



Knowledge *paper*

SCOPE OF WATER AND SANITATION FINANCING FOR MICROFINANCE INSTITUTIONS & MSMEs

Introduction

The progress made in WASH (Water, Sanitation, and Hygiene) access in India in recent years was driven by government efforts, particularly in rural areas. However, challenges remain with a significant portion of the population lacking basic WASH services. The COVID-19 pandemic exposed inequalities and the need for further investment, emphasizing the importance of an effective implementation that involves private and market-led approaches.

On October 2nd, 2019, India marked the end of the first phase of the five-year Swachh Bharat Mission (SBM), which was aimed at ending open defecation on the 150th birth anniversary of Mahatma Gandhi. The SBM is the world's largest program of its kind [1]. However, according to a joint monitoring program (JMP) on water, sanitation and hygiene by the World Health Organization and UNICEF released on July 1st, 2021, at least 15 per cent of the total population in India still defecates in the open [2].

The national family health survey (NFHS), round 5, 2019-20, reaffirms this and estimates 82.5% of the households across India have access to a basic sanitation facility.

Rural areas had it worse, with only 76.0% access, while access in urban India stood at 95.6% [3]. The Government acknowledges these gaps while taking a forward-looking stance under SBM 2.0 to maintain the positive outcomes realized under SBM phase 1 which was powered by public funding and subsidies.

However, under SBM 2.0, the Government has moved away from a subsidy-based approach and is now using a market-oriented approach to enable access. This shift is intended to help rationalize resource allocation, and Microfinance (MFI) and WASH entrepreneurs will be instrumental in bridging the gap.



SUSTAINABLE DEVELOPMENT GOAL 6

Clean Water and Sanitation:

Ensure availability and sustainable management of water and sanitation for all.



SBM 2.0 Focus

- Construction and retrofitting of individual household latrines (IHHLs) through a market-led approach
- Capacity building and training of local government functionaries and community members on sanitation and waste management
- Information, education, and communication (IEC) activities to raise awareness about the importance of sanitation and waste management
- Monitoring and evaluation of the program to track progress and identify areas for improvement.

Adopting this approach will enable the government to rationalize resources towards developing infrastructure, help raise awareness, and provide services that can improve individual households' access to water and sanitation facilities.

WASH Policy Landscape

The initial push by the subsidy-led approach has shown limitations. Evidence from other countries suggests that a market-led approach yields better results and sustained usage. A study from Zimbabwe found a market-led approach to be up to seven times more cost-effective [4]. Another study in Nepal showcased a market-led approach that produced lasting changes in sanitation programs [4]. Bangladesh, which became Open Defecation Free in 2015, also favoured generating community demand over relying on subsidies [5].

Apart from engaging market-led forces to cater to the WASH needs of the community, India also took several complementary policy efforts, including:

- The inclusion of WASH financing under the social infrastructure category of Priority Sector Lending (PSL).
- Atal Mission for Rejuvenation and Urban Transformation (AMRUT) 2.0 was launched in Oct 2021. It aims to provide access to water taps for all households in all statutory towns and sewerage/septage management in 500 cities covered in phase 1 of AMRUT [6].

Opportunities: Microfinance organizations

- SBM 2.0 intends to encourage left-out families to undertake toilet construction as an aspiration.
- Smaller top-up loans to support retrofitting and periodic maintenance to revive WASH assets will be required at a higher frequency.
- Upgradation of existing facilities to a climate-resilient, Safely Managed Sanitation System (SMSS) provides an opportunity for market-led WASH financing.
- India's varied geography necessitates customized sanitation solutions, including low-water-consuming urinals and toilets, elevated platforms for waterlogged regions, and water supply systems for remote areas, indicating a potential market for specialized WASH products.

WASH Entrepreneurs

- Many of the sanitation facilities constructed during the SBM phase 1 and individually are in poor condition and lack adequate seating. Rural sanitation marts will be needed to provide necessary materials and maintenance services.
- Regular desludging services will be necessary for households with toilets to clean out the pits or septic tanks.
- While access to water has improved, water quality still presents opportunities for WASH entrepreneurs and WASH financing.
- Access to water facilities is still challenging across India, and opportunities such as water ATMs and packaged water are still a potential market for WASH entrepreneurs.

- Pradhan Mantri Awas Yojana (PMAY), an initiative aimed at providing affordable housing to the urban and rural poor, also provisioned for the construction of toilets [7].

Gaps in existing policies

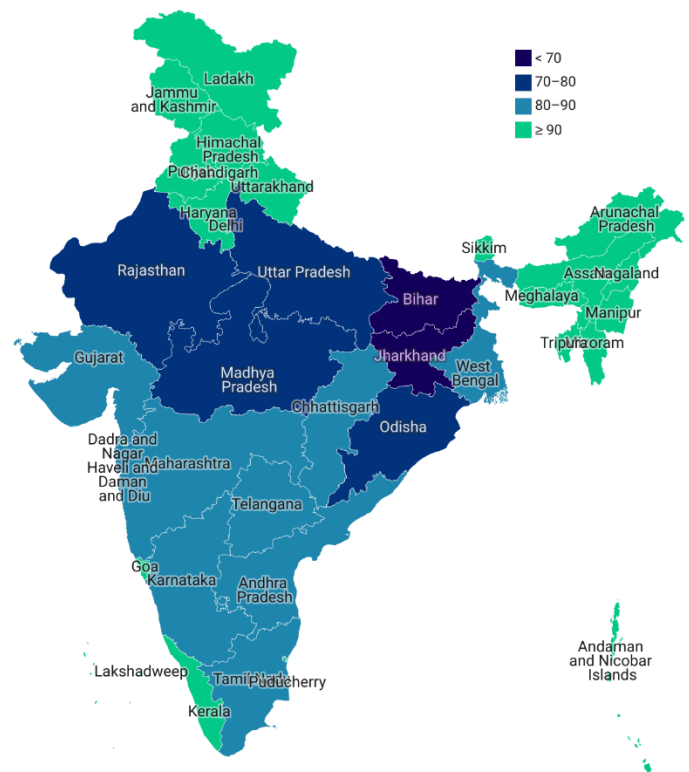
- There is **no defined quota for social infrastructure category (including WASH)** under Priority sector lending
- The current policies don't offer sanitation **products specific to regional requirements** and aren't climate resilient leading to dysfunctional toilets

Probable solutions

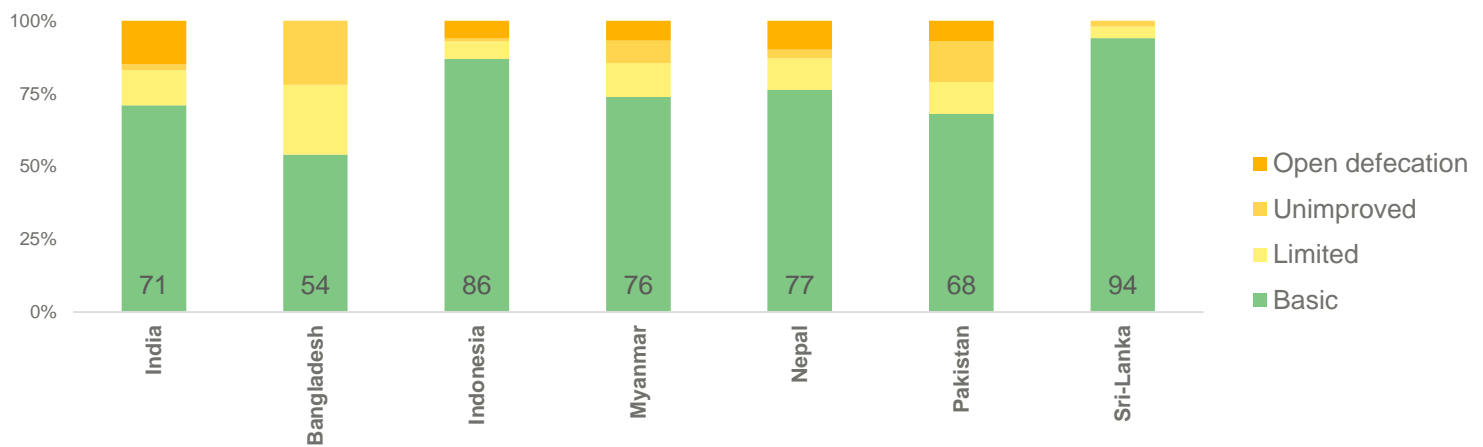
- **Government should facilitate the development of WASH market**, e.g., engaging in the development of cost-effective standard designs, innovations, awareness creation, and demand generation
- **Capacitation of MFI staff and Skill development of WASH entrepreneurs** to extend WASH products and services
- **Facilitating access to lower-cost funds to private sector organization** extending WASH lending to the community.

Percentage of households having access to a toilet facility

Based on NFHS-5 (2019-21)



Source: International Institute for Population Sciences • Map data: © OSM • Created with Datawrapper



Access levels of sanitation (2020); Source: Joint Monitoring Program (UNICEF, WHO) [8]

Incentives to include WASH portfolio for MFIs and Financial Service Providers (FSP)



MFIs and FSPs are progressively leveraging environmental, social, and governance (ESG) to be more socially responsible. WASH loan portfolio can help MFIs and FSPs to show achievements against the ESG parameters.



WASH portfolio helps diversify product offerings increasing client engagement and augmenting income.



The response to WASH credit from the community has been highly encouraging, with several MFIs and banks with a WASH portfolio reporting repayment rates of over 99%



The WASH portfolio can aid in accomplishing achievements against the goals defined under social performance measurement to fulfill consumer protection principle (CPP) certification needs.

Investors are progressively looking to invest in more socially responsible organizations, and such initiatives make the organization more attractive for investing and also attract impact investment.

Challenges

Financial challenges:

- The government allocated INR 12,000 crore for the SBM program in 2022-2023, with INR 7,192 crore for SBM (Gramin/ Rural) and INR 5,000 for SBM (Urban). While there was no change in budget allocation for SBM (Gramin/ Rural, SBM (Urban) saw a 54% increase over the previous year [9].
- Organizations must undertake demand-generation activities, ongoing monitoring, evaluation, and maintenance of WASH facilities to maintain WASH portfolios, increasing their operational costs.
- Limited buy-in with regional bankers' associations who can facilitate access to credit lines for Financial Service Providers (FSPs) to offer WASH financing.
- The periodic requirements for retrofitting, operations, maintenance, and upgrades would require streamlining the supply chain to make input materials readily available at a lower cost.

Awareness generation:

- The communities need to be made aware of financing options for WASH (through microlending by MFI) for building and maintaining WASH assets.
- WASH financing has been included in priority sector lending (PSL), but the officials' awareness of PSL guidelines and microlending restricted the disbursement of loans; also, they are wary about repayments.
- Limited understanding within the community of climate vulnerabilities and the need for the upgradation of existing facilities.

Infrastructure:

- A significant population of the urban population depends upon the community toilets that have an acute deficiency of seats. Moreover, the toilet stocks are old and in a precarious state.
- Limited inclusion for gender and differently-abled priorities in toilet construction.

WASH Financing Options – Households

Individual/ Group loans: Banks and microfinance organizations are extending credit for WASH financing to individuals or through Self Help Groups (SHG) or Joint Liability Groups (JLG)

SHG revolving fund: Toilet construction was included as a category under which SHGs linked to the National Rural Livelihoods Mission/ State Rural Livelihoods Missions could avail of micro-loans.

Bundled loans: Few FSPs have used blended financing to create bundled loan products promoting WASH products, clubbing it with Income Generating Loans

Microfinancing organizations

Micro Finance Institutions (MFIs) can leverage opportunities from several alternate sources to build their WASH portfolios.



Impact Investment: Investors are progressively looking to invest in socially responsible organizations.



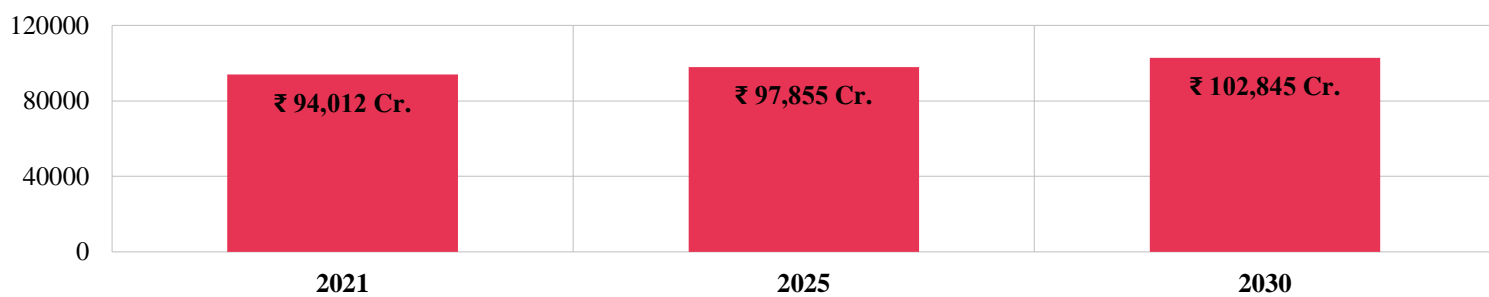
Grant Support: International development agencies have been extending grant support to enable WASH financing.



Social Impact Funds: Impact funds are being innovated, which pays for better social outcomes.

Scope of WASH Financing

Based on an assessment by the Toilet Board Coalition, the construction and upgradation of toilets across India alone would have required approximately INR 94,000 crore in 2021 [10]. The actual scope of the sanitation economy is severalfold more, requiring the development of infrastructural capacity and formal and informal service providers to support household-level access.



Source: Toilet Board Coalition (includes rural and urban household toilets, and upgradation requirements) [10]

WAY Forward

Microfinance was initially created to assist the poorest segments of society in breaking out of the cycle of poverty. However, with the evolving definition of poverty that now includes health factors, WASH financing has emerged as a potential solution for microfinance institutions looking to diversify their offerings and generate additional revenue streams.

Organizations such as Sa-Dhan and Finish Society are engaging with government agencies, the Reserve Bank of India, and policymakers to ensure universal access to water and sanitation. Sa-Dhan has also worked closely with 34 MFIs which further provided credit facility of INR 312 crore, impacting the life of 4.87 lakh people.

There is enough evidence of an existing market and demand for WASH products, services, and financing. What needs to be done is:

- Identify the support available from different organizations like Sa-Dhan and Finish Society working to further the cause of WASH access and financing to build organizational capacity to extend WASH financing
- Engage investors to build a discourse on risks and opportunities in the WASH sector to facilitate investor confidence.
- Leverage existing frameworks and toolkits such as the Ceres' Investor Water Toolkit and PRI and WWF-developed Water Stewardship Framework, among others, to facilitate investor dialogue.

I realized the importance of having access to a water and sanitation facility, but with the limited means I had, I could not prioritize them. With the credit assistance, I could fulfil my dream of having a water and sanitation facility of my own. Even though it took me long to accomplish this, I am happy. That my daughters don't have to go through the struggle.

- Manga



Image by Saif Rehman from Unsplash