8,000 or less with repayment over seven years at 15 percent interest. Loan repayment periods of less than five years would limit affordable loans to less than NRs 5,000, or less than the construction cost of a basic earthen house. Thus, most rural households could afford loans only sufficient to improve their existing house or to purchase local inexpensive building materials for the incremental construction of a small core house using a substantial amount of contributed labor.

IV. Review of Existing Credit Mechanisms

A. Introduction

Presently, Nepal has neither specialized housing finance institutions nor community-based thrift and credit societies. However, there are two major commercial banks and the Agricultural Development Bank of Nepal (ADB/N) with extensive branch bank networks throughout the country. These institutions have begun to make shelter loans as part of integrated development programs. Moreover, there are various other ways in which housing is financed, such as provident funds, employer loans, and loans intended for other purposes. Also, there are informal groups engaged in thrift and credit activities. While some registered cooperatives engage in credit among other activities, they are nearly all agricultural in nature.

Given this present situation, the CHF team decided it was appropriate to investigate a wide range of existing credit schemes in Nepal to learn what arrangements and practices would be useful to consider in designing and developing a community-based financing mechanism, which would support a shelter focused delivery system.

B. Informal Housing Finance

In general, housing construction/improvements are being informally financed through:

- savings

- cashing in gains realized on investments or inherited wealth (e.g., gold)

- incrementally "investing" earnings through progressive building construction (e.g., buying a few bricks with extra cash, starting the foundation today, and adding four layers of blocks six months later when more cash becomes available)

- lump-sum retirement funds

- selling off assets (primarily land)

- misusing loans received for specific nonconstruction purposes (e.g., agricultural production)

- pooling of extended-family resources

- borrowing from family members

C. Formal Housing Finance Programs

Formal loan programs which are important sources of funds for housing purposes include the following:

- Some employers have been making residential mortgage loans to their permanent employees for many years. For example, the Nepal Bank has made loans to nearly 50 percent of its 8,500 employees for amounts equivalent to a maximum of five

years' salary. The default rate is reported to be five percent. (Nepal Bank is a 52-year-old commercial bank which has been 51.8 percent owned by HMG since 1951.)

- The ADB/N has a new pilot effort to finance low-cost house construction in settlements for landless farmers. This housing finance is linked to financing for the purchase of farm land as well as income-generating activities (e.g., raising goats). Technical assistance is provided by ADB/N's appropriate technology unit (ATU).

- Under the Earthquake Affected Areas Reconstruction and Rehabilitation Project the Nepal Bank, the Rastriya Banijya Bank, and, to a lesser degree, the ADB/N are financing rebuilding of up to 65,000 houses. Sixteen thousand loans had been made by the beginning of February. Technical assistance and supervision are being provided by the MHPP.

- Although not structured as a housing finance program per se, the provident fund for HMG civil servants (including state corporations) is an important source of loans for housing. Contributions to the provident fund are made at 10 percent of the worker's salary and 10 percent by government. Loans for nearly any purpose, but frequently housing, are made through the worker's department for up to two times his annual salary at 10 to 12 percent interest for up to nine years, repayable in equal monthly payments. Also, a worker can borrow up to 75 percent of the amount credited to his account at any time.

A national housing finance corporation has been proposed, but has not been approved by HMG as yet. This institution would be similar to India's Housing Development Finance Corporation (HDFC) in that it would be chartered by the government as a private (or quasi-private) finance institution in the mortgage loan business.

D. Cooperatives

While there are 720 registered primary cooperative societies in Nepal, only 42 of them are for nonagricultural purposes. Of these 42, there is one housing cooperative (University of Kathmandu faculty members) and one cooperative savings and credit union (formed by the Nepalese employees of USAID and other American government agencies). It is reported that 75 percent of the credit society's loans are for housing purposes including land purchase and construction. Therefore, at the present time there, is no cooperative housing movement as such, nor a significant network of cooperative credit unions which could at least constitute the basis for a new house or home improvement loan financing delivery system.

However, HMG's DCD has indicated its intention to promote the creation and development of community-based societies as part of the achievement of HMG's Basic Needs Program. DCD's program, which it has begun on a small scale, is to assist existing informal groups to organize and operate as cooperative societies. Groups formed under the Small Farmer Development Program (SFDP) and Production Credit for Rural Women Program (PCRW), for example, are being assisted by DCD's district offices to function as pre-cooperatives, begin regular savings, and eventually become registered as multipurpose cooperative

societies. These societies will engage in thrift and credit activities related to their development activities, including housing, as their membership determines. DCD has 1,100 staff members in its headquarters, training center, four regional offices, and 68 district offices, who could be activated to carry out a major program if DCD should so determine, based on the results of its pilot program.

There also is an NGO-sponsored initiative to promote cooperative credit union societies in Nepal. As part of this effort, a national promotional workshop is scheduled for March 1989 by Nepalese NGOs with the assistance of the Asian Confederation of Credit Unions (ACCU). (ACCU, based in Bangkok, is the regional affiliate of the World Council of Credit Unions.)

E. Other Revelant Finance Programs

Other nonhousing credit programs/experiences were reviewed to learn about loan terms, repayment records, and potential relationships with loan programs for housing. Credit programs which were reviewed include the following:

- The Small Farmers' Development Program (SFDP) of the ADB/N. Loans are exclusively for livestock, agricultural production, etc. (except for the pilot program including housing identified above).

- The Private Enterprise Unit (PEU) of the ADB/N. Although not fully operational yet, the unit will promote credit for small entrepreneurs primarily in the agro-

industrial sector, but also for building materials production and other areas. The National Cooperative Business Association (NCBA) has an USAID-funded resident advisor assisting this program.

- The Production Credit for Rural Women Program (PCRW). Facilitated by the Women and Development Office of the Ministry of Panchayats and Local Development (MPLD) and financed through the Nepal Bank and the Rastriya Banijya Bank, loans are made to women for agricultural production activities. Technical assistance is provided by the Women and Development Office, including involvement of Peace Corps volunteers. The program might be expanded to include loans for building material production and/or housing improvement/construction.

- The Small Business Promotion Project (SBPP). Funded by the Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) through the ADB/N, loans are primarily urban-based and support new and existing small businesses in a variety of sectors.

- The Private Enterprise Development Fund (PEDF). Financed by the United Nations Development Programme (UNDP) and channeled through the ADB/N, this new project may assist rural families to undertake non-farming enterprise activities, including possibly building material production and construction trades.

- The Town Panchayat Development Fund Board (TPDFB). The TPDFB, which is not yet operational, has been set up as an autonomous board with linkages to the MHPP to finance basic urban infrastructure. The MHPP also chairs the board of directors. Financing will be provided by the World Bank and the West German government. Technical assistance will be provided by the UNDP.

- A variety of institutions, such as UNICEF, CARE, Water Aid, etc. are financing individual latrines and small-scale community water supplies.

- UNICEF and Redd Barna are both in the start-up phase of urban development/squatter area upgrading programs. All these programs are on a grant basis at this time.

Table 2

Formal Programs and Institutions Financing Home Improvements, House Construction, and Community Infrastructure

Part A: Housing Loans

Program	Implementing Institutions	Funding Sources	Technical Assistance	Individual Loan Amounts	Terms/ Interest Rates	Other Comments
Low-cost housing for landless farmers	ADB/N SFDP	ADB/N HMG	MHPP Appropriate Technology Unit (ATU)	NRs 17-19,000	5% for 15 years	HMG provides interest subsidy, housing loans linked to land and income generation loans.
Earthquake Emergency Housing Reconstruction Project	MHPP Nepal Bank Rastriya Bank ADB/N	World Bank/ IDA, HMG	UNDP UNCHS HMG	NRs 5,000 to 50,000	≤ 5,000 @ 1% ≤ 10,000 @ 10% ≤ 50,000 @ 15% 8 yrs, w/ 2 yr grace	Land used as colateral.
Provident Fund for HMG civil servants	HMG Provident Fund	10% of worker's salary matched by HMG	None	Up to 5 times annual salary; also accum. savings	10-12% for up to 9 years	

Part B: Community Infrastructure and Small Business Loans

Program	Implementing Institutions	Funding Sources	Technical Assistance	Individual Loan Amounts	Terms/ Interest Rates	Other Comments
Town Panchayat Dev. Fund Board (TPDFB)	MHPP MPLD Town Panchayats TPDFB	World Bank GTZ	UNDP Peace Corps	N.A.	8-12% for 12-18 yrs w/ 2 yr grace	
Private Enterprise Unit	ADB/N ATU/PEU	ADB/N USAID	USAID NCBA Peace Corps	N.A.	15-18% for 1-7 yrs	Loans for individual and group enterprises
Small Business Promotion Project	ADB/N SBPP	GTZ	GTZ	≤ NRS 200,000 Avg. loan: NRS 70,000	13-18% @ 1-5 yrs.	

F. General Findings

A review of the various existing credit programs has led to the following overall observations:

- Whereas some credit is made available at subsidized interest rates (e.g., the HMG-sponsored housing loans), the loans made under most credit programs are at market rates of interest (i.e., 15 to 19 percent for periods ranging from one to nine years).

- The general trend seems to be that a facilitating office is created (e.g., the WDO office, the SFDP office) that organizes the target population, promotes the concept of generating income, educates the target population about credit and its availability, makes feasibility studies, assesses creditworthiness and, if appropriate, recommends to a separate financial entity that a loan be made. The organizers subsequently provide on-going management support and technical assistance for the financed activity and provide follow-up to ensure loan repayment. Loans are usually to individuals, but often with group solidarity guarantees. The cost of these facilitating offices appears to be fully subsidized and is not incorporated into loan costs.

- Savings are not widely promoted except in the SFDP and in the new program in which the DCD is working with SFDP and PCRW groups.

- Most of the existing credit programs are for productive activities that will, by intent at least, generate capital for the repayment of loans.

- Where housing finance is provided, the demand for it is strong. As is the case in most developing countries of the world, in the absence of formal housing finance programs, families have turned to a variety of informal means of financing. However, these informal approaches often are inadequate and expensive.

- Financing programs which are well designed and managed achieve their purposes and experience very high loan recovery rates, especially by lower-income borrowers.

The findings and conclusions of this brief analysis of existing credit programs in Nepal provide a valuable information base for formulating the housing finance strategy and implementation program described in the next part of this report.

V. Foundation and Framework for Proposed Strategy

A. Introduction

To be feasible initially and sustainable over the long term, any new housing finance mechanism must be integrated into Nepal's social, economic, physical, policy, program, and institutional structure. If it does not fit, it will not work. The mechanism must mobilize substantial local capital resources on a continuing basis in order to successfully meet national economic development needs. Previous sections of this report have described and analyzed those elements which are germane to the consideration of housing finance through community-based approaches.

The following factors comprise the essential foundation and framework for the strategy, described below, including (1) key present circumstances, (2) government plans, and (3) CHF's perceptions on housing finance in Nepal.

B. Key Present Realities

The proposed strategy addresses the following key circumstances which presently exist:

1. Housing needs are being met unsatisfactorily, in large measure because financing is unavailable from formal finance institutions. Except for the Earthquake Reconstruction project and a new small farmers' program which include a housing component, there is no source of housing loans, except informally.

2. There are extensive networks of commercial and agricultural development branch banks serving both the town and farm populations in nearly all the 75 districts of the country. These bank networks are demonstrating a capability to make large numbers of loans quickly (i.e., 16,000 loans in only three months for shelter reconstruction). Also, on a demonstration basis now planned for expansion, ADB/N is addressing the land, income-generation, and housing needs of landless farmers by providing integrated development loans.

3. While there is a checkered history of loan repayment experiences under various types of development programs in Nepal, those programs which are structured and promoted to achieve high repayment rates have done so; moreover, low-income borrowers tend to have the best loan repayment records. For example, the overall loan repayment experience of SFDP is 60 percent, while for PCRW it is reported to be 96 percent.

4. There is a long-standing and widespread tradition of informal cooperation among the residents of Nepal's rural communities, including mutual help in building houses and providing basic community services (e.g. water supply, trails, and bridges). In recent decades, this informal cooperation has decreased as people have come to expect more from the government and as rural to urban migration increases. Nevertheless, the basic attitudes favoring community-based cooperation through mutual efforts continue.

5. While there are reported to be large numbers of informal groups of people throughout Nepal engaged in thrift, production, and development activities there are relatively few registered cooperative societies (i.e., only 720 societies in a country approaching 20 million people). These societies are nearly all in the agricultural sector. With some technical and financial assistance, many of these informal groups could be strengthened and enabled to take on more productive activities, including the provision of shelter.

6. There is a growing commitment by government officials, cooperative leaders, and other NGOs to foster the creation of cooperative societies for various purposes, including housing loans. There are many informal groups which are essentially employing cooperative principles. Some of these are being assisted by the DCD (with its 1,100 employees).

7. Although there are hundreds of indigenous NGOs/PVOs in Nepal, as well as several of the larger international NGOs, few of these have shelter-related programs. Some local NGOs/PVOs are engaged in water supply projects and others will be involved in the earthquake rebuilding program. Such experiences would be useful in these local NGOs developing limited housing related technical service organization (TSO) capabilities.

8. The MHPP, with its Department of Housing and Urban Development (DHUD), is deploying its growing staff to regional and district offices; thus, there is the

increasing capability to help plan and implement local housing projects.

9. Despite the potential public and private technical resources which Nepal could marshal for the development of community-based cooperatives for housing finance purposes, the absence of applied experience necessitates substantial international technical assistance and training.

C. Government Plans

HMG's Basic Needs Program includes housing as a priority. Presently, the MHPP/DHUD program to meet the objectives of the Basic Needs Program includes (1) formulation of a national housing policy, (2) establishment of new urban development institutions, (3) land development projects, (4) upgrading a low-income housing area, (5) a rural housing pilot project, and (6) information dissemination.

The formulation of a national housing policy statement on housing finance is intended to address at least (1) construction and mortgage financing, (2) home improvement loans, (3) the roles of government and the private sector, and (4) institutional arrangements, including the commercial banks, ADB/N, the proposed housing finance corporation, housing credit through cooperative societies, and a proposed urban development bank for infrastructure financing. Preliminary drafts of parts of this policy statement are in preparation.

Through the new institutional arrangements and land development projects, urban land is to be provided and serviced for housing developments, a low-income housing area is to be upgraded on a demonstration basis, and prototype improved rural and urban house designs are to be proposed. Through the information dissemination activities of MHPP and its DHUD, these various projects will be explained and fostered.

The component of MHPP/DHUD's program which is most germane to this study is the rural housing pilot project. This project includes the development of 14 service centers (one in each zone in the country), a demonstration home improvement program in two mountain districts, support to five compact settlements (perhaps one in each region), and a rural housing loan program through the ADB/N and commercial banks. Both the development of service centers and support to compact settlements include the financing of house construction via cooperative societies. These projects are in various stages of planning and demonstration.

The Earthquake Affected Areas Reconstruction and Rehabilitation Project, began September 22, 1988, in response to the August 21 earthquake that affected 27 districts in the central and eastern regions of the country. It includes approaches which link and interface with MHPP's national housing and community development programs. The major management and financial focus on this rebuilding program presents accelerated opportunities to initiate key elements of MHPP's national program. For example, funding has been made available for 65,000 housing loans, and 16,000 first installment loans have already been made through the branch banks of the two largest commercial banks and

ADB/N (in the districts where it has branches). Technical assistance is being provided to households in 252 localities by the earthquake reconstruction project staff. The MHPP's national project of developing compact settlements, with NGO assistance on social infrastructure, has been included as well.

D. CHF Perceptions on Housing Finance in Nepal

As background and introduction to the proposed housing finance strategy, the following discussion on basic concepts and principles regarding housing finance and community-based cooperatives is provided. Since Nepal is only beginning to engage in housing finance programs per se, these perceptions are intended to serve as a fundamental perspective to guide future decision making regarding the strategy proposed here, as well as other components of a future housing finance system, as applicable.

Nepal's overall strategy for housing finance should address the need for a set of coordinated financial institutions and programs which marshal various housing finance resources for different loan purposes. Capital must be marshaled specifically for housing purposes from (1) private investments and personal savings, (2) financial institution programs, and (3) government enabling policies and programs. Loan programs must be tailored to the needs of different income groups and communities, as well as the different requirements of land acquisition, land development, building material production, house construction, mortgage loans, home improvements, infrastructure development, etc. These points are elaborated on in the following paragraphs.

Nepal's commercial and development banks, as well as other financial institutions, should be encouraged to mobilize investments and savings for housing finance purposes. Individual households should be encouraged to save by programs promoting thrift and providing appropriate mechanisms. Housing construction and improvement should be fostered as prudent institutional and personal investments.

Government policies and programs for housing finance and development should position housing properly in the overall context of economic development and the human needs of society. To benefit households at all income levels and living environments, appropriate design standards and construction techniques need to be fostered. Costs should be affordable without government subsidy so that the shelter system is self-reliant and permanently sustainable.

Housing finance mechanisms and programs should be built on the strengths of existing formal institutions and programs as well as informal arrangements and practices. Care must be taken to adapt existing organizations and build new organizations with sensitivity to their intrinsic values and development processes.

The creation, growth, and development of community-based cooperative societies is particularly sensitive. It would be worthwhile to assist informal thrift and production groups to organize and develop as cooperative societies for housing finance purposes and, perhaps, enterprise development. However, new community-based cooperative societies are most likely to become viable when they are created by interested members with a common bond,

democratically controlled, properly trained, and encouraged to practice thrift and self-reliance. Thus, it is best to allow adequate time for new societies to become established and functioning on their own with careful nurturing in the forms of training and technical assistance regarding organization, leadership, financial management, and technical operations. This assistance usually is best provided by private sector technical service organizations (TSOs) with limited support from the government's department of cooperative development and relevant program ministries and departments (i.e., MHPP/DHUD).

VI. Proposed Strategy for Financing Housing through Community-based Mechanisms

A. Basic Approach

The essence of the strategy is to create local community finance mechanisms which provide credit to households for housing improvements and core house construction on a permanently sustainable, self-reliant basis by mobilizing personal savings and making prudent loans. The general approach to creating these mechanisms is to build on Nepal's existing institutions as well as informal groups and methods which have proven to be most successful in stimulating savings and extending credit for productive purposes. Implementing this approach entails organizational, technical, and financial support to the existing and new organizations which make up the financing mechanisms.

This basic approach (1) adapts those selected existing financing mechanisms to expand and extend funding of housing and (2) fosters and facilitates new arrangements for the systematic long-term development of a countrywide network of community-based organizations. This two-pronged approach enables housing finance to be provided quickly by adapting existing programs and using existing bank networks, while enabling the community-based organizations to be created by their members and nurtured into mature, self-reliant, stable organizations which start with home improvement lending and new core housing finance and then expand their loan purposes to small enterprise development as their financial capabilities increase.

B. Adapt and Expand Present Programs

The first half of this housing finance approach includes the following primary actions:

1. **Systematically expand the ADB/N's housing/land/income generation financing scheme**, assisted by MHPP, from the current four pilot projects to a program including all of ADB/N's branch banks. (As already planned, 30 ADB/N offices are to be included next year.)

   While this is potentially a highly productive program, as presently defined it is limited to informal groups of landless small farmers under the Small Farmers' Development Program (SFDP). There also are farmers with small land holdings in need of loans for housing construction or improvement. In addition, families in villages could benefit by access to loans for shelter improvements. The present approach of organizing the families into informal groups with each member co-signing the loans of the others is worthy of retention and emulation in other credit programs. The provision of extension service technical assistance to the borrowers is an important element also.

2. **Adapt and expand the Earthquake Emergency Housing Reconstruction Project's housing finance scheme** through commercial banks to a permanent national program. The program's setting of various loan maximums for different circumstances is realistic. However, the present high interest rate subsidies by HMG, made possible because of the World Bank's International Development Assistance (IDA) loan

proceeds on deposits at the commercial banks, probably could not be sustained in a permanent, large-scale national program. A permanent program should include appropriate building and housing standards and substantial technical assistance, beyond that provided to date by both government technicians and NGOs. Providing financial incentives to the commercial banks, e.g., compensating balances and/or guarantees, would also need to be worked out.

3. **Broaden the scope of the Production Credit for Rural Women Program (PCRW),** part of the Intensive Banking Program of the commercial banks, to include loans for home expansion and improvement. Consideration should also be given to loans for building material production and sales as an additional type of enterprise for women's groups. As is the case with present PCRW loans, technical support for the organization and its activities is essential.

The adaptation and extension of these three credit programs to national housing loan programs would be facilitated by the extensive branch bank networks already in place by the commercial banks and ADB/N. Necessary technical assistance should be provided by the MHPP regional and district staffs in cooperation with international NGO staff and domestic volunteers trained in community organization, credit management, housing construction/improvement, and small infrastructure development.

Capital for these loan programs should be provided by the banks. Special savings and investment programs linked to housing loans should be initiated to attract additional capital. Loan insurance/guarantee programs should be considered to protect the banks in cases of loan defaults.

C. Develop Community-based Cooperative Societies

The second half of this housing finance strategy is to foster and facilitate the creation and development of grass roots community-based cooperative societies engaged in savings and loans for housing purposes and to gradually expand their activities to include enterprise development. Since such organizations do not exist in Nepal, this part of the strategy will be described in detail.

1. Planned Outputs

The long-term plan is to eventually have multipurpose cooperative societies in all Nepal villages and towns where local residents decide to create them. These societies will be community-based, democratically managed, private organizations registered under the 1984 Sajha Societies Act, (sajha is the Nepalese term for cooperative). These societies will encourage savings by members and make loans for home improvements, core house construction, and, subsequently, enterprise development.

The following organization chart shows the institutions which will provide technical assistance, training, and financing in support of these new community-based

cooperative societies. The government agencies presently exist. The non-governmental organizations need to be created.

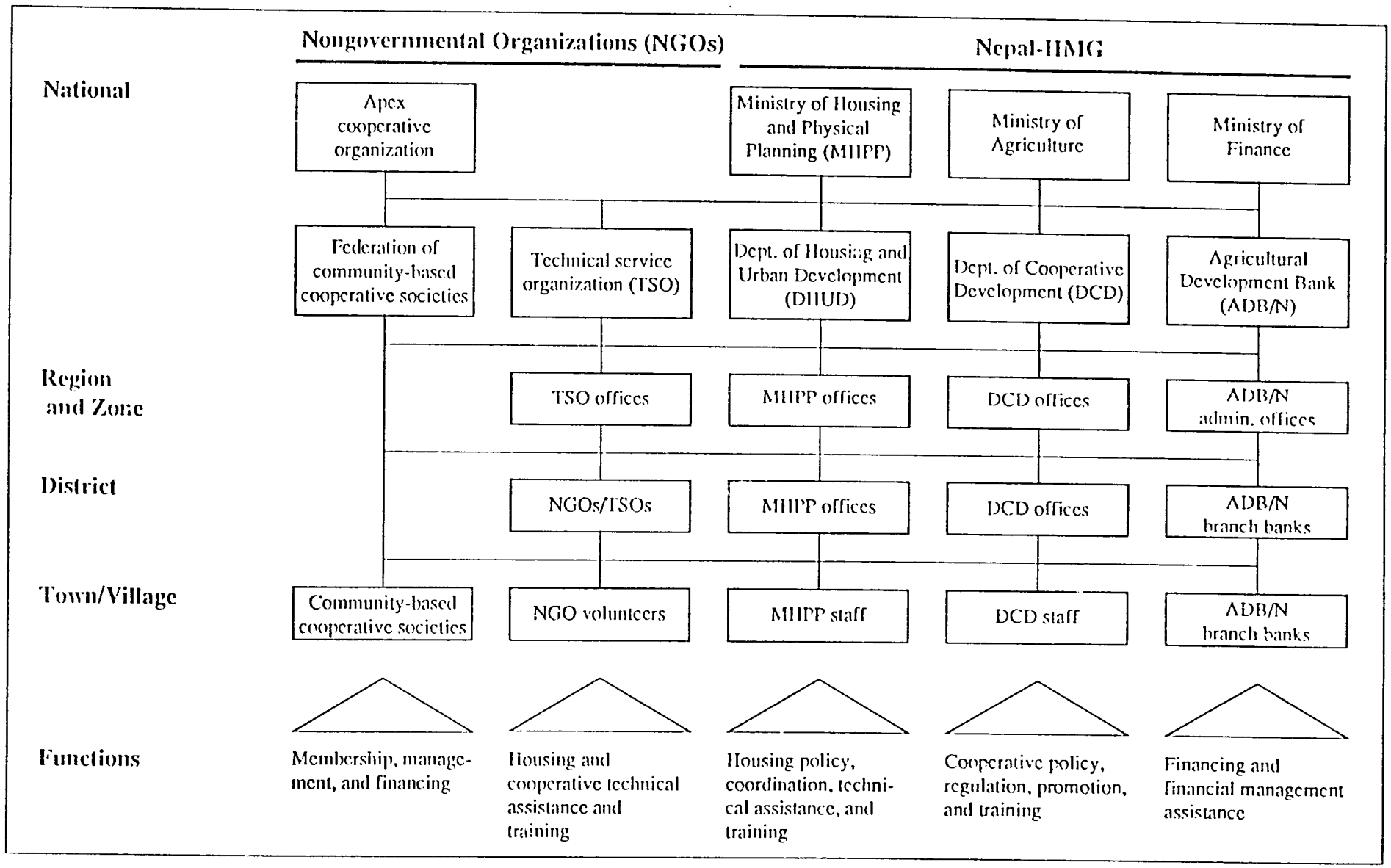
Support services in terms of technical assistance and training for these societies will be provided by this program's team (as described below) and then by a permanent technical service organization working with local NGO volunteers and government staffs (as shown on the diagram).

The focus and emphasis of the program will be the development of the community-based cooperative societies for housing finance purposes. As their number grows to about 15 they will be encouraged to form a national federation to facilitate the exchange of information and training activities.

Self-reliance is of paramount importance to the permanent viability and stability of these societies. Therefore, sound thrift practices are crucial; regular savings will be promoted. Full and timely repayment of loans is essential. While seed capital or pump priming grants, debenture sales, and occasional short-term borrowing can be useful, once the societies are firmly established primary reliance should be on members' share capital purchases and regular savings programs.

The capital of these societies must be kept active in loans to members and society enterprise investments or in interest-earning bank accounts. Only by keeping all capital actively earning interest all the time can there be funds with which to pay

Potential Institutional Arrangements for Development of Community-based Financing Mechanism



interest on savings deposits and profits to use in maintaining an adequate reserve account and paying dividends on members' share capital.

At least 15 families will form a group, called a precooperative, to undertake activities leading to the formation of the society. Key initial activities include:

- drafting a charter and bylaws (rules)
- promoting membership
- registering with the DCD as a cooperative society (at least 25 members are required by the Sajha Societies Act)
- participating in society orientation and management training sessions
- collecting membership fees and selling shares to members
- electing members to the board of directors and permanent committees
- deciding on thrift and credit programs
- beginning regular savings
- starting to make small loans to members for eligible purposes on pre-determined terms
- collecting loan repayments

A six-month pilot project will include the creation and support of five societies, one in each region. In the second six months, one or two societies will be created and assisted in most of the 14 zones. During the second year, at least one or two additional societies will be established in each of the zones in as many districts as possible. Eventually societies will be established and making housing loans in as

many local communities in the 75 districts as there are interested groups of households. (The rationale for the proposed geographic dispersion of this three-phased implementation plan is presented appendix in A.)

These societies will have voluntary membership comprised of families living in a self-defined small community. Typical membership probably will range from 25 to 100 families. All families living in the community will be eligible for membership as long as they participate in the society's activities, practice thrift, and repay their loans.

The creation of community-based cooperative societies throughout Nepal is an important planned output. Even more important is their sustained self-reliance, viability, and stability. With this result, Nepal would generate perpetual resources for financing housing improvements, affordable core houses, small enterprises, and other productive activities.

Technical assistance and training activities on a continuing basis will be provided to the societies as needed by the TSO and local NGOs to ensure appropriate organization, financial management, affordable home improvement and core house designs and building materials, construction techniques, etc.

2. **Planned Inputs**

There are several major types of inputs required to implement the development of community-based cooperative societies throughout Nepal:

- The people will contribute their time, energy, and skills in creating and managing the societies, saving money regularly, borrowing prudently, and investing the loan proceeds productively along with their own labor.

- The MHPP will provide policy and program leadership as well as technical staff with expertise in housing finance, building materials, construction, and home improvements.

- Concurrently, the DCD will promote and support community groups in creating and managing their societies.

- The ADB/N will assist the societies by providing technical assistance on financial management and extending small loans to societies for on-lending to their members.

- CHF will manage the implementation of this program during the first two years of intensive activity, or longer if deemed appropriate. CHF will assign an American resident advisor and provide substantial technical and administrative support. Nepalese housing and community development technicians will be hired. This CHF team will, in effect, serve as the technical service organization (TSO) staff. International funding will be required for this input.

- A permanent TSO will be established at the national, regional, and zone levels, with CHF international and Nepalese staff, to work with the MHPP, DCD, ADB/N and participating nongovernmental organizations on both cooperative development and housing aspects of this program. During the intensive program period the CHF international advisors will provide on-the-job training to the Nepalese technicians so that they will be capable of continuing the TSO effectively and efficiently after the international advisors are phased out.

- Selected local NGOs will provide volunteers to assist in the formation and development activities of the community-based cooperative societies. As this program progresses, it will become increasingly privatized and decentralized, thus the assistance of the local NGOs will need to increase as well.

3. **Major Activities**

The implementation of this strategy involves an intensive promotion and development program for two years followed by the continuing growth and development of community-based societies throughout Nepal.

The two-year intensive program includes program preparation activities and three phases of implementation:

- program preparation
- phase one (first six months) - pilot project
- phase two (second six months) - program refinement and expansion
- phase three (second year) - program refinement, expansion, decentralization, and privatization

a. **Program Preparation Activities**

(1) HMG establishes a program steering committee comprised of senior officials of the MHPP, DCD, and ADB/N for policy development, coordination, and promotion of this program within HMG.

(2) HMG establishes a program working group comprised of MHPP, DCD, and ADB/N officers designated as program representatives for each institution.

(3) The working group reviews and revises the proposed strategy and proposes it to the steering committee for adoption.

(4) The working group drafts a request for program technical assistance and training for consideration/adoption by the steering committee. HMG requests assistance from USAID/Nepal to implement the two-year intensive development program.

(5) USAID/Nepal reviews the request and, if it so determines, enters into a grant agreement to provide program technical assistance and training.

(6) Program staff is mobilized, including CHF resident advisor/team leader, Nepalese technical and support staff, and short-term consultants. This staff serves as the TSO for the duration of the program.

(7) HMG provides office support staff, drivers, and suitable office space.

b. **Phase One (first six months) - Pilot Project**

(1) The program staff drafts the detailed implementation program, with assistance from the working group and its staff, for consideration/approval by the steering committee.

(2) The program staff works with DCD on the specifics of promotion and development activities for community-based cooperative societies including (a) a review of the Sajha Societies Act; (b) drafting model bylaws; (c) designing promotion and support procedures, guidelines, and aides; and (d) providing orientation, training, and continuing support to DCD regional and district staffs.

(3) The program staff works with the MHPP on the specifics of an appropriate basic housing construction and improvement program, including standards, designs, building materials, construction techniques, costing, household decision making, information dissemination, and extension services.

(4) The program staff works with the ADB/N on the design of a special housing loan program for loans to eligible community-based cooperative societies to on-lend to their household members for basic house construction or improvement.

(5) The program staff suggests to the working group specific procedures and criteria for selection of the initial five communities/groups to become the community-based cooperatives in this pilot project. (Potential procedures and criteria are identified in appendix B).

(6) The program staff selects local technical staff of the MHPP, DCD, ADB/N, and local NGOs, if available; orients and trains them; and assists them in selecting community groups to become the pilot societies.

(7) The local technical staff (a) organizes, orients, and trains the selected community groups in the principles and management of cooperative

societies, (b) assists in promoting membership, registration as a cooperative, and beginning thrift and credit activities; and (c) assists in planning housing construction/improvement and other development activities.

(8) Each society in this pilot project borrows from a special housing loan program managed by the ADB/N for on-lending to the society's members. As each society's capital increases through members' share capital purchases and savings, it would be increasingly able to fund its loans to members using its own resources. The society agrees to repay the loan in full as scheduled without conditions.

(9) Households borrow from their society for eligible purposes, which are specifically determined in advance of making the loan. Loan amount and repayment terms are limited to the specified purpose. Land and house are loan collateral; in cases where loans amounts are quite small or clear land title is unavailable, at least two cosigners are required rather than a lien on the property.

(10) Households construct or improve their houses as planned on a self-help, mutual-help, and/or contracted basis with advice and monitoring by the society's housing committee and local volunteers (who have received information on guidelines and techniques from MHPP

technicians in district offices).

(11) Households make scheduled loan repayments to their society. Each society repays its loan to the ADB/N.

c. **Phase Two (second six months) - Program Refinement and Expansion**

The program continues activities of the first five community-based cooperative societies begun during phase one. Members save regularly as their incomes and needs allow. The societies make small loans to members for housing purposes. These loans are funded from the ADB/N special loan program. Major new activities include the following:

(1) The CHF program staff conducts a detailed evaluation of all program elements and activities during phase one and reports findings, conclusions, and recommendations for improvements to the working group, steering committee, and USAID/Nepal.

(2) All major participants meet for one day to review the program and agree on improvements.

(3) New target communities/groups are selected in Nepal's 14 zones (one or two in each as feasible).

(4) The program staff orients and trains MHPP, DCD, and ADB/N district-level staffs, as well as selected volunteers, who are responsible for activities in the selected districts of each zone.

(5) Program activities are undertaken by and with each community-based cooperative society similar to activities 7 to 11 in phase one above.

d. **Phase Three (second year) - Program Refinement, Expansion, Decentralization, and Privatization**

Major sets of activities in phase three will include the following:

(1) The community-based cooperative societies established in phase one and phase two continue to grow in membership, paid-in share capital, savings deposits, loan repayments, new loans to members, reserve funds, development achievements, self-management, and self-reliance.

(2) The program staff, consultants, and HMG staff, at the midpoint in the two-year program, will undertake a comprehensive, thorough evaluation of the program and make corrections. Undoubtedly, some societies will experience difficulties which may be special to them or result from flaws in execution of the program. Both types of problems will be taken into account.

(3) The program staff, DCD staff, and selected volunteers, will foster expansion of the program by assisting in the creation of community-based cooperative societies in the 75 districts of Nepal (as local residents are interested in each district) by undertaking activities similar to items 7 to 11 in phase one.

(4) Concurrently, the societies themselves will strengthen their structure and its private nature by the creation of a national federation as a membership organization for purposes of (1) mutual support, sharing, of information, and training; and (2) representation in promoting desired HMG regulations, technical support, training programs, and financing mechanisms.

(5) The program staff and other key participants, as the program extends to more districts, will foster decentralization of technical assistance to local TSO-affiliated and trained volunteers (both NGOs and individuals), DCD local cooperative development staffs, and MHPP district-level technicians.

Thus, by the end of the two-year program, the institutional framework will be in place and operational for the long-term expansion and development of community-based cooperative societies for housing finance purposes throughout Nepal's rural villages, towns, and urban neighborhoods.

Subsequently, three years from the beginning of this program, a comprehensive evaluation will be conducted to assess performance, identify issues and problems, suggest corrections, and propose improvements for long-term implementation.

Appendix A

Reasons for the Proposed Geographic Approach

While most such intensive development programs start in one or two locations to facilitate support services to the new organizations and close monitoring of their activities, in Nepal's case there are compelling reasons to begin with one beneficiary group in each of the five regions and then to expand to each zone and district. These reasons include taking advantage of linkages with related programs (e.g., the earthquake housing reconstruction program in the central and eastern regions and ADB/N's housing loan program, which is most advanced in the midwestern region). Another reason is that the key institutions to be involved in this program (i.e., MHPP, DCD, ADB/N) already have decentralized operations in each of the regions, zones, and many districts; thus, access is not a serious problem, and more technicians and beneficiary groups can be involved at one time, thereby accelerating the expansion of the program. A third important reason for starting in each region and continuing to expand geographically is to test, demonstrate, and adapt the specifics of the proposed housing finance mechanisms under various cultural and physical conditions. Considered collectively, these reasons are consider sufficiently compelling to warrant a geographically dispersed approach in all phases of the program.

Appendix B

Selection of Communities and Groups

The proposed strategy includes starting with one community-based cooperative society in each of 5 regions, then one or two in each of 14 zones, then one or two in each of 75 districts to the extend and as local community groups are interested and support services are available. This geographic dispersion will tend to cause cultural and economic diversity, which is desirable in a pilot/demonstration program to ensure that the specific approaches, criteria and standards are effective in different settings.

The first general communities and specific groups to be selected should be reasonably accessible to the technicians who will be helping them to organize and engage in housing finance activities. Thus, these beneficiary groups probably should be close to the larger towns which have branch offices of the MHPP, DCD, and ADB/N. This access consideration will be less important as the program expands.

Also, there are characteristics of each beneficiary which are important to consider in the selection process:

1. **Size.** Initially the group should have at least 15 families and be expandable to at least 25 families within a few months (25 members is the minimum required for registration as a cooperative under the Sajha Societies Act).

2. **Community.** Membership in the group should be open to all families living in a specific small community (no more than 200 to 300 families, and usually 25 to 100).

3. **Common bond.** The group should be homogeneous in terms of some important common bond, e.g., social, cultural, economic conditions (e.g., low income) in addition to their physical proximity.

4. **Positive experience.** The group should be functioning well in terms of organization, leadership, and activities. (As the program expands, new groups will need to be formed in many cases.)

5. **Motivation.** The group should convincingly demonstrate an interest, willingness, and potential capability to become a community-based cooperative society under this program.

6. **Housing priority.** The group should evidence a commitment to improving their housing conditions through their society as provided for by this program.

Appendix C

Housing Loan Affordability Calculations

Estimated Median Monthly Household Money Income:

Urban:	1,560
Rural:	600

In an unpublished paper titled "Land Development and Housing Policy and Institutional Requirements," Burkhard von Rabenau projected monthly income data from 1984 survey data published in 1988 by the Nepal Rastra Bank (Deutsche Gesellschaft für Technische Zusammenarbeit [GTZ], 1989).

Assuming families use up to 25 percent of their cash income on housing, then the monthly affordable loan payments for households at the median income would be:

Urban:	NRs 390/month
Rural:	NRs 150/month

Monthly payments for a NRs 500 loan (e.g., for building a water seal latrine)

	Interest Rate			
Term	**5%**	**10%**	**15%**	**18%**
1 yr	43	44	45	45
2 yrs	22	23	24	25
5 yrs	9	11	12	13

Monthly payments for a NRs 1,000 loan (e.g., for replacing old thatch with new)

	Interest Rate			
Term	**5%**	**10%**	**15%**	**18%**
1 yr	85	87	89	90
2 yrs	44	46	48	49
5 yrs	19	21	23	25
7 yrs	14	16	19	21

Monthly payments for a NRs 5,000 loan (e.g., for building a rural earthen core house or replacing a thatch roof with cement tiles)

	Interest Rate			
Term	**5%**	**10%**	**15%**	**18%**
1 yr	426	436	446	452
2 yrs	218	229	239	246
5 yrs	94	105	117	125
7 yrs	70	82	95	104
10 yrs	53	66	80	89
15 yrs	39	53	69	79

Monthly payments for a NRs 20,000 loan (e.g., for a finished, sun-dried brick core house with tile roof, latrine, chula stove, etc.)

	Interest Rate			
Term	**5%**	**10%**	**15%**	**18%**
1 yr	1705	1744	1783	1806
2 yrs	874	915	958	984
5 yrs	376	421	470	500
7 yrs	282	329	381	414
10 yrs	211	262	319	355
15 yrs	158	213	276	317

Monthly payments for a NRs 40,000 loan (e.g., for a burnt brick core house in an urban town)

	Interest Rate			
Term	**5%**	**10%**	**15%**	**18%**
1 yr	3410	3487	3566	3613
2 yrs	1748	1831	1916	1967
5 yrs	752	843	940	1001
7 yrs	563	659	762	828
10 yrs	422	524	637	710
15 yrs	315	426	553	635

Appendix D

Contacts

In-depth discussions were held by CHF team members with the following persons in Nepal:

Ministry of Housing and Physical Planning

Prakash Chandra Lohani, Minister

Santa Bahadur Rai, Secretary

Nidhendra Raj Sharma, Additional Secretary (HMG coordinator for CHF Team activities)

Madhab B. Mathema, Director, Earthquake Affected Area Recontruction and Rehabilitation Project

Rajan P. Ghimiri, Section Officer (liason for CHF team activities)

Shanker M. Pradhan, Director General, Department of Housing and Urban Development

Dhruba N. Pradhan, Regional Director, Western Region, Pokhara

Raju Maharjan, Civil Engineer, Western Region

Tara Nidhi Lohani, Civil Engineer, Western Region

Gyanendra R. Sthapit, Civil Engineer, Western Region

Ministry of Agriculture

Narendra K. Basnyat, Acting Director General, Department of Cooperative Development

Ministry of Finance

Tulsi Neupane, Under Secretary, Foreign Aid Division

Ministry of Panchayat and Local Development

Maya Sharma, Women Organizer, Women Development Project, Garaij

Rajeda P. Bhatta, Group Organizer, SFDP Office, Bhingri

Nepal Rastra Bank (Central Bank)

Harihar Dev Pant, Chief Manager, Banking Operations Department

Agricultural Development Bank

Shekher Pradhan, General Manager

Kiran Man Singh, Appropriate Technology Unit

D.K. Yadav, Bank Officer and Director of Appropriate Technology Unit, Tulsipur

Mr. Singh, Project Coordinator, Rapti Development Project, Tulsipur

Nepal Bank Limited

Bishwambar Man Pradhan, General Manager

Mr. Thapa, Bank Manager, Dang

National Planning Commission

Jigbar Joshi, Project Director, National Planning Commission

Sajha, Central Cooperative Organization

Bhoj Raj Ghimiri, Chairman

Sabitri Thapa, Member Secretary

UNICEF

Isabel Crowley, Project Officer (Community Development)

Raymond Janssens, Deputy Resident Representative

Nuregh Guram, Credit Officer

CARE

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