

**Enhancing the Supply of Sanitation
Credit in Maharashtra:
Existing Arrangements and Emerging Options**

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1. How do the existing financial institutions - formal and quasi formal ones - address the demand for sanitation credit?
2. Are there any specific reasons why they do not/ cannot cater to the need for financial resources of households that experience scarcity of funds as the main constraint for constructing toilets?
3. How could the financial system be incentivized to provide credit to households for the purpose of constructing toilets and sanitation systems?

Commercial banks and UCBs

- PSA is the main instrumentality to reach out to the weaker households
- Since April 2015, lending for social infrastructure has been added to the PSA categories; PS loans (up to Rs. 5 crore per borrower) can be extended
 - for building social infrastructure (schools, health care/drinking water/sanitation facilities) in Tier II to Tier VI centres
 - for construction/ refurbishment of toilets and improvement in water facilities in households;
 - to MFIs for on-lending to individuals/ members of SHGs/ JLGs for water and sanitation facilities

- In Maharashtra, as of the quarter ending 30 September 2017, against the targets specified under social infrastructure loans, only 5 per cent was achieved in terms of number; achievement in amount is 141% (SLBC, December 2017)
- While the public sector banks achieved 26% in number and 319% in loans, in the case of private sector banks target achievement stood at 2% and 1% respectively
- For gramin banks and cooperative banks, the targets remained unachieved

**Achievements and Targets under Social Infrastructure
Advances: Quarter ending 30/09/2017**

(Amount in Rs. Lakh)

	Target under ACP		% achievement of ACP	
	Number	Amount	Number	Amount
Public sector banks	3680	18860	26	319
Private sector banks	517	2335	2	1
Gramin banks	665	3895	0	0
Commercial banks - Total	4862	25090	20	248
Cooperative banks	467	1700	0	0
Grand total	5329	26790	5	141

Source: SLBC, Maharashtra, 137th Meeting, 7 December 2017

- High average loan sizes under this category?
- Social Infrastructure loans appear to have been disbursed mainly to institutions rather than households
- Bank Mitras - about 10,000 active BMs across banks; BoM/SBI account for almost 50%; their role is very relevant, but unclear

There are fragmented experiments in the cooperative sector around sanitation lending

Sr. No	Location	Credit Coop Soc/ Bank	Urban/ Rural	No. of loans disbursed	Loan Amount (Rs.)	Comments
1	Parbhani	Kranti Jyoti Savitribai Phule Women's Urban Cooperative Society, Pathri	Urban	90	50,000	Personal loan society members for a term 36 months; 12 % interest rate; monthly repayment; two guarantors and KYC
2	Jalgaon	Balwant Nagri Sahakari Patasantha	Urban	3	30,000	Rate of interest 13% . Repayment is ongoing.
3	Chipri, Kolhapur	Karmagil Cooperative Society, Jaisingpur	Rural	200	15,000	
4	Majalgaon, Beed	Aadhar Multistate Cooperative Credit Society	Rural	300	12,000	Loan tenure 3 months.

Source: Based on documentation done by the CEPT project team.

Self Help Groups

- The guidelines of SBM (G) clearly underscore the role of SHGs as a micro financing unit for sanitation infrastructure that can leverage the revolving fund available at the district level through NRLM - SHGs can provide cheap finance to members for toilet construction recoverable in 12-18 installments
- They also suggest the need to explore possibilities of setting up a **sustainable microfinancing arrangement** by converging financial resources, management skills and outreach capabilities of the relevant financial and other institutions

Some instances of SHGs and Banks working together

Location	Credit Coop Soc/ Bank	Urban/ Rural	No. of loans disbur sed	Loan Amount (Rs.)	Comments
Satara	Wai Urban Cooperative Bank	Urban	30	20,000	Given to women SHG members under under of 'Mahila Sabalikiran' (i.e. Women empowerment) scheme for a term of 12 months; 11.5 % interest rate; monthly repayment; group guarantee; 71 % repayment rate

- No such specific emphasis in SBM (U) on collectives as channels of credit support for households
- They are seen more as instruments for promoting community engagement and O & M of toilets

SHGs in Maharashtra - lack of patronage by the banking system in lending?

- 885,420 SHGs in Maharashtra are linked with banks for savings (2016-17) - worth Rs. 11.34 billion
- 219,651 SHGs with credit linkage - outstanding worth Rs. 20.89 billion
- Despite the promise in the linkage model that the banking system would more than match group savings (by two or three times), this has not happened in Maharashtra
- The increment to loan outstanding over the 5 year period since 2012-13 almost equaled the increment in savings.

- Pioneering collaborations between MAVIM and commercial banks in promoting livelihoods of poor households through SHGs.
- Similar arrangements with explicit focus on social infrastructure not visible.

Commercial MFIs

- Maharashtra is home to the largest number of MFIs in the country as in 2016-17
- 42 MFIs in 36 districts, covering 39 lakh clients with a total loan portfolio Rs. 65,890 million (*Bharat Microfinance Report 2016-17*)

- Urban sanitation lending by MFIs - not many cases
- Even in rural cases, MFIs worked through other agencies to mobilise and motivate
- In one case the MFI reported having undertaken sustained negotiations with a private commercial bank for a special line of credit for sanitation; the bank backed out of them eventually
- Hence sanitation loans are made from MFIs' generic capital leading to high cost of loan (~22 per cent)

- MFIs are high cost structures; in urban areas and slums they work mostly with 'safe' customers - tenure security, personal guarantees etc. are important for concluding loan contracts
- In their transformation towards SFBs, MFIs are likely to become more alienated from or expensive for a purpose like toilet construction

Sanitation Credit: Options, Challenges and Way Forward

Options

- PSA option can be used by both commercial and cooperative banks to finance toilet construction by individual households that avail the subsidy offered by the state/local body under the targets, social infrastructure and weaker sections

- SHGs can build a strong demand for bulk loans through the bank linkage scheme by leveraging priority sector funds under social infrastructure.
- SHGs are also eligible to apply to cooperative banks too for loans under the weaker sections target, which can be on-lent to needy members.

- UCBs may be motivated to explore possibilities of designing products appropriate for households in need of toilets.
- The potential role of urban cooperative credit societies in sanitation lending needs to be recognized in policy circles

- MFIs can address the demand for sanitation loan by appropriately designing products within the lending norms stipulated by RBI. They can also potentially leverage social infrastructure loans under PSA.



Challenges

- Lack of assurance that subsidy amount will be transferred to the beneficiary accounts with banks that offer loans.
- Subsidy acts as a minimum guarantee of repayment of loan thus reducing the lending risk.

- In Maharashtra, despite the impressive growth over time, lending to SHGs has not kept pace with savings mobilization. Banks seem to have been keen on savings linkage, while credit linkage has been lagging seriously.
- The average SHG loan sizes are still very small and the ability of groups to experiment and innovate very limited.
- Repayment is not as high as other loans.

- Urban cooperative banks have moved closer towards their commercial counter-parts in terms of institutional mandate, financial products and processes. They do not consider sanitation loans as productive and viable.
- The urban credit societies have not been properly integrated within the SMM.

- MFIs are inclined to lend for productive livelihood activities.
- Banks have not been very responsive to the demands of a handful of MFIs who wished to enter the space, along with capacity building and technical inputs.
- Sanitation lending with high cost private investment funds would make sanitation loans costly and unaffordable to borrowers.

Way Forward

- Higher level consultations among the top managements of different banks, the ministry, and the state mission leadership for evolving operational guidelines linking the transfer of subsidy with credit accounts of beneficiaries.

- Creation of effective demand system at the level of SHGs. They may proactively integrate the issue of sanitation as part of their larger agenda of improving the health status of the local society.
- SHG federations may be used to generate demand on scale.

- Awareness creation at the credit society level is the first step towards motivating the cooperative system to introduce sanitation loan.
- Commitment to promoting sanitation loans can be incorporated as an element in the rating of cooperative institutions.

- The Commissioner of Cooperatives has issued a communication to all non-agricultural/urban/employee credit cooperative societies informing them that they can lend to members and employees at a rate of interest not less than the cost of deposit and not exceeding 5% of the total loan; the communication should reach all levels.
- Subsidy amount can be channelled to committed societies so that their risk perception will be minimized.

- Sanitation loan is an appropriate product for promotion under MFI-bank partnerships (managed portfolio component). Such partnerships can be structured selectively for regions with a high demand for sanitation loans.



Situation assessment-Overall

- The skewed nature of banking in Maharashtra and the concentration of banking activity in metro branches imply that inadequate banking resources are available for regions that most require them.
- The indifference of banks towards causes like developing household sanitation system is a reflection of this imbalance in banking distribution and the structure of priorities it creates.

- UCBs aspire to be like their commercial banks. They wish to be part of the food credit consortium, lending against regulatory assets, lending to big infrastructure projects, investing in securitised assets, becoming trading members in the currency derivative segment and trading in derivatives/ overnight index futures and swaps as also to convert to commercial banks

- A substantial component of the cooperative societies have been abused for personal and political gains, eroding its economic value and social credibility. The efforts to revive and professionalise this system have the attendant danger of exclusion of the most vulnerable sections of rural and urban populations. This would further alienate cooperative societies and banks from supporting causes like sanitation, the intrinsic merit of which is more social and economic.

- SHGs hold great relevance and promise in the sphere of sanitation credit. They can provide mutual guarantee for repayment.
- Commercial microfinance institutions seem to have serious limitations in addressing the demand for sanitation credit mainly because of their high cost of lending. Only those MFIs who have some ideological or programmatic commitment to socio-economic development have ventured into lending for construction of toilets.

- There is no institutional mechanism that connects the existing market potential with even the resources already earmarked for the purpose of financing sanitation needs.
- The existing initiatives highly fragmented.

- A consortium approach is the need of the hour.
- The central and state governments, banks, NABARD, cooperative federations and organisations like MAVIM need to come together on a single platform to strategise and design policies that enable increased flow of credit to meet household level demand for financing construction of toilets and sanitation systems.

Mapping the Salience and Role Clarity of Stakeholders in Sanitation Lending

Stakeholding systems	Actors	Salience	Role Clarity
Commercial banking system	Banks	***	*
	SLBC	*	*
	Regulator	***	**
	State	***	*
Cooperative banking system	Coop bank/society	****	*
	Federations	*	*
	Commissioner	*	*
Microfinance system	SHGs	****	**
	MFI	*	*
	SHPIs	**	*
	Federations	***	*
	SULM	***	*