GOLD VI

Case-Based Contribution to Chapter 4: Commoning

GOLD VI Report on Pathways to urban and territorial equality

Low-income housing finance from commercial banks in Nepal

In partnership with: UCLG United Cities and Local Governments; KNOW Knowledge in Action for Urban Equality

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AUTHOR(S)

Thomas Andrew Kerr and Lajana Manandhar

ORGANISATION NAME

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CHAPTER

4: Commoning

SUMMARY

In a context where private sector finance almost never reaches the poor, this case in Nepal describes an extraordinary process by which the country's first-ever commercial bank loans to poor community women for their housing projects were negotiated and scaled up. In five cities so far, women's savings cooperatives with well-established finance management skills and 100% loan repayment records have teamed up with their NGO partner Lumanti and with their municipal governments to sign agreements with four commercial banks to provide loans, at reasonable interest rates, for the community-driven housing projects they plan and build themselves. In the first round, the bank was persuaded to give housing loans to savings members at 8% interest, but only if 80% of the loan amount was deposited with the bank as a guarantee fund. The first 133 houses were built and the loans were repaid on time. On the strength of excellent loan repayments in that first project, more projects were financed, with the banks agreeing to reduce the guarantee to 50%. Later, the process spread to other cities. So far, a total amount of US$ 1.94 million had been loaned in these five cities, to finance the construction of 1,109 houses.

It's no secret that the Aladdin's cave of private-sector finance which keeps the world spinning is closed to the poor, for the most part. That hasn't stopped community groups and their supporters around Asia from searching for the magic words that open up that glittering treasure, to finance their housing projects, add capital to their community-based finance systems and scale up their community-led solutions. But sadly, the successes have been very few. The global banking system is awash in capital, but low-income communities with proven credit-worthiness and 100% loan repayment rates are still seen as a banking risk: the informality of poor people's lives, jobs and survival systems just doesn't match with the rules and regulations of formal finance systems. But there is good news on this front from Nepal, where women's savings cooperatives in several cities have been able to unlock some of that capital and channel it into housing projects in some of the poorest communities.

Nepal's first women's savings and credit groups were set up in 1997, in three poor settlements in Kathmandu, with support from the NGO Lumanti. The women began saving by just five rupees (US$ 4 cents) per month in a common fund. At that time, people in informal settlements were perpetually indebted to informal money lenders, who offered accessible loans, but at ruinous interest rates. **Those pioneering savings groups provided more than just a source of affordable credit for daily needs and emergencies – they were a means of building women's confidence, economic self-reliance and collective strength.** By 2016, there were 1,354 savings groups in cities around Nepal, with 30,000 members and collective savings of over $6 million – all in constant circulation in loans.

The Chauthe Community, in the city of Pokhara, Nepal. Houses are being built by the community members, with some of the first-ever commercial bank loans made to urban poor community people.
Source: *Lumanti*

The first few community savings groups were completely informal, but later, as the process expanded, the collective savings pool grew and other community-led activities took off, the women began to discuss the need for a structure which would give their savings and credit process a more solid legal status. The cooperative structure seemed to offer the most advantages, without compromising the informality of community processes. Under the government's 1991 Cooperative Act, savings group members within five adjoining wards could register as a cooperative, which could legally provide financial services and social support to its members, for purposes of economic empowerment and poverty reduction. The first women's savings cooperative was registered in Kathmandu in 2000, and others soon followed.

The cooperatives gave the savings groups a mechanism to pool their savings in larger cooperative funds, which allowed members to think more creatively about how to address various needs and to finance larger projects, like housing, welfare, upgrading, group enterprises and larger livelihood projects. The cooperatives also brought greater operating efficiencies to the savings movement and made it more self-sustaining. By 2020, there were 30 cooperatives registered in 18 cities around Nepal (larger cities have several cooperatives), with 38,890 members and combined lending capital of US$ 9.5 million – all from savings. Since 2010, these savings cooperatives have linked together under the Community Women's Forum – a national umbrella organization which provides technical support and training and facilitates loans between cooperatives.

Because housing loans are large and tie up loan capital for many years, most of the cooperatives didn't have sufficient capital to give more than a few individual housing loans to their members. Collective loans to communities for larger housing projects were beyond their means. **At the same time, savings cooperatives in several cities were partnering with their municipal governments to implement a series of pilot housing and community upgrading projects, financed by donor grants from ACHR.** These collective housing projects showed everyone how quickly, cheaply and effectively poor communities could solve their own housing needs when they could access finance. And the excellent loan repayments were the best proof that the poor are indeed "bankable." The community-driven housing process was ready to scale up, but donor funds weren't enough. Larger finance within Nepal was urgently needed, and the obvious source was commercial banks.

The first breakthrough came in Lekhnath, a small city that is now part of the Pokhara metro region. Residents of the city's poor communities were keen to improve their housing, but had been hampered by small savings and lack of accessible finance. So Lumanti asked a local bank, the Kamana Sewa Development Bank, to partner with the savings groups in improving housing conditions in the city. After long negotiations, the bank was persuaded to give housing loans to savings members, but only if 80% of the loan amount was deposited with the bank as a guarantee fund. Not ideal arrangements, but a good start. That project was a success: all 133 houses in the plan were built and the loans were repaid on time.

Commercial banks in Nepal are supposed to devote at least 5% of their loans to the "deprived sector", but most would rather pay the fine than lend to the poor. Predatory, high-interest microfinance companies have mushroomed in Nepal and become hugely profitable, but commercial bank loans at more reasonable interest rates continue to be inaccessible. Two things in Lekhnath helped crack open the doors to that private-sector loan capital:

- **The municipal government's commitment to supporting collective, people-driven solutions to the city's serious housing problems** and its willingness to support Lumanti's negotiation with the bank.

- **The availability of grant money which could be deposited as a guarantee fund** to help the bank feel more comfortable about lending to poor borrowers. The guarantee fund came from the Community-Led Infrastructure Finance Facility (CLIFF), a UK-based agency which provides financing assistance to self-reliant housing projects in slum areas.

The success in Lekhnath was followed by another in Pokhara, where women in poor settlements had been saving together for decades. Their self-help initiatives and financial management skills had won the admiration of the municipal government, which became an important ally of the community process. In 2013, the municipal government helped a group of 76 poor room-renters to form a new savings group and purchase a piece of land at a price well below the market rate. The people used their savings to buy the land, and the municipality chipped in by leveling the land and bringing in basic infrastructure. The story might have ended there, with the families then using whatever meager resources they could muster to build shacks on their new land. But after a series of meetings with the communities, the municipal government, Lumanti and another local bank (Laxmi Bank), the bank agreed to provide the families with housing loans of up to 400,000 rupees (US$ 4,500), at 8% annual interest, on a seven-year repayment term. This time, though, on the strength of the excellent loan repayments in Lekhnath, Laxmi Bank agreed to reduce the guarantee to 50% of the amount loaned.

Later, the process expanded and spread to other cities, where commercial banks financed more community-driven housing projects. MoUs (with the municipal governments and Lumanti) have now been signed with four commercial banks (Laxmi Bank, Kamana Bank, NMB Bank and Vibhor Bank), to cover similar community-driven housing projects in six municipalities (Lekhnath, Pokhara, Suhklagandaki, Tansen, Biratnagar and Lalitpur), to provide housing loans and banking services to other poor families. Negotiations are on with two more banks. In most of the cities, the banks still require that 40% or 50% of the loan amount be deposited in the bank as guarantee, but in Biratnagar, the NMB Bank has reduced the guarantee to only 20% of the loan amount. By the end of 2020, a total amount of US$ 1.94 million had been loaned in these five cities, to finance the construction of 1,109 houses.

Bank regulations still prevent loans being made collectively to communities or to the savings cooperatives, though. In the first projects in Lekhnath and Pokhara, the banks issued the loans directly to individual borrowers, who set up their own accounts with the bank. The repayments went into a special account which acted as a kind of within-bank revolving loan fund, to finance other housing projects in the same or other cities covered by the MoUs. Half of the 8% annual interest members paid on their loans went back to the bank, and half was added to the capital in that revolving loan fund. Those arrangements have continued with subsequent loans, with the savings cooperatives facilitating the repayments.

The housing projects these bank loans are financing (both new housing, in-situ upgrading and other community improvements) are all being planned and implemented by the communities themselves, with support from Lumanti, using low-cost and seismic-proof building techniques, with technical support from supportive municipal engineers and community architects, and the citywide multi-partner project management committees that have been set up in the cities, to ensure there is broad support for the process. **Now that the concept has clearly worked in five cities, and the banks understand that organized poor communities make good customers, everyone hopes this finance model will catch on elsewhere and scale up – maybe even without the guarantee funds.**

References

http://lumanti.org.np/

http://achr.net/

COMMONING

This paper has been produced as a Case-Based Contribution to the sixth Global Report on Local Democracy and Decentralization (GOLD VI): the flagship publication of the organized constituency of local and regional governments represented in United Cities and Local Governments. The GOLD VI report has been produced in partnership with the Development Planning Unit (University College London), through the programme Knowledge in Action for Urban Equality (KNOW). GOLD VI focuses on how local and regional governments can address the local manifestations of growing inequalities and contribute to create "Pathways to urban and territorial equality". The GOLD VI report has been produced through a large-scale international co-production process, bringing together over a hundred representatives of local and regional governments, academics and civil society organizations. This paper is an outcome of this process and is part of the *Pathways to Equality Cases Repository*, which collects the over 60 Case-Based Contributions produced as part of the GOLD VI report.

In particular, the present paper has contributed to Chapter 4 on "Commoning", which focuses on the trends and pathways in relation to the governance, planning and provision of access to housing, land and basic services. The chapter explores how local and regional governments can promote approaches focused on collective action that contribute to urban equality.

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