

Scope of Water and Sanitation Financing for Microfinance Institutions & MSMEs – Bihar

KNOWLEDGE PAPER

Introduction

Systemic efforts in the form of major government schemes like the ‘Lohiya Swachh Bihar Abhiyan’ and ‘Har Ghar Nal Ka Jal Yojana’ have made significant contributions towards the goal of achieving universal access to water and sanitation. In reality, the milestone is far from being achieved.

The National Annual Rural Sanitation Survey (NARSS), round 3, 2019-20, suggests 73.6% of households had access to a toilet facility, and 82% of these were functional. The National Family Health Survey (NFHS), round 5, 2019-20, estimates only 61.7% of The households in Bihar had access to basic sanitation service.

Rural areas had it worse, with only 56.7% access, while access in urban Bihar stood at 88.8% Likewise, 88.9% of the households in Bihar have a drinking water facility within their household premises. Considering Bihar has approximately 19 million households, the scale of the gap is significantly large.

While the Government has a key role in enabling access to water and sanitation to the masses in a resource-constrained country like India, it has to rationalize resource distribution. Under SBM 2.0, the Government has shifted from a subsidy-led approach to a market-led approach to enable access.



Image by [mac231](#) from Pixabay

SUSTAINABLE DEVELOPMENT GOAL 6

***Clean Water and Sanitation:
 Ensure availability and sustainable management of water and sanitation for all.***



Swachh Bharat Mission – Phase II (SBM 2.0) and Lohiya Swachh Bihar Abhiyan

The current government initiatives focus on strengthening the capacity of administration, community institutions, and PRIs to monitor and sustain open defecation-free status.

And to develop a sanitation market enabling WASH access through financing

WASH Policy Landscape

- Inclusion of WASH financing under the social infrastructure category of Priority Sector Lending (PSL). However, in practice agriculture and MSMEs have received more support under PSL.
- Sharing know-how for ideal toilet specifications based on regional requirements
- Setting up rural sanitary marts
- Building capacity and sensitization of Panchayati Raj Institutions, government functionaries, and other stakeholders
- Set up a cadre of front-line sanitation workers, 'Swachhgharis.'

Opportunities: Microfinance organizations

- SBM 2.0 acknowledges there are households left out and has a 'leave no one behind' policy. The intention is to encourage the left-out families to undertake toilet construction as an aspiration.
- Retrofitting and periodic maintenance to revive WASH assets will be required. Smaller top-up loans to address operations and maintenance needs will be needed at a higher frequency.
- Climate change is a significant threat to Bihar; 73% of the geographical area in Bihar lies in a flood-prone area and is susceptible to submergence. Upgradation of existing facilities to a climate-resilient, Safely Managed Sanitation Systems (SMSS) will be needed, providing an opportunity for market-led WASH financing.

WASH Entrepreneurs

- Rural sanitation marts will be required to facilitate the supply of input materials, including toilet rings, seats, pipes, connectors, etc. and to provide repair and maintenance services.
- Desludging services will be required periodically for all households having access to help clean toilet pits. While the urban areas may have access to such services, rural Bihar remains underserved or unserved.
- Though access to water has been largely addressed in Bihar, water quality remains a concern and will have opportunities for both WASH entrepreneurs and WASH financing.

Gaps in existing policies

- Sanitation solutions offered in Bihar under SBM and LSBA are not resilient to climate change
- There is no defined quota for social infrastructure category under Priority sector lending

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,
- **Provide customers with a choice of providers**, and
- **Facilitating better private sector financing for WASH.** – both by directly providing access to lower-cost funds and initiating policy changes enabling greater access to more and lower-cost funds.

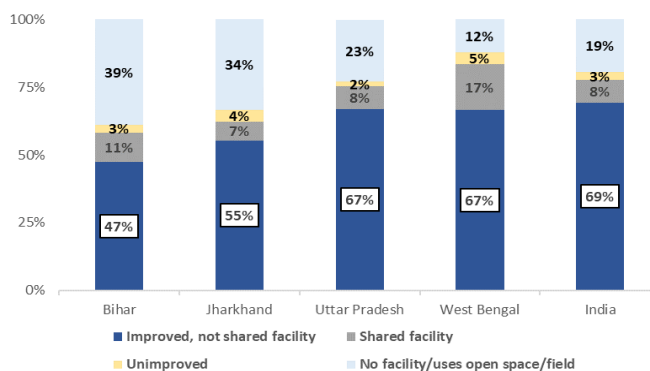
Percentage of households having access to a toilet facility

Based on NFHS-5 (2019-21)



Source: International Institute for Population Sciences • Created with Datawrapper

Opportunity in different districts of Bihar based on NFHS-5 (2019-21), 19 of the 38 districts had less than 60% coverage of access in Bihar



Source: NFHS-5 (2019-202), a comparison with neighbouring states shows households across Bihar had significant gaps in terms of access to toilet.

LSBA had supported the Rural Sanitary Marts with initial capital during the early phases of the program; however, the support has since been discontinued. The financial service providers (FSP) can also explore opportunities to extend income-generating loans (IGL) to the WASH entrepreneurs running sanitation marts or provide other valuable services in the supply chain.

Incentive to include WASH portfolio for MFIs and FSPs

- 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.
- Microfinance organizations and banks are progressively adopting Smart campaign's consumer protection principle (CPP) in addition to the code of conduct for MFIs and the Ombudsman system for banks.
- The WASH portfolio can aid in accomplishing achievements against the goals defined under social performance measurement to fulfill CPP certification needs.
- 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%.

Challenges

- While there is a perceived demand and no structural or regulatory barriers to accessing credit by FSPs for WASH financing, it remains a challenge to mobilize funds.
- WASH financing has been included in priority sector lending, however there is no defined quota for any of the categories, and the allocation to the social infrastructure category lags behind the top-priority sector by a significant margin.
- Buy-in with regional banker's associations is required to avail credit lines for FSPs to extend WASH financing.
- Maintaining WASH portfolios requires organizations to undertake additional demand-generation activities, increasing the operational cost.
- Both periodic requirements of retrofitting, operations, maintenance, and upgradation would require streamlining of the supply chain to make input materials readily available at a lower cost.
- Training masons would be required to cater to these specific needs, specifically for climate-resilient SMSS
- Sensitization of the community to understand the existing and future climate vulnerabilities and the requirement for upgradation
- Capacitation of institutions engaged with awareness creation and demand generation about new solutions.

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,



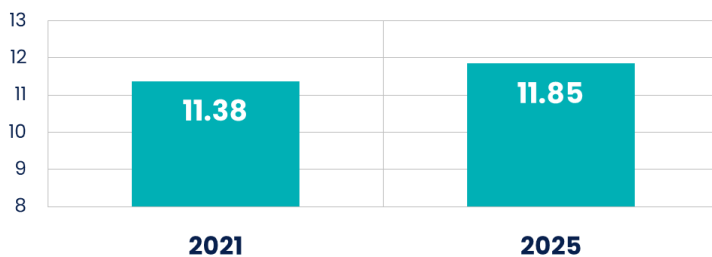
Micro Finance Institutions (MFIs) can leverage opportunities from several alternate sources to build their WASH portfolios, including:

 <p>Impact Investment: Investors are progressively looking to invest in socially responsible organizations</p>	 <p>Grant Support: International development agencies have been extending grant support to enable WASH Financing</p>	 <p>Social Impact Fund: Impact funds are being innovated which pay for better social outcomes</p>
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Soft loans, impact investments, and grants are progressively more accessible to MFIs for taking up WASH financing, helping them reach an optimal scale. Social impact bonds are also being innovated to hedge the initial risks and pay for better social outcomes.

Scope of WASH Financing

An assessment by the Toilet Board Coalition predicted:



The potential annual market for sanitation products and services (in Billion US\$)

Way forward:

Microfinance was devised to help the community at the bottom of the pyramid break the cycle of poverty. The definition of poverty has evolved, and now health is an important consideration. WASH financing can help address this concern for the MFI clients. MFIs need to innovate and add to their product portfolio to augment their income streams and keep their clients engaged, and WASH financing can be a possible solution.

Sa-Dhan and Finish Society have been working closely with the Government, RBI and Policymakers to ensure safe access to water and sanitation for everyone, and have been working with MFIs strengthening their capacity on various facets of WASH products. Sa-Dhan also engages with various lenders and financial institutions and facilitates liquidity for the MFIs.

A conservative estimation, based on the proportion of households in Bihar compared to India, suggests Bihar required **US\$ 864 million in 2021** to fulfill its sanitation-related products and services requirements.

The NARSS-3 suggests that Bihar only had 73.6% coverage in terms of toilet access, whereas India stood at 94.4%, implying that more demand could be from Bihar.

During a 2019 workshop conducted by the Ministry of Drinking Water and Sanitation and the Department of Financial Services discussing how to accelerate credit for WASH financing? The panelists suggested WASH financing can be a huge market opportunity, and looking at past trends; banks can find opportunities to lend over INR 80,000 crore for WASH.

Microfinance organizations have to leverage the opportunities and support extended to develop a sustainable WASH portfolio of their own.

There is a need to build the discourse on risks and opportunities in the WASH sector to facilitate investor confidence. Competent stakeholders in the sector developed several toolkits, including the Ceres' Investor Water Toolkit, and PRI and WWF developed Water Stewardship Framework to facilitate investor dialogue.

Voices of the Community

<p><i>A toilet at home meant safety for me and my household. I am proud that I got a toilet built for my household.</i></p> <p>- Savitha Sanya</p>	<p><i>I faced a lot of health issues cause of not having a functional toilet at home. I am glad my family invested in a toilet improvement.</i></p> <p>-Ranjana Gaikwad</p>
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