



Meeting on Sanitation Finance Landscape study of Financial Institutions in Maharashtra

ISC Maharashtra Taskforce
Meeting Report

5th February 2018

Background

A meeting of the India Sanitation Coalition (ISC) – Maharashtra Task Force was held on February 5, 2018, on the premises of the All India Institute of Local Self Government (AIILSG). This meeting focused on a critical area, of sanitation financing and discussed the findings of two studies undertaken by the CEPT University as a part of its ongoing activities.



Centre for water and sanitation (CWAS) at CEPT University is an active partner under ISC Maharashtra Task Force. CWAS shared findings of two studies related to sanitation finance: a) landscape study of different Financial Institutions (FI) for sanitation finance in Maharashtra, undertaken by Dr Tara Nair of Gujarat Institute of Development Research, and b) a study of demand for sanitation finance in urban Maharashtra undertaken by the IMRB, New Delhi.

Besides the Task Force members, the participants also included All India Institute of Local Self Government- Mumbai (AIILSG), Water.org, Federation of Indian Chambers of Commerce & Industry (FICCI), Gujarat Institute of Development and Research (GIDR), Suryodaya Small Finance Bank, Raina Advisors, GRUH Housing Finance, SEWA GrihRinn, MAVIM, Samhita, Dalberg and Habitat for Humanity.

Demand Assessment Survey- Sanitation credit in Maharashtra:

A study of demand assessment for sanitation was carried out to assess the extent and nature of demand for sanitation finance requirement in Maharashtra. It outlines the extent to which finance constraints affect SBM implementation. It also looks at the extent to which households are aware of financing options and the reasons for households not applying for SBM scheme despite being eligible. For this study, the target group were divided into 3 categories:

- Progressives: Applied for SBM subsidy, approved and toilet successfully built or building
- Onlookers: Applied for SBM subsidy, approval given but not started construction
- Laggards: Not applied for SBM subsidy though do not have a toilet

A careful analysis of the three target group categories reveals that the basic awareness on the importance of sanitation and use of toilets has been established, with even the third category of households (do not own toilets and have not applied to SBM subsidy) realizing the need for a household toilet. It highlights that majority of the all the 3 categories households had considered to build a toilet. The results show that lack of funds is the main constraint for the households to build toilet. The study was conducted by IMRB for C-WAS, CEPT University.

Landscape Study of Financial Institutions- Maharashtra:

The focus of this study is on assessing the possibility of enabling sanitation credit in urban areas in Maharashtra by a range of financial institutions. The financial institutional consists of commercial banks, cooperative banks and societies, and microfinance institutions. It also captures the SHG and its bank linkages model, MFI models, etc. The study captures their current and potential role in providing sanitation credit to households for building good quality toilets. It discusses the challenges and the steps which can be taken to promote sanitation credit in urban areas.

Meeting Deliberations and Action Points



Priority Sector Lending (PSL) and Banks

- On PSL, despite the new provisions for social infrastructure, available data suggests that actual disbursement of loans under 'Social Infrastructure' is really very limited. Also, the disbursed loans appear to have been given mainly to large infrastructure, possibly for schools and health facilities.

- The possibility of getting a specific sub-target prescribed for sanitation finance under PSL looks difficult. Further efforts will be needed at the central government level for this.

- It would be useful to pursue with some banks to explore the possibilities of taking up sanitation projects under PSL and get their branches to consider such lending. However, support of committed intermediaries like NGOs would be very essential to aggregate the demand for sanitation credit at the local level. Bank Mitras or banking correspondents can also help with such mobilization and aggregation activities.
- We understand that the Ministry of Drinking Water and Sanitation (MDWS) has suggested to the Ministry of Finance (MoF) that specific targets for sanitation lending be set for banks. MDWS has also recommended that lending for sanitation should be made a priority for State Level Banking Committees (SLBCs) and District Level Coordination Committees (DLCCs).

Key action points:

- Approach Govt of Maharashtra (at a high (the CM?) level with a request to make the State Level Banking Committee (SLBC) prescribe targets for sanitation credit in the State and District Annual Credit Plans.
- Motivate a few interested public and private sector banks to take up sanitation credit. It was suggested that this can be explored with HDFC Bank, ICICI Bank, State Bank of India, Bank of Maharashtra and IDBI Bank.
- Take up advocacy through Indian Bank Association (IBA) to promote sanitation finance.

SHGs and Bank Linkages

- SBM (G) clearly mentions the role of SHGs as micro financing structure for sanitation credit and suggests possible structure for sanitation product. However, the SBM (U) guidelines has limited the role of SHGs as mobilizing agents. Micro financing function as an option through SHGs seems to be a critical gap in the SBM- U guidelines.
- Typically, SHGs can leverage up to 3-5 times of their savings. Consolidated information on SHGs at the state level shows that the situation is very poor in terms of SHGs ability to mobilize credit despite the high savings levels. The current SHG-Bank linkages mainly focus on livelihood related activities and there is limited focus on social infrastructure. Thus, it was suggested that there is great scope to take up credit activities with SHGs. The credit-deposit ratio of SHGs is quite low. The Water.org experience shows a positive result working with SHGs across multiple states including Tamil Nadu, Karnataka and Maharashtra. Water.org is willing to share the information for further analysis.
- While for rural areas, there is a relatively presence of SHGs in Maharashtra, and MAVIM is engaged in all districts through their CMRCs – such a strong presence is not available readily for urban areas. MAVIM has now initiated support in urban areas for SHG capacity building.
- Example of MAVIM was discussed which provides a good model of working with SHG-bank linkages through their CMRCs. Through support from Water.org, MAVIM is working in all districts in Maharashtra for rural areas and has already made 3000 WASH related loans. MAVIM has initiated work in Jalna Municipal Corporation with support from CEPT, to link SHGs with banks for sanitation credit.
- Umed (MSRLM) also will be key as they have huge coverage with regards to SHGs in Maharashtra

Key action points:

- Advocacy to SBM(U) to recognise the credit-linked SHGs for making sanitation loans to members.

Cooperative Sector

- The FI Landscape presentation suggests that Maharashtra is a key state for the cooperative finance – with the largest number of Urban Cooperative Banks (UCBs) as well as Urban Credit Cooperative Societies (UCCSs). It would thus be useful to explore the possibilities of sanitation credit with them.
- While there have been isolated cases of these institutions taking up sanitation credit for their members, often with a social outlook, it has not been scaled up to the extent it seems possible.
- PSL regulation is not applicable for co-operative sector, but credit co-operative sector will have to comply with weaker section related clauses where sanitation credit will be appropriate.

Key action points:

- It would be good to arrange a meeting of potential UCCSs and UCBs, in partnership with the relevant Cooperative Sector Federations, to share some good practices. The objective of this would be to get more of these FIs take up sanitation credit for their members.

- It would be good to get sanitation credit activities included in the audit reports of coop societies. For this, it will be useful to follow up with the Registrar of Cooperative Societies as well as the UDD to request this. Good to also pursue with Government of Maharashtra about this.
- Need to identify and follow up with a few large credit cooperative societies, especially the large credit unions through which sanitation credit maybe taken up.
- It would be good to explore advocacy for sanitation credit with co-operative federations, through the Swachh Maharashtra Mission for both urban and rural areas.

Credit Linked Subsidy Scheme (CLSS) for Sanitation

- The two HFIs, GRUH and SEWA Grih Rinn mentioned that there is considerable interest and uptake of the CLSS for housing under the PMAY. This is being done through NHB and HUDCO currently. While sanitation can be included under Housing Improvement in the CLSS, it was suggested to develop a similar scheme focused on sanitation as linked to SBM incentive.

Key action points:

- To develop a special CLSS type of scheme for sanitation, where banks, SFBs, HFIs and MFIs can get interest subvention to help reduce interest rates for the consumers. Based on the experience of HFIs, develop a draft scheme for further discussion and action. This can be discussed with MDWS, NHB and MOHUA.

Micro Finance Institutions and Small Finance Banks

- According to the Bharat microfinance report, Maharashtra is home to the largest presence of MFIs with a total portfolio of Rs. 65,800 million with over 39 lakh clients. Amongst these, Grameen Koota (GK) and ESAF have experience in sanitation credit in both urban and rural areas.
- MFIs would be key potential stakeholders to roll out sanitation credit related activities at scale. However, there is a need to think of innovative ways to reduce the cost of funds to MFIs to reduce the costs for household borrowers, possibly the way it has been done for housing finance. It was suggested to explore the possibility of developing an interest subvention mechanism (e.g. interest subvention through SIDBI for PSIG states), or an appropriate structure to capture a pool of CSR funds for interest subvention

Key Action points:

- Need to develop options for an appropriate structure to capture pool of CSR funds for interest subvention. Once this is done, effective communication mechanism/ outreach to corporates will be needed.
- Most of the MFIs are selling PSL certificates to banks and this channel tyo be explored further to mobilize sanitation credit. In this regard, it is better to understand this mechanism of PSL certificates.

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