

## Municipal Revolving Fund for Reconstruction, Gorkha

### Background

The concept of the municipal revolving fund was originally conceived by the former CEO of the National Reconstruction Authority (NRA), Mr. Govind Raj Pokharel, during a speech at a formal programme in Gorkha in June 2017. Mr. Purna Dahal, Chairman of Aarughat Rural Municipality, was present in the programme and from here took the municipal revolving fund concept forward without any external support. This document summarises the structure and management of the fund, provides perspectives of households that have taken and returned loans from the fund, looks at how other Rural Municipalities in Gorkha are starting to replicate the concept, and proposes some next steps for scaling up the revolving fund.

The municipal revolving fund was created with the objective of supporting vulnerable households to get through construction of the foundation of their house and to receive the second tranche of the Government of Nepal (GoN) housing reconstruction grant. Households that receive funds from the revolving fund must return the money they took once they receive the second tranche from the GoN and this money is then available for another household.

### Structure and Management of Revolving Fund

In Aarughat Rural Municipality (RM) the structure and management of the revolving fund is defined under the 'Procedure for the Operation of Municipal Revolving Fund to Support Earthquake Affected Households – 2074' which came into effect on 24 September 2017 following approval by the RM Council. The procedure is provided as an annex to this document.

The structure of the revolving fund is as follows:

- Aarughat RM has placed 1,000,000 NPRs (10 lakhs) in the revolving fund
- Households can apply to take up to a maximum of 100,000 NPRs (1 lakh)
- Applicants must be recommended by the Ward Chairperson and must meet the selection criteria: single women, elderly, ultra-poor families, disabled headed households, and others that are struggling to get their foundation complete and receive the second tranche of the GoN housing reconstruction grant
- The Ward Chairperson is required to monitor how the households use the funds and that they are constructing in line with the compliance requirements and the Nepal National Building Code
- The Ward Chairperson coordinates with the banks to ensure that recipients of money from the revolving fund cannot withdraw the second tranche from their bank account without recommendation from the Ward Chairperson

The Revolving Fund Operational Support Committee (RFOSC) is responsible for the management of the fund. The coordinator of the committee is the Rural Municipality Vice-Chairman and all 10 Ward Chairpersons are members.

The revolving fund will continue throughout the housing reconstruction. Once the housing reconstruction is complete the funds will return to the Rural Municipality and be used for other development activities.

## Household Perspective

The first loans from the revolving fund in Aarughat RM were distributed in February 2018 and to date 30 households have used the revolving fund and 20 households have already returned their loan to the fund. HRRP spoke with four of the households that have received and returned loans from the revolving fund.

Two of the recipients were single women. One of the recipients had spent the first tranche of the GoN housing reconstruction grant on Dashain festival celebrations, one had spent it on cancer treatment for her late husband, and two had saved the first tranche for the reconstruction of their houses. One of the recipients had recommended the revolving fund to her neighbour who has since taken funds and returned them. One recipient had taken four months to return the funds, one took three months, and two recipients took two months. One recipient had not taken any other loans and did not plan to, three of the recipients had taken a loan of 40,000 NPRs from Saptakoshi Cooperative at 16% annual interest rate for a 1 year duration. The recipients recommended that the revolving fund could be improved by providing larger grants, for a longer period, and one recipient recommended that the fund be expanded to also include livelihood activities.

## Replicating the Municipal Revolving Fund

To date, Aarughat Rural Municipality are the only municipality that have successfully rolled out this initiative. However, in Gorkha there are now three other Rural Municipalities (RMs) that are replicating the revolving fund concept based on the evidence-based learning from Aarughat RM.

- **Dharche RM:** 1,000,000 (10 lakhs) NPRs was proposed as the budget for the revolving fund but the RM Council only passed 100,000 (1 lakh) NPRs. The distribution of the revolving fund has not yet started.
- **Sahid Lakhan RM:** 900,000 NPRs (9 lakhs), i.e. 100,000 NPRs (1 lakh) per ward, has been proposed for this year but has not yet been approved by the RM Council. They are considering doubling the amount next year. Distribution of funds has not started yet.
- **Gandaki RM:** planning to roll out revolving fund but the RM Council has not yet decided the budget.

## Next Steps

This Municipal Revolving Fund concept is only at a very small scale at the moment but provides a potentially transformative approach to mitigating, or even avoiding, the ever increasing levels of debt that present a potential debt crisis in the long term.

Scaling up the concept could be supported by the following:

- Promotion of concept at national level with donors and partner organisations to encourage these actors to look at options for financing/co-financing revolving funds in all municipalities affected by the earthquake
- Exchange visits to facilitate municipalities to visit Aarughat RM and learn from their experience
- Workshops at district level with all municipalities to discuss the concept and develop common approach
- Collaborate with National Association of Rural Municipality in Nepal (NARMIN) and Municipal Association of Nepal (MUAN) to utilise their networks to advocate for and promote this concept
- HRRP District Coordination Teams (DCTs) will promote this concept with Rural and Urban Municipalities during municipal coordination meetings and field visits and work with other reconstruction actors on promotion of the concept at municipal level
- Identify municipalities with higher numbers of households that are struggling to progress through the reconstruction and target support for the municipal revolving fund in these areas

## Annex: Procedure for the Operation of Municipal Revolving Fund to Support Earthquake Affected Households – 2074, Aarughat Rural Municipality

Date of approval by the Rural Municipality Council: 23 September 2017

### Background

The following procedure shall be adopted for the systematic management of the “Municipal Revolving Fund to Support Earthquake Affected Households” run by Aarughat Rural Municipality (RM). Through this fund, Aarughat RM will lend up to 100,000 (1 lakh) NPRs, without any interest, to those ultra-poor, Dalit, persons with disabilities and single women who are unable to start reconstructing their houses due to economic and social problems after receiving the first tranche for reconstruction until they receive their second tranche. They are required to repay the loan after receiving the money from the second tranche of the Government of Nepal (GoN) housing reconstruction grant.

### Short Name and Commencement

The name of this procedure is, “Municipal Revolving Fund to Support Earthquake Affected Households”. This procedural guideline shall be effective from 24 September 2017.

### Objective

The objective of this fund is to lend money to the poor, Dalit, single women, persons with disability, persons without any support, and persons at risk to facilitate them in the reconstruction of their houses.

### Operating Procedures for Revolving Fund

1. The fund is a lump sum amount of 1,000,000 (10 lakhs) NPRs, provided by Aarughat Rural Municipality (RM)
2. It shall be controlled and managed by Aarughat RM, with the operational responsibilities taken on by the Revolving Fund Sub Committee.
3. Households must be recommended by the Ward Chairperson of their ward in order to access this fund.
4. To be eligible to access the revolving fund, the applicant must have started constructing their house.
5. The house should be earthquake resistant and should be compliant with the Nepal National Building Code.
6. It shall be the responsibility of the concerned Ward Chairperson to ensure that all monies taken from the fund are reimbursed once the household has received the second tranche of the GoN grant.
7. As this is a revolving fund, once returned the money will be lent to another household.
8. If the person who has received the money from the fund and has not returned it, the concerned Ward Chairperson shall not provide recommendation for third tranche.
9. Banks will be coordinated with to ensure that recipients of money from the revolving fund cannot withdraw the second tranche from their bank account without recommendation from the Ward Chairperson.
10. If the money taken from the revolving fund is not returned, all facilities, services, recommendations, and other documentation provided by the Ward Office and Rural Municipality shall be withheld.
11. After the housing reconstruction is completed in the RM, the 1,000,000 NPRs within the revolving fund will be mobilised in other areas as decided by the RM.
12. The right to interpret and clarify this procedural guideline is retained by the Rural Municipality.
13. The right to revise and amend the procedure for operation of this revolving fund, as and when needed, is retained by the Rural Municipality.