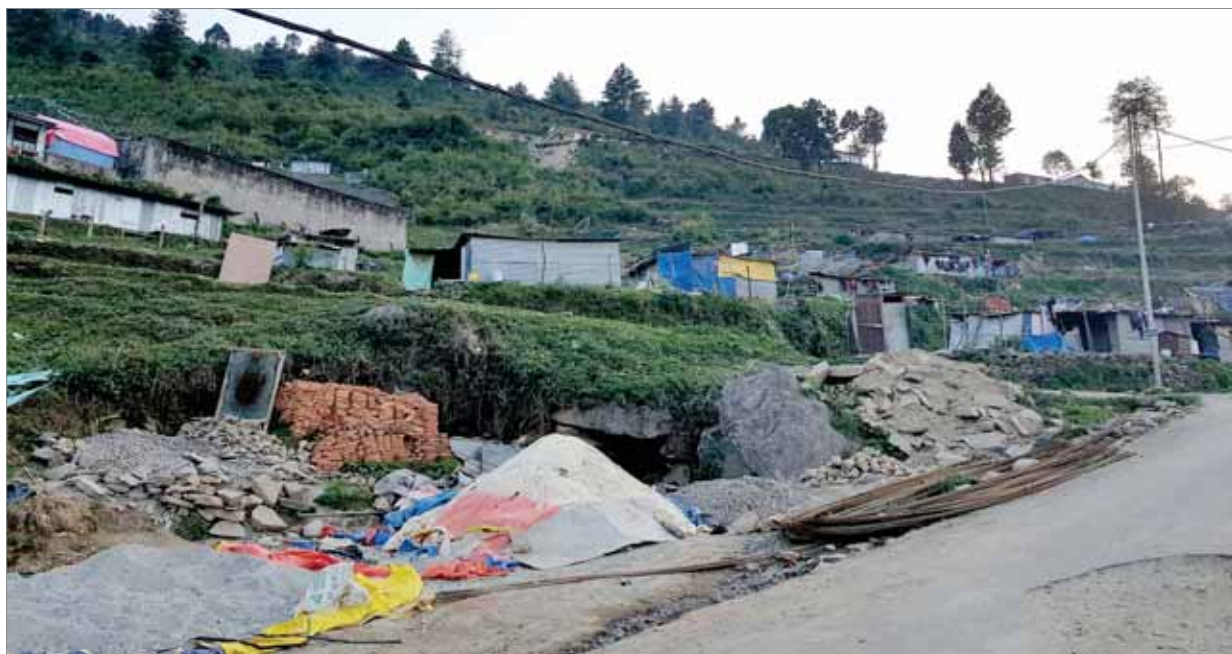


Individual Grants

IN POST-EARTHQUAKE
RECONSTRUCTION EXPENDITURE



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The destruction and damages caused by the 2015 Gorkha Earthquake called for mobilization of large amount of money for reconstruction. As the funds poured in, from domestic and international sources, to the earthquake stricken districts to help the reconstruction, the public doubts about proper utilization of those funds also surfaced. Ensuring that the funds actually reached the needy, without any leakage has always been of utmost importance to all the stakeholders.

Considering the initial hiccups in relief and recovery, questions have often been raised about efficiency and effectiveness of transfers of funds meant for reconstruction from government to beneficiaries. Therefore, it is pertinent to assess the reconstruction spending to ensure that the funds are reaching the needy on time. A simple expenditure tracking, even on a case study basis, would surely

be helpful to assess the effectiveness of the funds and to indicate anomalies. This study, therefore, attempts to analyse expenditure in the government's reconstruction program and track reconstruction grants to individuals. In doing so, the process of fund flow to beneficiaries has been investigated and related issues highlighted before finding ways for improvements in the system.

In order to fulfil this objective, a thorough review was made of the various legal procedures put in place by government. Budget statements of two fiscal years, post-earthquake were examined. The focus was on the National Reconstruction Authority (NRA) allocation and the individual headings pertaining to reconstruction. Economic Survey 2016/17, the Red Book 2017/18, Earthquake Affected Private House Reconstruction Grant Distribution Procedure 2016 and various newspaper reports were also reviewed.

A field visit was conducted to survey the reconstruction of households in Methinkot, Namobuddha Municipality in Kavrepalanchowk district. A purposive sampling was carried out to select 20 households of those affected by the earthquake and who were eligible for the government's individual grants.

Another aspect of the field work was interviews with relevant officials. The key informant interviewees included persons from Ministry of Finance (MoF), NRA, Financial Comptroller General Office (FCGO), Division Planning Office of Namobuddha Municipality, and other concerned officials. To give further depth, the interviews included non-government actors and quake victims at Methinkot. The limitations of the study are obvious, given its narrow focus on a small affected area, that too of just one district.

Rules of distribution

The government has set some rules and norms to follow for the distribution of reconstruction funds. The main implementing agency, NRA, has formulated several directives and procedural modalities with regard to implementation of earthquake related programs. Among them, Grant Disbursement Procedures for Private Houses destroyed by the Earthquake 2016 is pertinent for the present study. According to this procedure, determination of the grant beneficiaries will be based on the Central Bureau of Statistics (CBS) survey. The recipient must possess the citizenship certificate, the land ownership certificate and damage-assessment certificate provided by the CBS. The condition is that the individuals should not have any other residences. If they have two or more houses destroyed, the grant will be provided for the reconstruction of only one house. The construction of the house has to follow the NRA approved design and has to be supervised by District Level Project Implementation Unit (DLPIU) and local bodies' technical staff.

The grant would be released to DLPIU through Central Level Policy Implementation Unit (CLPIU) of Ministry of Federal Affairs and Local Development (MOFALD), which was later renamed as Ministry of Federal Affairs and General Administration (MoFAGA). The first tranche for individuals would be NPR 50,000, the second NPR 150,000 and the third tranche would be NPR 75,000. The last NPR 25,000 is to be released only if the beneficiaries construct toilets and install

alternative energy sources. A total of NPR 300,000 would thus reach the individuals for building their houses. In order to minimize possible leakages and to promote financial inclusion, the grants are transferred to the bank accounts of the beneficiaries. Where retrofitting was required to repair old houses, NPR 100,000 is provided. There were also provisions for interest free and concessional loans.

In addition to other conditions, to be eligible to government's housing grants the recipient should not have taken any grants from other national/international organizations for house rebuilding. Beneficiaries staying in areas where the government has started acquiring lands were to be given grants for temporary house construction. The government has also made provisions to ensure the supply of construction materials and management staff, not to mention carrying out skill development and capacity building programmes.

How the fund is handled

The fund is handled by MoF which then transfers it to NRA as per the annual Budget announcement. When the NRA receives its authorization, the fund is passed on to Ministry of Urban Development (MoUD) for construction. Similarly, it is passed on to MoFALD (now MoFAGA) if it is an individual house grant, to Ministry of Education with regard to educational institutions, Ministry of Culture, Tourism and Civil Aviation for reconstruction of damaged cultural heritage, Ministry of Health for health institutions and other concerned ministries for related reconstruction. Three ministries have set up district units in affected districts and two ministries have set up units at the central level. NRA has its own District Secretariat for concerned ministries. FCGO facilitates the fund flow through the District Treasury Controller Office. Fund transfers to the beneficiaries are done only through banks.

Immediately after the earthquake, the government initiated fund mobilization and solicited assistance from various international agencies and governments, getting pledges of support worth USD4.1 billion from them. About 83 per cent of the pledged amount was committed in writing by the donors while the actual disbursed amount was minimal.

Earthquake related public expenditure

In 2015/16, the immediate fiscal year after the quake struck, only about 28 per cent of the allocated fund was spent. It was reasoned that there was confusion

Table Allocation and Spending (in NPR million)						
Year	Heading	Starting Budget	Actual Budget	Expenditure	Balance	Utilization %
2015/16	National Reconstruction Fund	74,000	81221	22,475	58,745	27.67
2016/17	National Reconstruction Authority Fund	83,834	112,579	49,415	63,164	43.89
2017/18	National Reconstruction Authority Fund	145,934.94				
	Growth (%)	74.08				

Source: Ministry of Finance

on the spending modalities. Moreover, there were some political issues (frequent government changes, for one) regarding the appointment of chief of NRA. Also, it was at this time that Nepal underwent through five-month blockade at its major trade routes with India. Despite the disturbances, resource pooling was encouraging. The expenditure side was, however, not so promising. In FY 2016/17, the spending increased a little bit, but still failed to exceed even fifty per cent of the allocation. In FY 2017/18, allocation showed a significant increase, that is more than 74 per cent compared to the previous year. Hence, the expenditure is expected to shoot up in the year.

Around NPR 50 billion was spent on earthquake related programs through various ministries and government bodies in FY 2016/17. That year MoFALD took up the lion's share of the fund (NPR 36.6 billion) that included individual and institutional grants as housing reconstruction was undertaken through this ministry. The lowest amount was spent by Ministry of Industry and Ministry of Forest and Soil Conservation (NPR 91 million each) besides Courts.

On the central budget's NRA fund headings, expenses were categorised as individual housing grants for the victims, building construction for damaged government-owned buildings and public construction which consisted of reconstruction of structures such as irrigation canals, roads and a miscellaneous category in FY 2015/16, there was a significant increment in expenditure of institutional/individual grants during FY 2016/17 (nearly 67 per cent of the allocation). Expenditure in the last month of fiscal year was very high. Allocation in FY 2017/18 has increased by nearly 40 per cent.

In the Building Construction category, spending remained just about 21 per cent of the allocation in FY 2016/17 compared to 27 per cent in the previous year. There is a remarkable increment in

allocation (about 92 per cent) in FY 2017/18. Still, there is a need to speed up the expenditure under this heading.

Under the Public Construction category, expenditure pattern follows the building construction category. Just 20 per cent of the allocation was utilized during FY 2016/17. Even so, the figure was a remarkable increase from that of the previous year. Consequently, the allocation has been jacked up by 168 per cent in FY 2017/18. This indicates a high priority to public construction, which includes reconstruction of the structures such as roads, drinking water sources, health posts, among others.

NRA categorization also has a spending section titled "others" including other miscellaneous recurrent and capital expenditure, such as service consulting, program expenses and recurrent grants, land/building purchase, public construction, research and consultancies etc. In FY 2015/16, this form of expenditure was satisfactory, though the volume was small. In FY 2016/17, there was a reduction in its utilization. In FY 2017/18, there has been tremendous growth in allocation (about 142 per cent). It is learnt that the amount is used for contingencies as well.

Tracking housing grants

Considering the lax expenditure record, many victims eligible for household grants were not able to receive the released tranches on time. The CBS surveyed households numbered 996,582 out of which 767,705 were found to be eligible for housing grants. Overall, 709,180 households have entered into agreement to receive the grant out of which 696,193 received the first tranche in the two years since the disaster. The applicants for the second tranche numbered 366,245 and 113,307 have entered into an agreement to receive the third tranche. Only 47 per cent of the households that received the first tranche were found to be

eligible for the second tranche. This indicates that not all the first-tranche receivers may have spent it on reconstruction.

More than 92 per cent of the nation’s earthquake victims have entered into the NRA’s grant agreement. Amongst them, 98 of the households have received the first tranche of the reconstruction grant. For the second tranche, just 52 per cent of the needy households submitted their application.

The grant distribution was not done in a timely manner. The beneficiaries complained that it was too little too late. Many deadlines set to distribute grants were not met and there were too many procedural hassles from the beneficiary’s perspective. Therefore the purpose of the distribution of grants, which was to facilitate the earthquake victims build a shelter on time so that they did not have to suffer from the heat, rain or cold, was defeated.

The Kavre Case

Tranches received by victims in Kavrepalanchowk district may portray the overall scenario. At the district level, Kavre saw 90 per cent of the households entering into the agreement. Even around late 2017, households applying for second and third tranche were negligible.

Here, 67,731 houses were identified as eligible victims, out of which 60,721 came forward for the agreement and around 60,000 took the first tranche.

Only around 5,000 houses received the second tranche while just 124 houses were approved for the third tranche by December 2017. The slow uptake of number of beneficiaries obtaining second and third tranches shows that owner-led reconstruction is riddled with problems.

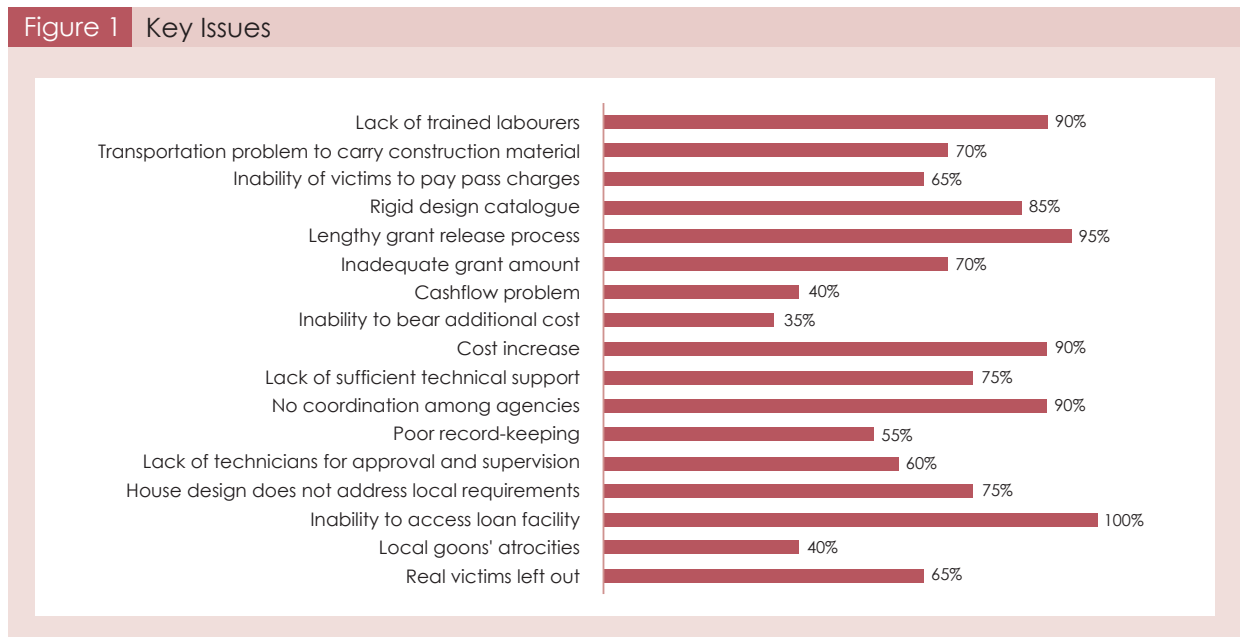
Namobuddha Municipality

At the municipal level, Namobuddha saw agreement signed by 89.7 per cent of the households. 89 per cent received the first tranche, 1.2 per cent got their second tranche [in one ward, the percentage was zero] and there were no third tranche receivers.

In Namobuddha Municipality, while the identified households were 4,519, the number of houses entering into agreement were only 4,058. Recipients of the first tranche numbered 3,620. The number of second tranche receiving households came down to just 44, while no one has received the third tranche so far. As of late 2017, there is neither a record of the number of completed houses nor of those still under construction.

Namobuddha’s ward-wise breakdown

There are eight wards in the municipality, six of them identified as affected. The worst affected ward was Khanalthok with 1,090 affected households. Here, 970 entered the agreement with 782 of them receiving the first tranche. No one had received the second tranche till late 2017. The least affected area was Purano Gaun where 427 entered into



Source: Field Survey 2017

the agreement with 327 of them receiving first tranche. Four households have received the second tranche. The trend was either in line with, or falls short of following, the district's overall scenario.

Public perception

The study also tried to examine the use of the government grant and whether it was used for the given purpose. It also tried to find out the perception of beneficiaries as to what they felt about the grant and the government's efforts towards reconstruction.

An idea of the obstacles relevant to grants for individual damaged house reconstruction can be provided by key informant interviews. Here, we asked 20 respondents (earthquake victims) to focus on issues like timing, the flow process and the quantum of grant. The major issues that emerged were—unavailability of trained labour, lengthy grant process, cost escalation, redundant loan provisions, rigid design catalogue, lack of coordination among line agencies, lack of technical manpower, insufficient room in design to cater to local needs, inability to bear extra cost and leftovers. Some other issues like atrocities from goons, poor database at the local level and cash flow problems during construction were also found to be prevalent at the grassroots (See Figure 1).

The respondents offered suggestions for improving the state of implementation and speeding up expenditures (see Figure 2).

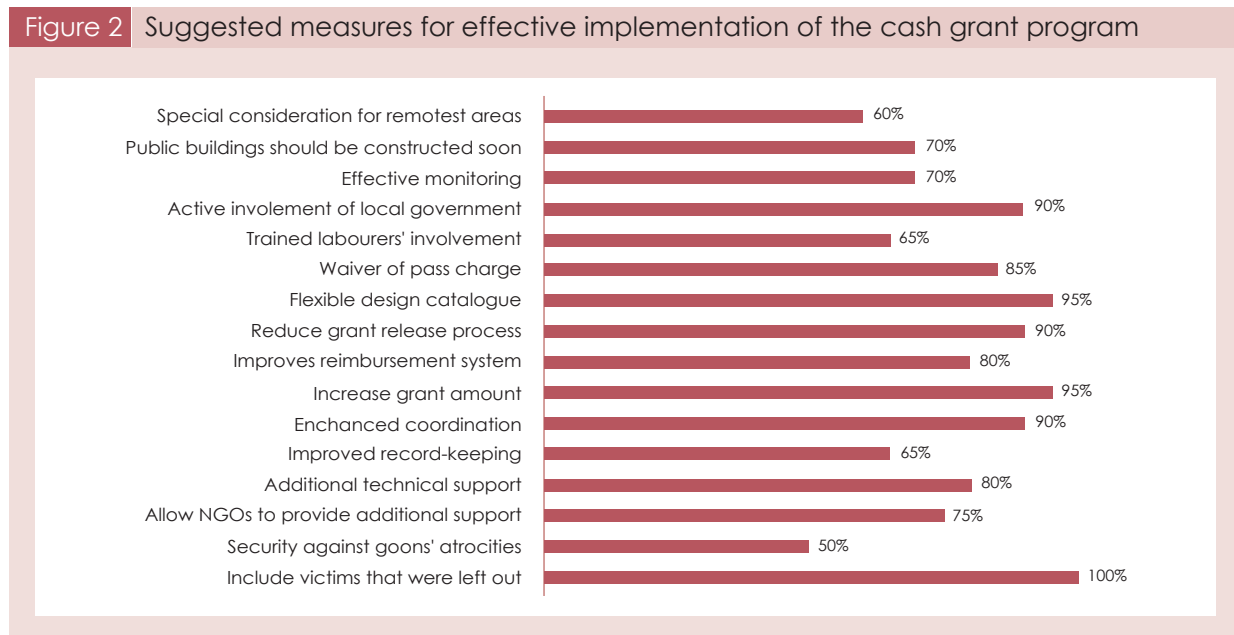
They wanted a more flexible design catalogue, inclusion of real victims that were not included in the beneficiary lists, shorter grant release process, increased grant amount, more activity from recently elected local bodies by giving them more roles (like grant disbursement and database maintenance), regularized fund release, waiver of local tolls imposed on transportation of construction material to reduce extra financial burden on victims, regular monitoring, interested NGOs to be allowed to provide additional support, public building construction sped up and recruitment of technical manpower for technical back up and suggestive supervision. Other areas they wanted addressed were due consideration to remoteness of areas, preparation of a database and also security provisions.

To speed up the snail

Finally, the expenditure analysis shows that allocated funds have not been fully utilized. The status of reconstruction expenditure has not been satisfactory. Even though there is some improvement in institutional/individual housing grant expenditure in FY 2016/17, there is a lot of room for tangible impacts.

Tracking of the finances in reconstruction has revealed that the pace of spending is quite slow. That may be because of delays in the appointment of NRA chiefs, due to the fluid political situation resulting in their frequent changes. Moving from the first tranche to the second seems to be taking

Figure 2 Suggested measures for effective implementation of the cash grant program



Source: Field Survey 2017

place at a “snail’s pace”. This has put most victims in a state of despair. They want to receive the remaining amount as soon as possible. Despite this study being a case study in nature, several relevant issues have been identified, which need to be addressed immediately. Here are some measures to speed up the expenditure and achieve the laid down targets.

- Once the NRA authorizes the concerned ministries to carry out the spending, the process is facilitated by FCGO and District Treasury Comptroller Office. The process is long and involves many agencies (for example, concerned ministries). Three full years have passed since the quake. Still the third tranche has not been released satisfactorily. There must be strict directives to shorten the timeframe for cash transfers.
- Victims have demanded regular supervision and monitoring of the entire process. This part is very weak. It should be strengthened by adding technical human resource for credible supervision.
- There is substantial construction cost variation between remote and other areas because of transportation and other externalities. Victims from remote areas have pointed out this discrepancy and sought special consideration. One major reason for victims to not meet compliance requirements regarding documents while seeking the second tranche is cost. Classification of victims should be based on their geographical location.
- Those carrying out reconstruction must additionally get their building plans endorsed by the local government, just like other regular construction plans. This raises the cost tentatively by about 10 per cent of the grant amount (about NPR 30,000). This is discouraging the reconstruction momentum. NRA must coordinate with local governments

for a waiver of this kind of “pass charge” or plan endorsement fee.

- Present grant provisions bar victims from receiving additional support from interested NGOs, INGOs and corporate houses. Victims say that they want more assistance for works like painting and bathrooms.
- The slow pace of public reconstruction work is depriving the victims from getting their regular government services. There is a need to pay more attention to this aspect.
- Locals are comparing the efficiency in the distribution of government grants with that of NGOs and INGOs. Victims have gone as far as to say that they are willing to return the grant to the government in exchange for the better services doled out by non-government actors. This may raise questions on government’s credibility.
- Masonry training for reconstruction works has its own problems. Trained labourers are not interested to work in the government’s reconstruction initiative, because delays in reconstruction works are forcing them to sit idle for long periods waiting for reconstruction to start. Trainings should be given just before starting the construction.
- Since, at present, local bodies have already been elected and because locals are in constant touch with these bodies, it would be more pragmatic to provide them some roles to facilitate reconstruction works. Tranche administration, supervision, preparation of database and coordination work would be appropriate for them.
- Earthquake reconstruction is a very sensitive issue. There are instances of failures in some countries. Hence, the government needs to regularly assess the progress and achievements of reconstruction. Public Expenditure Tracking Surveys and similar other tools can be used in all spheres of earthquake reconstruction to improve performance. ■

