



Impact of the Earthquake on Microfinance:

A Study of Sindhupalchowk District



September 11, 2015
Centre for Self-help Development (CSD)
Maitighar Height, Kathmandu

Foreword

The aftermath of the earthquake of April 25, 2015 and May 12, 2015 has brought about many challenges to the country and the microfinance sector was not an exception to it. A study to collect first-hand information of the impact on the sector was found imperative and that is what the team from CSD has achieved.

I would like to thank the CSD Team for undertaking the impact study, something that was not undertaken by any other organization. The team has been successful in publishing this report and in providing recommendations and support to the affected Microfinance Institutions in the district. In the end, I would like to commend the team for bringing out this report and sharing its findings with the concerned officials' right after the study.

Shanker Nath Kapali
Executive Director
Centre for Self-help Development

Acknowledgements

The mega earthquake of April 25, 2015 came as a huge jolt to everyone in Nepal. An earthquake of this magnitude was never experienced in recent years and was something the country was unprepared for.

As a networking organization and one of the foremost Microfinance Institution in Nepal, the Centre for Self-help Development (CSD) felt the need to conduct an impact study to obtain unadulterated findings from the field.

In the month following the second earthquake of May 12, 2015 on June 12, 2015 a team of four CSD staff set out to study the impact of the earthquake in general and on the microfinance sector, the women members and their families and the field staff in particular. The short but intensive study brought to light the many challenges and issues faced by the general public and the microfinance sector which was later shared with the executive chiefs of the concerned Microfinance Institutions in the affected districts.

The study process involved on-site visits, observation of center meetings, interactions and interviews with the microfinance women and focused group discussions with the affected communities. The whole process was an immense learning and at the same time an emotional challenge to witness first-hand the damage and destruction created by the earthquake.

The team was successful in providing support and advice on designing new loan products and services that would later turn to be a successful and welcomed product in the sector to re-finance and support the affected population.

We would like to thank the Chief Executive Officers and staff of Swabalamban Laghubitta Bikas Bank Ltd., Deprosc Laghubitta Bikas Bank Ltd., Manushi, Nirdhan Utthan Bank Ltd., Samudayik Laghubitta Bittiya Sanstha Ltd., Clean Village Microfinance Bittiya Sanstha Ltd., ILFCO Laghubitta Bikas Bank Ltd., Reliable Microfinance Bittiya Sanstha Ltd., National Microfinance Bittiya Sanstha Ltd., Mero Microfinance Bittiya Sanstha Ltd. and Laxmi Laghubitta Bittiya Sanstha Ltd. for extending their support and cooperation in facilitating the field visits and collection of data in the course of writing this report.

CSD Team members:

Mr. Satish Shrestha – Director
Ms. Stephaniema Rana – Senior Officer
Ms. Abhilasha Poudel – Training Officer
Ms. Chetana Panthi – Training Officer

Table of Contents

1. Situational Overview	1
2. Brief Background.....	2
3. Scope of Study	2
4. Objectives of the Assessment	3
5. Assessment Methodology	3
6. Limitations	3
7. General Assessment Findings.....	4
7.1 Population Affected	4
7.2 Shelter	6
7.3 Livelihood, Food Security and Nutrition	7
7.4 Water, Sanitation and Hygiene	8
7.5 Health.....	9
7.6 Education	10
7.7 Infrastructure.....	11
7.8 Relief Efforts and Government Assistance	12
8. Microfinance Specific Assessment Findings	13
8.1 Social Impact	13
8.2 Economic Impact.....	14
8.3 Financial Impact	15
8.4 Institutional Impact.....	16
8.5 Governance.....	19
9. SWOT Analysis	21
10. Problems and Challenges	23
11. Recommendations.....	26
Case Study	29
References.....	34

1. Situational Overview

Nepal is a landlocked country that lies between China on the north and India on the remaining directions. The country stretches from east to west, and covers an area of 147,181 square kilometer. Its altitude ranges from 60 meters to 8,848 meters above sea level. With a population growth rate of 1.35% per annum and total population of 26.7 million as of the National Population and Housing Census 2011, the population for the year 2015 is projected at 28,037,904¹.

Nepal is divided into 75 districts, 14 zones and 5 development regions. The country is broadly divided into three ecological zones, the Himalayas and mountains in the north, the hills in the middle and the plains (Terai) in the south. Besides its diverse geographical distribution, the country lies along the fault line and is a high risk seismic zone.

On the morning of April 25, 2015, at 11:56 NST, an earthquake of 7.8 magnitude struck Nepal taking a huge toll on human lives, property, livestock and infrastructure. The epicenter was in Gorkha, a district 77 km north-west of Kathmandu, the capital of Nepal. A second earthquake measuring 7.4 on the Richter scale took place in the afternoon of May 12, 2015 at 12:50 NST further escalating the damage and destruction. The epicenter was in Dolakha district 180.4 km north-east of Kathmandu.

The aftermath of the earthquake rendered thousands homeless and more often than not, helpless. As a result, it has affected millions of people, with 8,790 confirmed dead, over 22,300 injured and around 300 people still missing². A total of 507,017 houses were totally damaged while 269,190 homes have been partially damaged leaving people either homeless or displaced by the earthquake³. It is estimated that about one third (8 million) of the nation's population have been affected by the catastrophic quake.

Of the 75 districts of Nepal, the government has identified 14 districts as the worst affected by the earthquake. They are; Gorkha, Sindhupalchowk, Dhading, Kavrepalanchowk, Dolakha, Nuwakot, Ramechhap, Sindhuli, Rasuwa, Kathmandu, Lalitpur, Bhaktapur, Makwanpur and Okhaldhunga.

¹ Source: Population Monograph of Nepal – Central Bureau of Statistics/National Planning Commission Secretariat/Gov. of Nepal (2014)

² Source: Economic Survey Fiscal Year 2014/15 – Gov. of Nepal/Ministry of Finance (July 2015)

³ Source: Economic Survey Fiscal Year 2014/15 – Gov. of Nepal/Ministry of Finance (July 2015)

2. Brief Background

Sindhupalchowk is one of the largest districts to be affected by the earthquake, which lies 85 km north-east of Kathmandu, the capital city. Comprising mainly of rolling hills and mountains of elevations about 3,500 meters, Sindhupalchowk comes under the fourteen crisis-hit districts identified by the government. The district is the worst affected by the earthquake in terms of human casualties. To date, the number of human deaths in Sindhupalchowk alone stands at a staggering figure of 3,557 with 1,569 injured⁴.

Linking Nepal to China through the Araniko Highway, Sindhupalchowk has grown into a popular district for trade with the neighboring country. Most of the population near the border area is involved in small trade and business. Owing to its strategically placed position, the district has developed into a tourism and adventure sports hub. However, the mainstay of the economy remains agriculture and agro-based activities.

According to the Nepal Census 2011, the total population of the district stood at 287,798 and total households at 60,042. The number of households in the district has grown to 66,635⁵ as of March, 2014. Recently a few Village Development Committees (V.D.C.s) were merged to turn into two municipalities: Chautara; the district headquarter and Melamchi. Currently, there are two municipalities and sixty-eight VDCs. Major Towns include Melamchi, Chautara, Tatopani, Bahrabise and Jalbire.

The community is diverse largely comprising a mix of Tamangs, Brahmins, Thakuris, Chhetris and a few Newars. The population gets sparser higher up the valley hence making the communities living in the remote hills more vulnerable to such calamities.

3. Scope of Study

The microfinance institutions operating in Sindhupalchowk are as follows:

- i) Swabalamban Laghubitta Bikas Bank Ltd.
- ii) Deprosc Laghubitta Bikas Bank Ltd.
- iii) Manushi
- iv) Nirdhan Utthan Bank Ltd.

⁴ Source: Nepal Disaster Risk Reduction Portal – Gov. of Nepal

⁵ Source: National Population and Housing Census 2011 (Village Development Committee/Municipality) : Sindhupalchowk - Central Bureau of Statistics/National Planning Commission Secretariat/Gov. of Nepal (March, 2014)

- v) Samudayik Laghubitta Bittiya Sanstha Ltd. (Previously Mahila Utthan Kendra)
- vi) Clean Village Microfinance Bittiya Sanstha Ltd.
- vii) ILFCO Laghubitta Bikas Bank Ltd.
- viii) Reliable Microfinance Bittiya Sanstha Ltd.
- ix) National Microfinance Bittiya Sanstha Ltd.
- x) Mero Microfinance Bittiya Sanstha Ltd., and
- xi) Laxmi Laghubitta Bittiya Sanstha Ltd.

4. Objectives of the Assessment

The objectives of this assessment are twofold; to study the extent of the earthquake's impact on the microfinance sector on the whole and microfinance institutions and its clients in particular, and to help microfinance stakeholders develop loan products and strategies to overcome the problems arising out of the earthquake.

5. Assessment Methodology

Prior to our district assessment, a pilot test was conducted at the Lele branch office in Lalitpur of Swabalamban Laghubitta Bikas Bank Ltd. Following this, a structured questionnaire format was developed and was sent out to identify branch offices of MFIs operating in the Sindhupalchowk district. The team from CSD was involved in interactions with the branch managers and field staff of respective organizations. Observations and interactions with microfinance members at center meetings were a major source of information and data. A few Focused Group Discussions involving the community members was also held to solicit their perspective.

6. Limitations

This assessment is limited by:

- The degree of consistency of data sent by the microfinance stakeholders
- Certain parts of the district could not be visited due to inaccessibility, and
- Inability to observe center meetings of all the MFIs operating within the district.

7. General Assessment Findings

7.1 Population Affected

The earthquake has affected millions of people across the country. Thousands have lost their lives and almost all buildings have suffered damage. The government declared a state of emergency and rescue and relief operations were given top priority. After the initial few weeks, the focus was directed towards rehabilitation of the affected population.

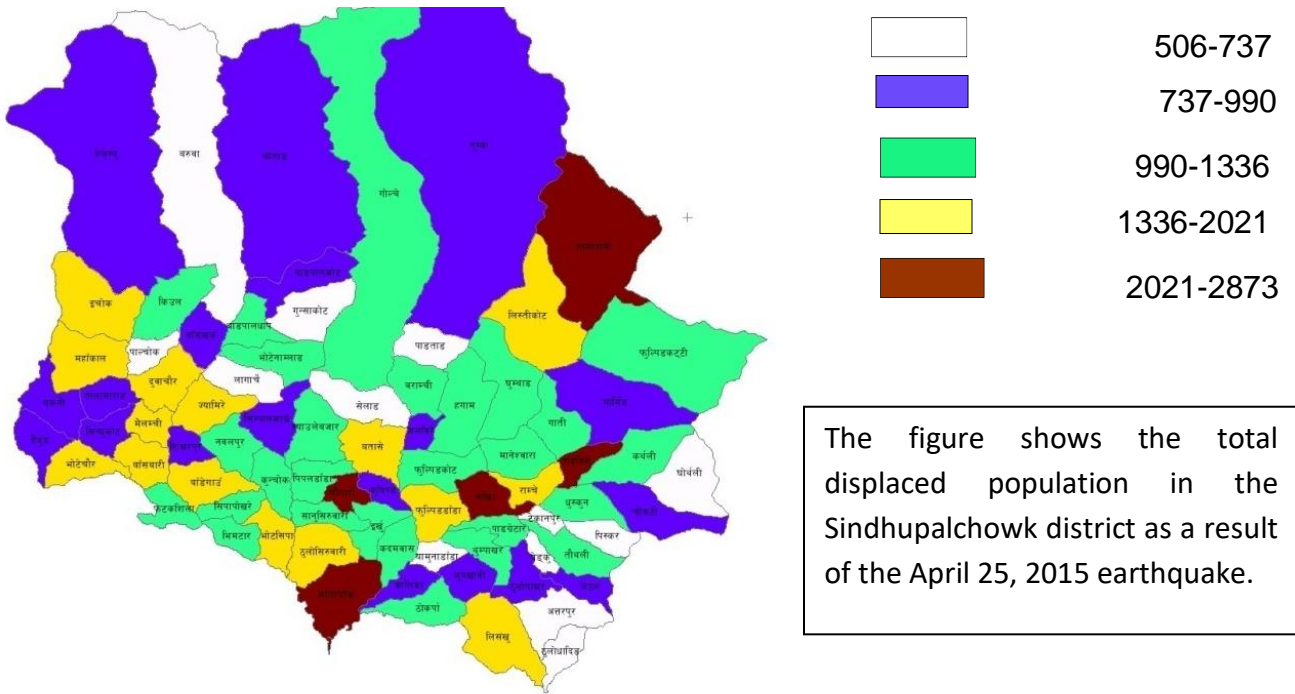
Major Effects	Number Affected
Death Toll	3,532
Injury	1,573
Affected Households	66,636
Affected Government Buildings	747
Affected Population	284,838

Source: Ministry of Home Affairs; Disaster Recovery and Reconstruction Information Platform as of September 10, 2015

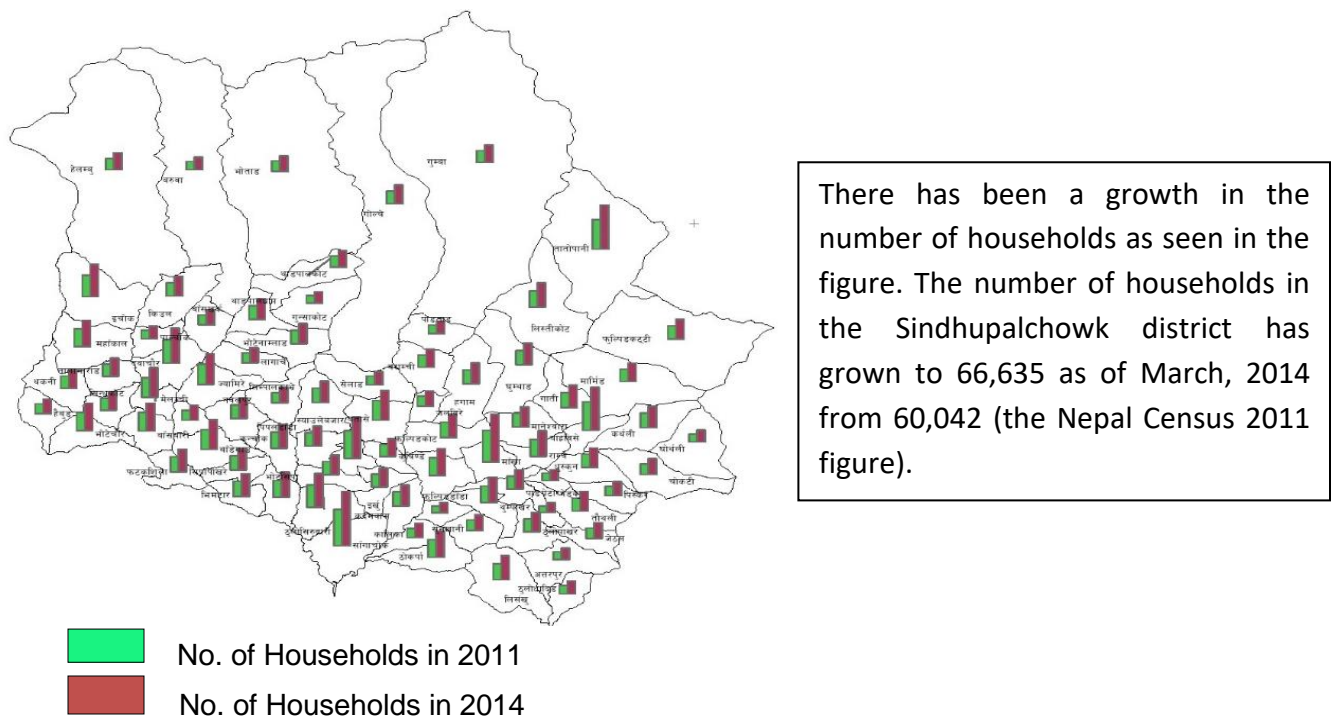
The fear of another earthquake or aftershock forced people to sleep out in the open. The affected population have been living in temporary shelters since the earthquake. Pre-monsoon showers have triggered landslides in Sindhupalchowk making it more difficult for rescue missions to operate in the district.

Women and children remained the most vulnerable. UNFPA estimates 2 million women and girls of reproductive age are among those affected and an estimated 126,000 pregnant women are among the survivors in the country⁶. Health posts in the district have also been damaged leaving the population in dire need of medical attention. During such natural calamities, there is always a threat of epidemics further intensified by the large number of dead bodies (both human and animals) that are not well disposed of, water borne diseases and the risk of spread of communicable diseases while living together with a vast number of people under a common shelter.

⁶ Source: UNFPA/Health Management Information System (as of May 26, 2015)



Source: Ministry of Federal Affairs and Local Development



Source: Ministry of Federal Affairs and Local Development

7.2 Shelter

Shelter has been reported as the most important priority by the people who were interviewed for the assessment. Most respondents stated that their primary post-earthquake concern was to build a safe and secured shelter for their families, albeit transitional.

Of the total households in the district, 63,885⁷ have been damaged due to the earthquake. 99% of the households have fallen while the remaining one percent RCC houses have also sustained cracks. Most households in the villages were made of mud-bonded bricks and stones with no pillars to hold the weight of the house.

Till date, most of the affected population is residing in temporary shelters made of CGI (corrugated iron) sheets, tarpaulins, tent, wood planks, bamboos and materials they were able to salvage from their houses.

Housing structure prior to earthquake

- **92% used to stay in mud-bonded bricks and stones houses**
- **4% were staying in cement bonded bricks or stones**
- **1% lived in houses with Reinforced Concrete Columns (RCC) with Pillars**
- **1% had wooden pillars and**
- **2% lived in houses built with unknown materials**

Source: Nepal Census 2011



A view of the devastated main bazaar, Nawalpur

⁷ Source: Nepal Disaster Risk Reduction Portal – Gov. of Nepal

7.3 Livelihood, Food Security and Nutrition

Agriculture continues to remain the mainstay of the economy, with two-thirds of the population depending on it for their livelihood. About 92% of the working population in Sindhupalchowk is directly or indirectly dependent on agro-based activities for their livelihood. For most part of the district, agriculture is carried out as a subsistent activity. The earthquake has adversely affected the subsistence-based households, as the tremors hit the district just a few weeks prior to the paddy plantation period.

About 45% of the population is living below the poverty line in Sindhupalchowk with very minimal employment in the formal sector. Informal sector employment is mainly in the form of daily wage earners like porters, masons, etc.

Above 75% of the food stock of rice and millet seeds were lost during the earthquake. Incidents of collapse of storage houses where freshly cultivated vegetables were kept for marketing have surfaced in the news. A heavy loss of food seeds that were stored and ready for plantation has further fueled the fear of shortage of food production in the coming days. Additionally, agricultural tools and implements and transport vehicles have suffered a huge loss.



Villagers sifting through the rubble for food grains

Figures indicate that there has been a heavy loss of livestock – an additional source of income for a majority of families engaged in agriculture. This inordinately also implicates reduction in the consumption of protein and nutrients among the household members.

Food security continues to be a threat with the loss of food grains and uncultivable lands due to heavy rainfall, landslides and fissures on the ground. The people residing in remote areas are the hardest hit with lowest food sufficiency levels in the district.

Loss of Livestock	
Big Animal	6,118
Small Animal	15,893
Poultry/Birds	105,693

Source: Ministry of Home Affairs; Disaster Recovery and Reconstruction Information Platform

7.4 Water, Sanitation and Hygiene

According to a report published by the Department of Water Supply and Sewerage (DWSS) in 2011, 80.9% of the population in Sindhupalchowk had access to a water source. The main sources of water are public taps (93.5%) with springs (4.8%), private taps (1.6%) and dug wells (0.2%) making up the remaining sources.

The team found that there were mixed impacts of the earthquake on the water sources. Interactions with locals indicated that in some areas water sources had dried up, whereas in others, the water force had increased inadvertently. New water sprouts had sprung up in areas but their safety levels were yet to be examined as such sources could be contaminated or have the potential to be contaminated. Moreover, the spread of waterborne diseases becomes a threat during the monsoon season with intestinal worms, amoebic dysentery and viral diarrhea being the most common waterborne diseases in the district⁸.

Before the earthquake, Sindhupalchowk had nearly 95% toilet coverage and was



Open Defecation Free Zone: Shikhapur VDC, Sindhupalchowk

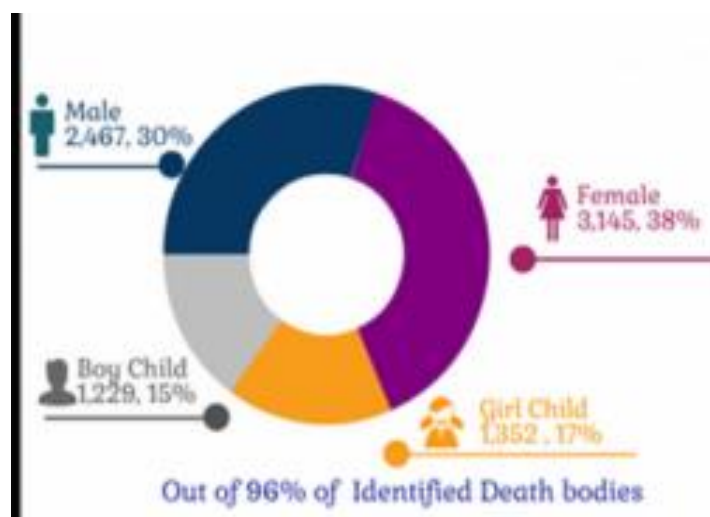
⁸ Source: University of Sheffield, 2012 – Trends in Waterborne Diseases in Gorkha, Sindhupalchowk and Humla District of Nepal

about to be declared an ‘Open Defecation Free’ district⁹. But, the tremors led to the collapse of about 80% of all toilets. This has led people to defecate in the open due to insufficient toilets, inconvenience and lack of accessibility. A few private latrines are still standing, but those tend to be overcrowded by neighbors as well. Temporary latrines have been erected with the help from INGOs and NGOs working in the sector. However, majority of the displaced population still face difficulty in accessing safe sanitation and hygiene.

Lack of access to safe sanitation and hygiene could give rise to communicable diseases, including water-borne and vector-borne diseases and acute respiratory infections. Informal reports indicate that a few latrine buildings that were not destroyed by the earthquake has been used for storage purposes instead¹⁰. This alternative usage, further forces the people to defecate in the open.

7.5 Health

Of the total health facilities spread across the district, 74 have been completely damaged by the earthquake, while the remaining 23 are partially damaged¹¹. The main district hospital at Chautara suffered great damages during the tremors and relocated its operations to a camp based at Tundikhel, Chautara.



Source : ekantipur

The study finds that women and children are the most vulnerable at the time of such a disaster. According to reports, 55% of the casualties were women and children. The UNICEF reports that around 1.1 million children have been affected in the 14 severely affected districts¹². According to the World Health Organization, fifteen of the twenty-two maternity clinics in the district are reported to have collapsed and

⁹ Source: Nepal Earthquake 2015 Post Disaster Needs Assessment, Vol. A: Key Findings

¹⁰ Source: OSOCC Situation Analysis Nepal Earthquake (May 15, 2015); WASH Cluster report (May 13, 2015)

¹¹ Source: Ministry of Home Affairs, Gov. of Nepal/ICIMOD/ESRI; Nepal Earthquake 2015: Disaster Recovery and Reconstruction Information Platform (NDRRIP)

¹² Source: UNICEF Nepal Humanitarian Situation Report 13 (June 3, 2015)

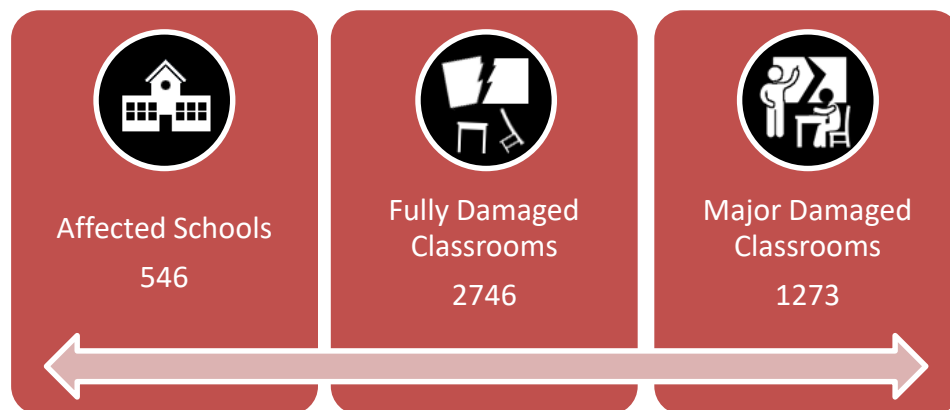
about 90% of the district health facilities damaged beyond repair.

Lack of proper health facilities, vital nutrition and counseling disproportionately affects the health of the mother and child. Limited access to safe water and sanitation could lead to common problems of diarrhoea and pneumonia among survivors – two of the leading causes of infant mortality. Furthermore, people defecating in the open and sharing transitional shelters with a large number of people post-earthquake increases the risk of infection and contamination among infants and lactating mothers.

7.6 Education

Before the earthquake, approximately 66,000 students were registered for the current academic session in the Sindhupalchowk district. According to the District Education Office, only 60,000 students have returned to school so far. The Office states that more than 650 students were killed and around 254 others sustained injuries in the earthquake¹³.

Temporary Learning Centers have been erected in areas, but school children are yet to attend class. Locals interviewed complained of their children being too frightened to return to school. Herein lies a high chance of children dropping out of school where the dropout rates among children of marginalized communities (Danuwars and Majhis) are high¹⁴. Moreover, with increased financial burden as a result of great loss and damage by the quake, parents find it more challenging to send their children to school.



Source: Ministry of Home Affairs; Disaster Recovery and Reconstruction Information Platform

¹³ Source: Article on My Republica '6,500 quake-affected children yet to return to school' (Aug. 13, 2015)

¹⁴ Source: Article by Educate Nepal 'School Enrollment Campaign: Sindhupalchowk school dropouts persuaded to come back' (April 17, 2012)

As per data collected by the District Education Office, 321 students from the district are studying in various schools in Kathmandu following the earthquake¹⁵. In addition, numerous education materials have been destroyed. Nonetheless, trained teachers and community teachers are available in the district¹⁶.

INGOs and NGOs working on-site are making efforts to provide psychological counseling to children as well as adults who are still in a state of trauma. However, the major challenge remains to get the children back to school.



Damaged classrooms of Shree Panchakanya Prathamik Vidyalaya, Melamchi – 1, Sindhupalchowk

7.7 Infrastructure

Sindhupalchowk is home to numerous hydropower projects – Melamchi, Sunkoshi, Bhotekoshi, Purano Chaku, Bhairabkunda and Handikhola. Apart from providing electricity across the country, these projects generate several employment opportunities to the locals as well. Most projects have temporarily ceased their operations due to damage caused by the earthquake. This has resulted in increased hours of power cuts in the district and across the country.

An important section of the Araniko highway, from Bahrabise to Tatopani, – the trade route between Nepal and China for decades has been completely blocked due to recurring landslides rendering the route dangerous. As a result trade and commerce was hard hit in the district. Khadichaur, the market hub of the district has turned into a ghost town and lies deserted as many fear to return to their towns and villages.

¹⁵ Source: Article on My Republica ‘6,500 quake-affected children yet to return to school’ (Aug. 13, 2015)

¹⁶ Source: Save the Children – Nepal: Earthquake Assessment Report (May 2, 2015)



In many areas, suspension bridges, the only link to villages, have collapsed making it difficult for any aid and relief to reach the far flung villages.

Left: A local rice mill destroyed by the earthquake in Kunchok VDC, Sindhupalchowk

7.8 Relief Efforts and Government Assistance

Due to its proximity to Kathmandu, Sindhupalchowk as a whole has been able to receive aid and relief in a timely manner as compared to the remaining districts. Moreover, news and media were instrumental in highlighting the plight of the earthquake victims, thereby drawing more attention.

The government had set up a distribution channel through which immediate relief activities were to be conducted. In Sindhupalchowk, 3 centers and 17 sub-centers were set up to channelize relief activities. A cluster model was established for more effective relief distribution. Additionally, the government worked with 45 Development partners in rescue and relief operations in the district.

An ‘Earthquake Victim Family Identity Card’ devised by the government for earthquake victims was distributed through the VDCs for traceable and fair relief distribution. The government has provided NRs. 15,000 for each household that was damaged due to the earthquake and NRs. 40,000 as funeral and rituals expenditure to the family of the demised individual. In addition, the government has allocated NRs. 900,000 per VDC for their relief activities.

Many international and national level organizations had united to provide assistance to the earthquake victims both in the form of cash and non-cash items.

8. Microfinance Specific Assessment Findings

8.1 Social Impact

The assessment found that 99% of households of microfinance members had been either completely damaged or deemed unsuitable for living. From the data collected so far, **109 clients** of different MFIs had lost their lives while **13,061 households** of clients had collapsed.

Interactions with the microfinance members indicated that ‘housing and shelter’ was their utmost priority. Members were found to be living under temporary shelters using corrugated iron sheets (CGI sheets), tents and tarpaulins. Most of these shelter materials were provided through INGOs, NGOs, cooperatives, private initiatives and the government.

Delay in carrying out immediate relief action on part of the MFIs had resulted in the discontentment among the members. Moreover, field staffs found themselves in a difficult situation due to pressure from members and their guardian to provide relief and compensation package, leading to increased interference from guardians of microfinance members. This revealed that MFIs lacked in administrating effective and efficient action during the emergency scenario.

The microfinance community, which has always been working towards creating a harmonious environment and strengthening brotherhood among the members, found its principle threatened after the earthquake. Some relief activities that catered to a particular community had led to communal feelings between villagers. This inadvertently threatens the basic foundation on which the group dynamics of the microfinance community is built on.

It was found that over dependence on relief packages had made the people careless and lethargic and reviving businesses had become a secondary priority for them. Moreover, the emotional turmoil that members who lost their loved ones had to endure led them to engage in bad habits like smoking and consuming alcohol.

After the earthquake, entire communities have resettled to areas in neighboring districts such as Kathmandu. This has led to displacement and loss of members to either different branch offices or other competitors. The interviews revealed that many communities had settled in Neelbarahi in Bode, Bhaktapur; Sankhu, Swayambhu, Sundarijal, Jandol and Thali in Kathmandu.

Further interactions with microfinance groups indicated the desire of some non-loanee members wanting to leave the group on the one hand and the husbands of deceased members wanting to join the group on the other hand.

8.2 Economic Impact

The study team fears that the affected population will slide further back into poverty. The earthquake has resulted in not only humanitarian and structural destruction, but also heavy monetary losses in the district. According to estimates, the district suffered a per capita disaster effect of NRs. 233,370 per person¹⁷.

A majority of the microfinance members were found to be involved in agriculture and agro-based activities. Economic activities had come to a standstill during the initial months. Frequent tremors, incessant rainfall, landslides and wide cracks in the grounds have discouraged and inhibited members from resuming farming. Those employed in the tourism sector and hydro-power projects have found themselves out of job as these businesses have shut down for the time being. On the other hand, daily wagers were finding it very difficult to find any kind of employment. This has hampered the source of livelihood for a number of members.



Fissures in the ground

Focused Group Discussions with members and locals indicated that all or any money received by the affected population was being utilized in building temporary shelters or homes. Deferral revenue coupled with microfinance loan implied a higher financial burden on the microfinance borrowers. Moreover, sluggish economic activities could lead to difficulty in loan repayments overtime, which would cause over indebtedness among the members. Hence, in the period immediately after the earthquake, there was a decline in the savings deposited by microfinance members.

¹⁷ Source: Nepal Earthquake 2015 Post Disaster Needs Assessment, Vol. A: Key Findings

Loss of source of income will slowly cause the people to sell their assets and resettle elsewhere. Resettlement of entire communities will naturally slow down economic activities in the area as well as create a shortage of labor supply and market for products.

8.3 Financial Impact

Interactions with the field staff and microfinance members indicated that no interest and loan collections were made during the first month following the earthquake. Collections and loan repayments from members came in only during the second month and onwards. Only those members who were financially secured had been able to repay their interest amount, loan instalments and deposit savings. The assessment found that so far microfinance members were able to repay their dues from their past savings.

Group discussions indicated that about 50-60% of microfinance members in the district were dependent on remittance, with at least one family member working abroad. In the period between 2008/09 to 2013/14, the highest number of female labor migrants in the country originated from Sindhupalchowk, comprising of 8.86% of the total number¹⁸.



Centre meetings are being held in open spaces

¹⁸ Source: Department of Foreign Employment

Sluggish economic activities in the district will lead to a decline in the cash flow and hence difficulty in loan repayments. A financial crunch may be faced by the members due to the lack of economic incentives and activities in their area. The study found that in the initial months the members were averse to fresh loans as it would further add to their financial burden. Also, members' behavior and needs indicated that majority of future loans would be used in the re-construction of shelter.

Oversight and lack of strict adherence to standard operating procedures by MFIs have led to gross negligence in terms of insurance policies regarding livestock coverage. Furthermore, very few MFIs have been covered by external insurance companies and hence are bearing the cost of protection schemes internally. This has led to a huge financial burden on MFIs that did not have a provision fund and will ultimately affect the Financial Self Sufficiency (F.S.S.) of the respective branch offices and organizations.

8.4 Institutional Impact

During the assessment, it was found that most MFIs did not have a *contingency plan* for a natural disaster of this magnitude. MFIs continue to grapple with post-disaster response and crisis management. Of them, very few MFIs have been successful in implementing immediate compensation packages.

Most of the MFIs in the district have faced structural damage to their respective branch offices and continue to operate from temporary shelters or other safer buildings. Furthermore, continued aftershocks and improper work conditions have affected the workflow and productivity of the branch offices in the district. Operational Self Sufficiency (O.S.S.) of the branch offices will be affected due to the earthquake. MFIs face an operational challenge in the case of resettled communities from the district. For MFIs which have their branches in other districts like Kathmandu, they are able to hand over their members to their respective branch. However, MFIs which are limited to the district, faces the challenge of losing their members to competing MFIs.

MFIs continue to be pressurized by their members to offer fresh and suitable loan products and schemes. Guardians of members have shown significant presence and interference at center meetings, sometimes making it difficult for the field staff to work. The assessment finds that those MFIs working in haste and under pressure to provide relief packages are overlooking thorough planning and subsequent consequences. Moreover, MFIs with widespread portfolio coverage have suffered lesser in comparison to those MFIs who were limited to a few districts.

During the assessment, the team observed eight center meetings of Swabalamban Laghubitta Bikas Bank Ltd. and Manushi, two of the major microfinance institutions in Sindhupalchowk. Interaction with clients and household visits of the members revealed insights on the plight of the microfinance members, the difficulties and challenges that they faced and their current needs. The team was also engaged with the community through Focused Group Discussions. However, the team does not discount the fact that there are cases of duplication of clients among these microfinance institutions.

The chart below shows the Total Loan Outstanding, Total Savings and Portfolio at Risk (PAR) of the respective branch offices of MFIs operating in the major towns of Sindhupalchowk.

Chart 1: Total Loan Outstanding, Total Savings & PAR of Melamchi (As of June 15, 2015)

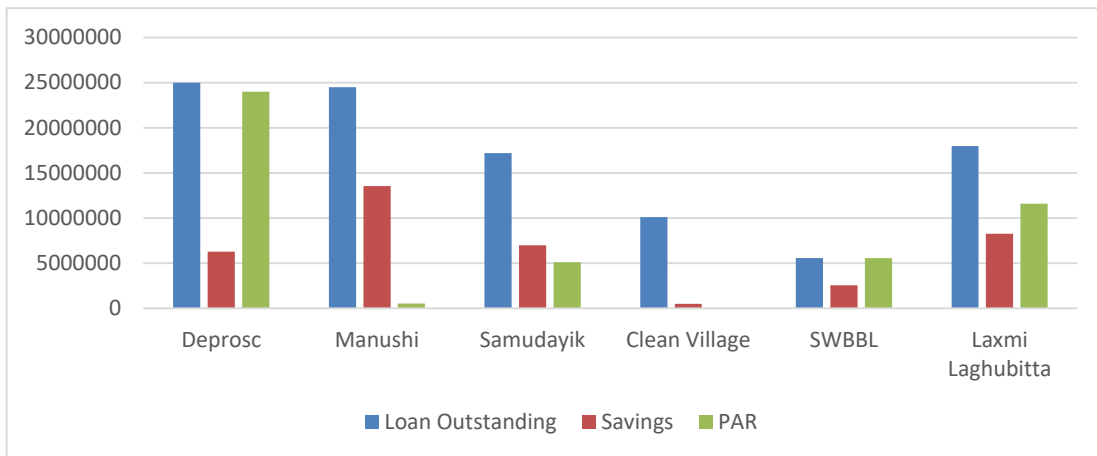
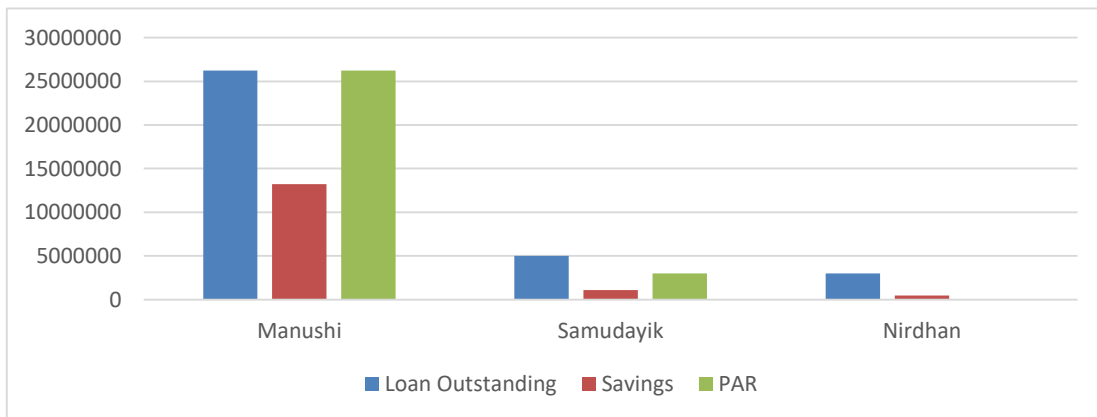
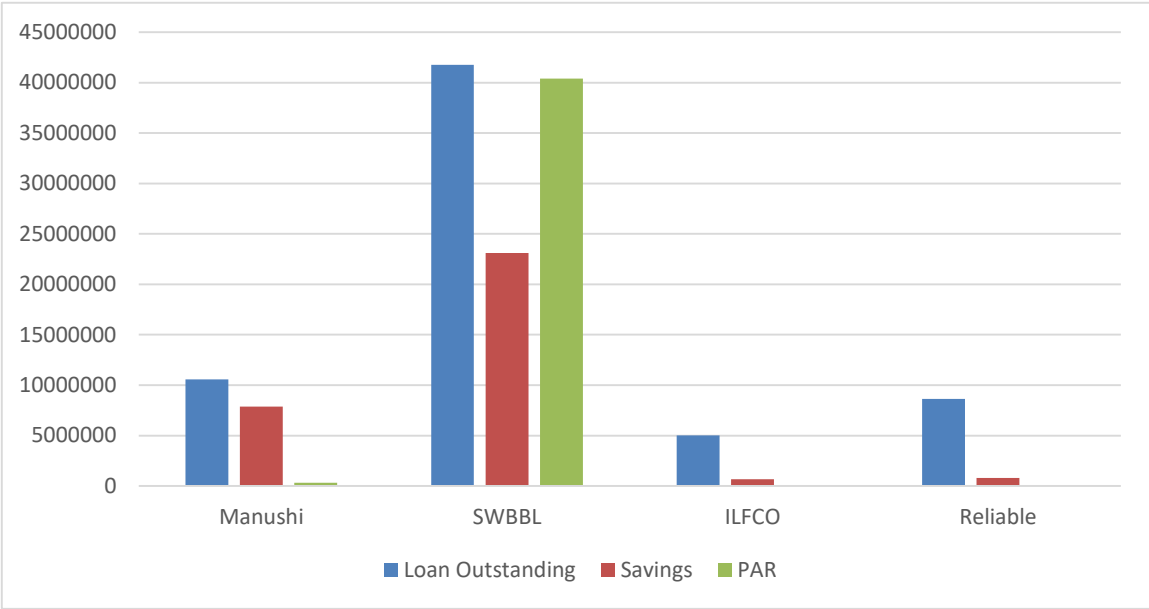


Chart 2: Total Loan Outstanding, Total Savings & PAR of Nawalpur (As of June 16, 2015)



**Chart 3: Total Loan Outstanding, Total Savings & PAR of Chautara
(As of June 18, 2015)**



**Chart 4: Total Loan Outstanding, Total Savings & PAR of Khadichaur
(As of July 5, 2015)**

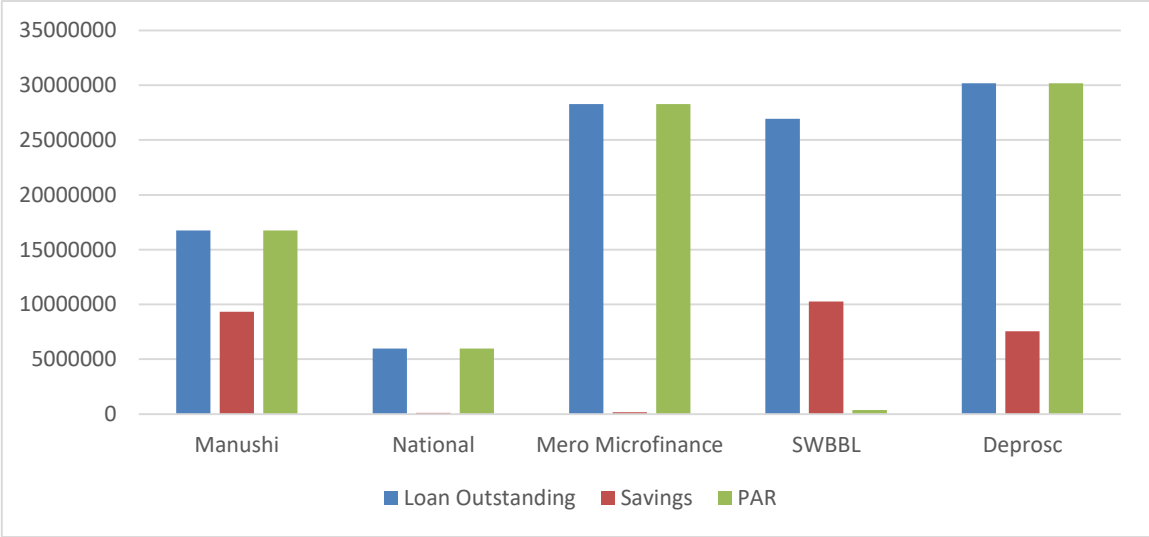
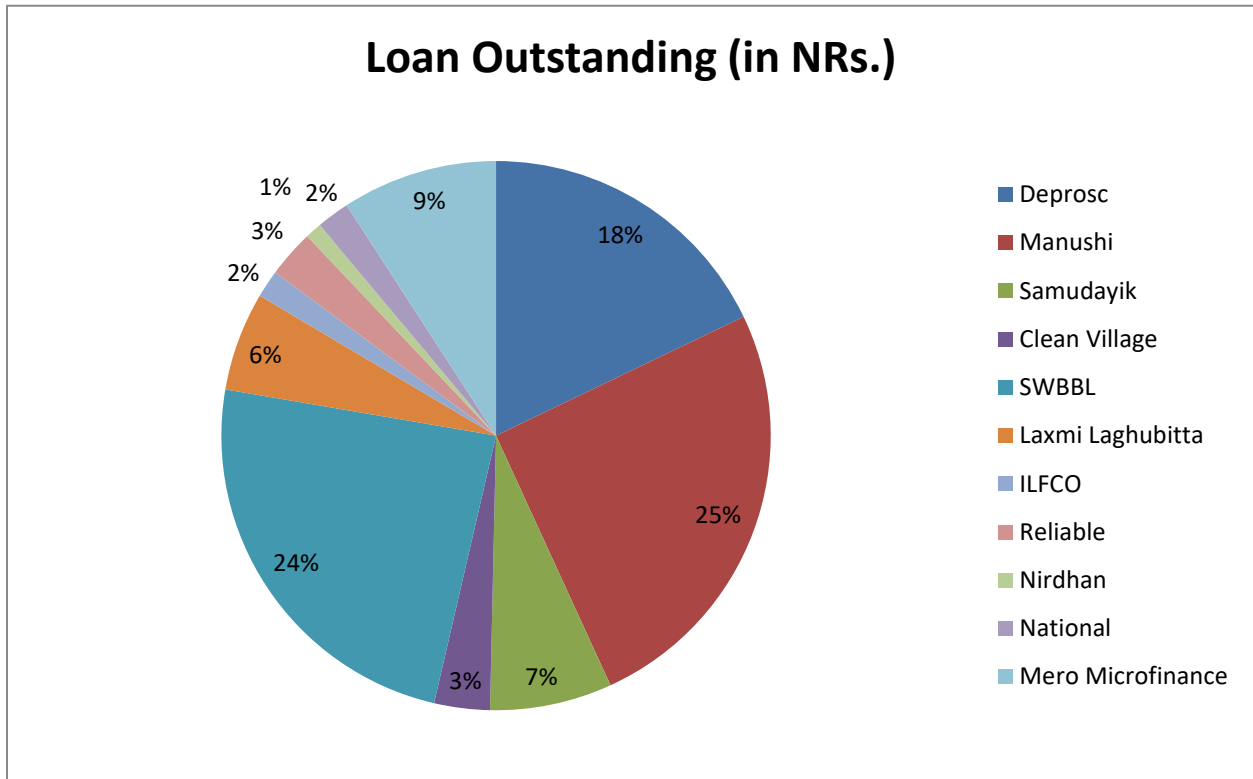


Chart 5: MFIs portfolio in terms of Loan Outstanding for the entire Sindhupalchowk district (As of July 5, 2015)



Note: The above charts have been made as per the data provided to the team from the respective MFIs.

The chart above indicates that in terms of Total Loan Outstanding, Manushi has the largest portfolio in the Sindhupalchowk district, followed by Swabalamban Laghubitta Bikas Bank Ltd. and Deprosc Laghubitta Bikas Bank Ltd.

8.5 Governance

At the time of the assessment, few members had received the government cash handout of NRs. 15,000 per household for reconstructing their houses. Additionally, some members had received the government cash handout of NRs. 40,000 per family as rituals

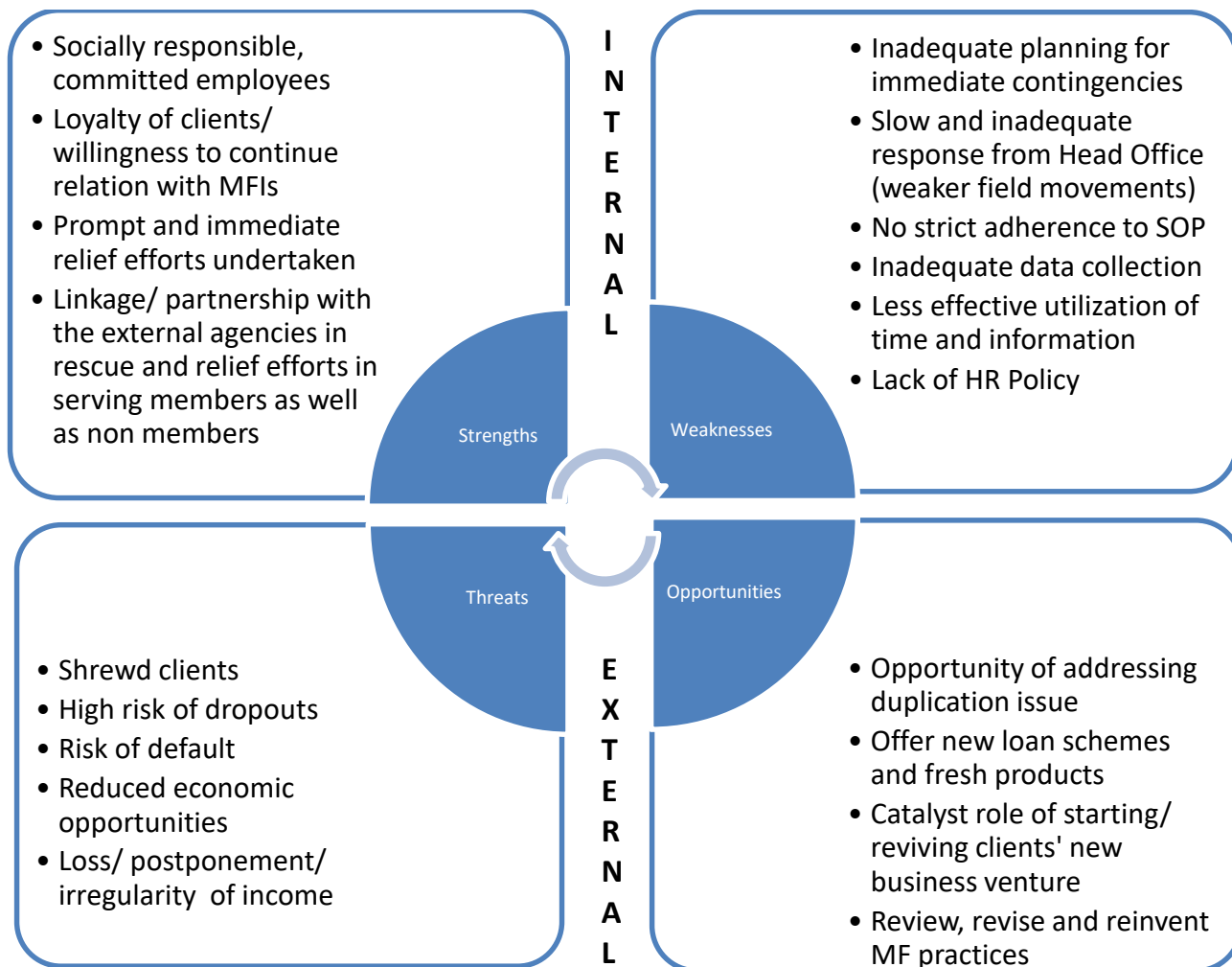
and cremations expense in case of death in the family. In many V.D.C.s false identification and dubious claims have caused the government officials to discontinue the cash handouts.

The government's provisions and regulations related to earthquake victims continue to remain unclear. Moreover, hearsay of the Nepal Rastra Bank's (NRB) waiver of loan amounts below NRs. 50,000 has created a stir in the microfinance community as well. Guardians of members question the field staff of the provision and expect their loan amounts to be waived off. Furthermore, inaccurate knowledge of the NRB's provision of lending up to NRs. 200,000 at 2% rate of interest has left people confused and expectant. Vague directions and regulations of the government increases the pressure on field staff from the members and their guardians asking them for better compensation packages.

So far, there has been no direction from the government regarding the village resettlement plans. Many villagers have fled their homes to safer areas as most of the remote villages have been completely destroyed and are unfit for living. Many among them are microfinance members who have been displaced due to the earthquake. In Chautara, the district headquarter, members living near the Chautara-Kathmandu highway are reluctant to re-build their homes as the government's notice of the highway road expansion has discouraged them from re-building for fear of having their homes demolished once again.

Government policies and regulations have their impact on the microfinance sector and its policies as well. Government provisions that lack certainty have left the microfinance institutions to adopt a wait-and-watch approach.

9. SWOT Analysis



On the basis of the assessment, a SWOT analysis was conducted by the team, highlighting the Strengths, Weaknesses, Opportunities and Threats faced by the microfinance stakeholders.

Overall, it was found that the MFIs had committed and socially responsible employees at the field level, who were willing to shoulder their respective responsibilities. There were instances where field staffs and branch managers had given first priority to their microfinance members over their own personal needs. Also, we found that some staff were very dynamic portraying leadership qualities by dealing with the crisis management issues. In certain MFIs, prompt and immediate relief efforts were undertaken by their

branch offices, thereby strengthening the loyalty and belongingness among the microfinance members.

Weak and slow response from the Head Office of MFIs, with little or no movement at the ground/field level from the senior management has been highlighted as one of the areas for improvement among the MFIs. Additionally, it has come to notice that most MFIs did not have any contingency plan in the face of such a natural disaster and were grappling with ways to deal with such a calamity. Strict adherence to the Standard Operating Procedure (SOP) has not been followed by MFIs resulting in loose human resource policy, overlooking insurance policies, inadequacy of data collection etc. This emergency situation was an ideal opportunity for MFIs to make the best utilization of time and information, however, most MFIs failed to effectively handle this occasion.

The earthquake came as an awakening call for the microfinance sector as well. During the assessment, it was found that the situation can be used as an opportunity to address the duplication issue that has riddled the sector for many years. Effective sharing of information among MFIs can help to reduce the duplication of microfinance members in the area thereby reducing the over indebtedness of clients. It also offers MFIs the occasion to introduce new and innovative loan products and schemes that are client friendly, sustainable and suitable during such a period. Moreover, MFIs can reinvent themselves by playing a catalyst role in rebuilding and reviving their member's business ventures and providing backward and forward linkages to the respective markets. On a whole, the earthquake has given the entire microfinance sector an indication to review, revise and reinvent the current microfinance practices and address the changing times and needs of our microfinance beneficiaries.

There is a high risk of default among the loanee members, and this risk increases among the members who are a part of more than one microfinance program. Over the years, microfinance members have grown shrewd enough to bargain with MFIs and to occasionally hide vital information from the field staff. Instances of members providing overvalued information regarding relief handouts received from competing MFIs, in anticipation of receiving a better relief package, have also been reported. Reduced economic activities in the area will lead to the loss of a regular source of income thereby leading to a situation where there is a high risk of dropouts among members. Therefore, MFIs must be more vigilant and active in their interaction with the microfinance members, increasing their movements at the ground/field level to better understand the plight and the psychology of their members in order to offset this threat.

10. Problems and Challenges

The earthquake has given rise to many problems in the country as a whole and to the microfinance sector in particular as well. During a time when the entire country was coming to terms with the devastation and destruction of the earthquake, the microfinance sector had already witnessed its consequences. The major problems and challenges can be listed as:

1. The major challenge immediately faced by the microfinance sector was the continuity of microfinance programs and retention of members. During the initial one month, center meetings were suspended as field staff and branch managers were engaged in household visits of their members. As focus was centered towards relief activities ensuring the welfare of the members, the entire microfinance program had come to a standstill. Client retention, especially of non-loanee members, becomes a challenge due to reduced economic activities in the area.

Also, there is a high probability of risk of default among the members as sluggish economic activities will adversely affect the income flow among the inhabitants resulting in smaller savings. Moreover, all surplus income will be utilized in purchasing shelter materials and building a safe and sustainable shelter. As a result, credit discipline among the clients will be compromised during the period.

2. There was high expectation of the MFIs from the members and their guardians in the light of the disaster. Contrary to other financial institutions, MFIs offer social protection and client welfare schemes which they highlight during the enrollment process of new members. Post-earthquake, some MFIs were seen to be reluctant and sluggish in their distribution of the promised relief packages. Increased interference from the guardians during center meetings pressurizing the field staff to deliver relief payments and handouts were reported during interactions with staff.

MF clients tend to realize that MFIs failed to swiftly meet their promises. Instances of clients comparing MFIs on the basis of their cash and relief handouts have also surfaced. As a result, MFIs goodwill is at stake, when they fail to deliver on their promises. Consequently, the first MFI to distribute payouts during such a natural calamity is generally held in higher regards among the members.

3. One of the findings of the assessment was that most of the loans disbursed by the MFIs were not insured. Despite microfinance institutions being encouraged to provide insurance of their loans, many have failed to follow this advice. As a result, they now face an even bigger financial crisis of having to bear the entire cost of the loan in the case of default/demise of loanee.
4. Immediately after the earthquake, most MFIs mobilized their field staff to the households of clients in order to assess the level of destruction of life and property through on-site information collection to facilitate relief payouts to the members. Rapid field movement on a large-scale has added to the overhead cost of the respective branches. Subsequently, providing microfinance members' fresh loans would require another round of credit appraisal, loan delivery and monitoring leading to an overall increase in cost of operation for the MFIs.
5. Effectively dealing with the post-earthquake trauma and crisis management indicated the need of skilled and trained human resource with the capability and capacity to cope with such challenges and emergencies. Loose human resource policy has also led to loss of time and manpower among some MFIs. Prompt and smart decisions by field level staff were missing, indicating the lack of training among the staff. Moreover, directives from the top level management team were sluggish and its implementation even more so.

The absence of contingency planning among MFIs has made it challenging for them to deal with a situation of this magnitude. Not a single MFI studied had any formal guidelines in their Standard Operating Procedure (SOP) that dealt with loss on such a large scale, but only on the individual loss of life and property alone.

6. In the light of the disaster, MFIs will have to provide fresh loans in addition to any previous loan outstanding in order to supplement and help recover and re-establish the client's enterprise and livelihood. In the case of branches which already had a high loan outstanding amount, this fresh loan would add to the total loan outstanding and in order to maintain the capital adequacy ratio, capital planning will have to be adjusted accordingly for the next fiscal year. Furthermore, new client friendly loan

products and schemes may have to be introduced depending on the client's demands. This makes restructuring capital planning one of the key financial challenges.

7. MFIs in the country heavily rely on deprived sector loans from commercial banks for funding. The cost of capital for MFIs may increase in the future as most of the lending institutions, like commercial banks, would be reluctant to lend to the microfinance sector due to probability of loan defaults and increased risks. This will inherently reduce the availability of funds to MFIs.
8. Uncertain and vague government policies has resulted in confusion among the residents. Identification of worst affected villages and their consequent resettlement has been a major cause of worry among the locals as resettlement policies are yet to be confirmed by the government. On the other hand, construction of houses have been suspended for the time being as the government introduces new housing models that must be followed during construction. The cash handouts from the government has been varying from place to place and in some areas have not been provided to all the earthquake victims. Moreover, hearsay of the government's proposition to waiver loans of below NRs. 50,000 poses another challenge for the microfinance institutions as this inevitably affects the credit discipline among the microfinance clients.
9. The country's infrastructure has suffered greatly due to the earthquake. Major highways linking the districts to the capital have ruptured in places making transportation difficult. Transporting relief materials, construction materials and food packages has become a major challenge to the country. The Araniko highway has been closed due to the looming danger of frequent tremors and landslides. Trade has been greatly affected leading to an increase in the price of goods and services and inflation in the economy. In the district, hydropower projects had to be shut down resulting in increased power cuts in the country and unemployment among the locals. Increased cost of goods and services coupled with loss of employment opportunities imminently affect the lives of the locals. Therefore, reconstruction and rehabilitation continues to be a major challenge for the country as a whole.

10. The upcoming monsoons pose a great challenge for accessibility to geographically remote areas in the district. Sindhupalchowk experiences heavy rainfall during the monsoon season escalating the occurrence of landslides and floods in the district. Most roads connecting remote areas are unpaved and rocky, making accessibility difficult. Members involved in farming are reluctant to start plantation for the fear of loss of crop due to the torrential downpour, inhibiting their livelihood. Thus, microfinance institutions operating in such areas will find the monsoon period a real challenge.

11. Recommendations

In view of the problems and challenges that the post-earthquake scenario poses on the microfinance sector, certain recommendations have been listed by the assessment team for consideration.

1. In order to generate interest in microfinance programs, MFIs are recommended to introduce new loan products and schemes. They should ensure that their products are socially desirable and client friendly, keeping in mind the fragile circumstances of their clients. However, proper needs assessment must be conducted prior to the disbursement of fresh loans to the target group. It is essential that field staff factor in the capacity and capability of the microfinance members before sanctioning fresh loans to clients in order to avoid over-indebtedness. Thus a thorough credit appraisal is recommended to mitigate and manage credit risk in the future.

Also, MFIs should encourage members to revive their business and economic activities. Here MFIs should provide members with business ideas and assist with forward and backward linkages through various training and workshops that focus on skill building.

2. The disastrous outcome of the earthquake indicates the need for better and more effective social protection programs among the MFIs. MFIs are recommended to follow the Nepal Rastra Bank's directive of spending at least 1% of their profits on social protection programs for their microfinance clients. Additionally, MFIs should

set aside a viable Disaster Contingency Plan to be able to expedite their response in the face of such natural calamities and to protect themselves from major financial shocks. MFIs must realize that the goodwill of their organization is closely linked to the swiftness and financial capacity in which they respond to such emergencies.

3. Over the years, the microfinance sector has been repeatedly advised to provide insurance coverage to their clients. Only a third of the MFIs interviewed had partnered with an insurance company and hence had secured insurance coverage. With the loan size of microfinance clients growing by the year and the risk of default looming, insurance of loans becomes a necessity among MFIs.
4. The study indicates that safety and shelter has been listed as utmost priority among the microfinance members as well. Thus, this is an opportunity for MFIs to introduce and design housing loan products that are suitable to the needs of the clients that have a lower rate of interest, longer repayment period, one month grace period etc. Moreover, MFIs can collaborate with organizations that have the technical knowledge of building low-cost, earthquake resistant and sustainable houses using locally available building materials and offer housing packages to their clients.
5. The field staff of MFIs should be trained to undertake crisis management and disaster management. Immediate actions, even if not monetary, at the ground level tends to have a greater impact on the lives of the locals during such natural calamities. It is recommended that staff should take up the role of social mobilizers and partake vital information to their members. Thus, MFIs should focus on the development of skilled human resources to combat such emergency situations.
6. MFIs should also partake in linking local government bodies and microfinance members. Information regarding government handouts and relief can be relayed by field staff during center meetings and interactions as most members are confined to their villages. As a majority of microfinance members are semi-literate, MFIs should be more active in knowledge and information dissemination during such a period. In this way, any confusion regarding government policies and decisions among the clients can be cleared in a timely manner.

7. Discussions at the community level revealed that private initiatives, NGOs and INGOs were the first ones to step forward and help the community. Prompt action and clear policies from the government was found to be lacking. The government should therefore provide support to agencies that focus on reconstruction and rehabilitation. Efforts from the government level should be made to fast track rebuilding districts, clearing highways and undertake reconstruction strategies. The government should also take advantage of local bodies working in the area as they have a ready access to the target group and can reach a wider network of people in a short span of time.

Case Study

Suffering of a Mother

Microfinance institutions have a practice of beginning their members (clients) group meetings with their joint prayer/oath. The prayer institutes good values and discipline among the microfinance members and indirectly their families as well.

When the team started interacting with the group members and asking them of any social evils prevalent in the society as an aftermath of the earthquake, one member, Ms. Devi Thapa¹⁹, suddenly broke into tears. She said, "I was the first chief of this center (group) and we all took an oath to not engage in bad habits like smoking *beedis* and cigarettes, eating *khaini* or drinking alcohol. I am no longer the same person. I am smoking cigarettes daily and putting myself to sleep drinking alcohol. It has made me realize how much I have changed since the earthquake. I have developed such bad habits because I can't bear the loss of my younger son."

On the fateful morning of April 25, 2015, 37 year old Devi Thapa had just entered her home after feeding her cattle by the cowshed. Her elder son and daughter were out in the fields. Her younger son (13 years old) was inside their home resting as it was Saturday. Suddenly the earth started shaking violently. Within seconds of the shaking, the entire house collapsed trapping her son and herself inside. Hearing her shouts and cries her neighbors and children came to rescue them. Digging through the rubble, they were able to rescue her. Unfortunately, her son was crushed underneath the very bed that he hid under.

According to her, her whole world changed after that day. Ever since her son's death, she has been unable to concentrate on anything else. Sorrow and grief encompass her and render her helpless. She is no longer able to tend to her farm land neither care for her cattle and goats. Just after the earthquake, her goats had given birth, but unable to take care of them, they died soon afterwards.

सत्य बोल्छौं अनुशासित परिश्रमी हुन्छौं
फजुल खर्ची नभएर बचत गर्ने गछौं
सफा राख्छौं घर-आगन बालबच्चालाई
समूहमा मिली बस्छौं सधै-सधैलाई
बिडी चूरोट खैनी रक्सी अब खाने होइन
परिवार सानो राख्छौं भूटो बोलिदैन
गरिदैन अन्याय त सहिदैन पनि
जे जे बोल्छौं गरी छाड्छौं हामी स्वाभीमानी

The Swabalamban song – sung by group members of Swabalamban Laghubitta Bikas Bank Ltd.

¹⁹ Devi Thapa is a member of Kopila Swabalamban Laghubitta Bikas Bank Ltd., Sangachok, Sindhupalchowk

Her husband, who is working in Malaysia on a three-year contract, was denied permission to visit Nepal to attend his son's final rites. A few days following the earthquake, Devi Thapa's mother-in-law had also passed away. She has not yet informed her husband about his mother's death as she feels that he is too grief stricken and will not be able to bear the news.



Devi Thapa of Ranthok, Ward no. 6, Sindhupalchowk sharing her story with team members

Her remaining children provide her with love and support, but she says that she is unable to move on. She says she has no interest in eating or working anymore. During the center meeting she paid off all her loans as she is unsure of her future and does not want to be a defaulter. “I was elected as center chief once again due to my honesty and discipline. I do not want to lose the name that I have made for myself through microfinance,” said Devi. The field assistant and other group members all acknowledged her hard

work and her pivotal role in forming the center. Devi has been regularly taking loans for the purpose of farming, poultry and goat rearing.

Devi Thapa kept breaking into uncontrollable sobs as she spoke of her son. Hers is a story that echoes the plight of many other families devastated by the earthquake. The earthquake has not only caused great physical destruction, but emotional wreckage as well. The microfinance sector fears that the earthquake has pushed the people back into poverty.

Fight against the Storm

Martha Ramtel from Deurali-8, Sipakhel is one of the members of Sipapokhari Mahila Swabalamban Kendra, Centre No. 49. As a single woman, running a household with four children wouldn't have been an easy task had she not ventured into the leather business. In order to run her business, she availed of the financial services offered by Swabalamban Laghubitta Bikas Bank²⁰. Like several other members of her group, Martha also lost her only home in the second earthquake of 12th May, 2015. Not only did it destroy her home, but also damaged the entire setting she had designed for cooking the raw leathers.

45 years old Martha recounted, "I have faced many ups and downs in my life to reach this stage. Losing my husband, working for a stone crusher along the riverside, carrying a less than a year old child on my back with an empty stomach were some of my terrible memories. But those days made me stronger and I knew I had to do something to feed my family and send my children to school. I did not want to become vulnerable in the society. So, at the suggestion of my relatives I started the business of semi-processing of raw leather. However, my first challenge was to manage the initial funds. Thankfully, Swabalamban provided me with a loan and I was able to produce my first pelt."

She continued, "I still remember the first day when I joined this microfinance group with the other women in the village. We used to save our hard earned wages as savings because it was mandatory for every member. Little did we know that continuing the savings would one day pay off and enable us to procure loans for our business. I was illiterate and didn't understand the importance of savings, but the way our field motivator Sir explained it to us made me want to continue to be a member of the group. Now I know all the advantages of being a member and I am able to efficiently make profits to pay off the loan instalments. In fact, I am a member in 5 different institutions and have taken loans from 2 of them. These organizations allow me to save money and at the same time give me access to loans for my growing business."

Martha's business of processing raw leather is running successfully. It takes a month to prepare a pelt and she earns a profit of up to NRs. 20,000 – NRs. 25,000 per piece sold to the trader. "I travel to faraway villages in search of the skins and carrying them back home is a difficult journey. However, it is much better than offering my labor for crushing stones or working as a porter in the locality," said Martha.

²⁰ Swabalamban Laghubitta Bikas Bank has its branch office in Hinguwapati which serves in Deurali Village, Sipakhel.

The earthquake has adversely affected her enterprise, but her self-esteem is still high. She was able to build a temporary shelter using wooden pillars and corrugated sheets with the help of youth volunteers and neighbors. As a single woman, she was able to receive some relief assistance as well. She is hopeful about the future and says that she will definitely overcome this challenge and rebuild her home and business. As of now, Martha is waiting for the monsoon to end so that she can re-start her enterprise and start saving to rebuild her home.



Martha Ramtel in front of her temporary shelter

References

1. *Population Monograph of Nepal*. Vol. I (Population Dynamics). Central Bureau of Statistics, National Planning Commission Secretariat, Government of Nepal. (2014).
2. *Economic Survey Fiscal Year 2014/15*. Ministry of Finance, Government of Nepal. (July 2015).
3. Nepal Disaster Risk Reduction Portal. Government of Nepal.
4. *National Population and Housing Census 2011 (Village Development Committee/ Municipality): Sindhupalchowk*. Central Bureau of Statistics, National Planning Commission Secretariat, Government of Nepal. (March, 2014). Volume 06, NPHC2011.
5. UNFPA & Health Management Information System (as of May 26, 2015).
6. Adanze Oluwfunmilola Uchegbulam, *Trends in Waterborne Diseases in Gorkha, Sindhupalchok and Humla District of Nepal*. University of Sheffield (2012).
7. *Situation Analysis Nepal Earthquake*. On-Site Operations Coordination Centre (OSOCC) Assessment Cell (May 15, 2015).
8. *Nepal Earthquake 2015 Post Disaster Needs Assessment. (Vol. A: Key Findings)*. National Planning Commission, Government of Nepal.
9. Department of Foreign Employment, Nepal.
10. *WASH Cluster Report* (May 13, 2015).
11. *Nepal: Earthquake Assessment Report*. Save the Children (May 2, 2015)
12. Nepal Earthquake 2015: Disaster Recovery and Reconstruction Information Platform (NDRRIP). Ministry of Home Affairs (MoHA) Government of Nepal, International Center for Integrated Mountain Development (ICIMOD) and Environmental System Research Institute (ESRI).
13. *Nepal Humanitarian Situation Report 13*. United Nations International Children's Emergency Fund (UNICEF) (June 3, 2015).
14. Dhruba Dungal, *6,500 quake-affected children yet to return to school*. Article on My Republica (Aug. 13, 2015).
15. *School Enrollment Campaign: Sindhupalchowk school dropouts persuaded to come back*. Article by Educate Nepal (April 17, 2012)