

Assessing Credit Options for Household Sanitation in Urban Areas

June 2016

This page is intentionally left blank

Assessing Credit Options for Household Sanitation in Urban Areas

CEPT University

June 2016

Acknowledgements

This paper has been prepared under the Performance Assessment System (PAS) Project, CEPT University as an output under the Phase 2 of the project on 'Bringing Sustainable and Equitable Sanitation Services to Small and Medium Towns in India' being funded by the Bill and Melinda Gates Foundation and Department for International Development (DfID). In Maharashtra, the project is being implemented by CEPT University with support of All India Institute of Local Self-Government (AIIILSG).

The paper provides details of credit options available for household sanitation finance. Some of these options have been assessed in the two project cities of Wai and Sinnar under the project. These are backed by research as well as several meetings with Financial Institutions (FIs) in Maharashtra and other states in India. Their insights aided our ongoing work as well as helped us to plan our way forward. Financial Institutions with local operations in Wai, Sinnar and bigger cities around these were visited for discussions. We also met a few institutions in Mumbai and Delhi. We would like to thank them all for sharing their experiences from ground as well as requisite data and information with our team.

We are also thankful to Ms. Veena Mankar, Founder and Chairperson of Swadhaar Finserve Pvt. Ltd., for connecting us with many FIs in Mumbai and Delhi. The work on this paper was carried out by a team led by Meera Mehta and Dinesh Mehta and included Aasim Mansuri, Arpita Bansal, Dhanshree Zende, Dhruv Bhavsar, Kasturi Joshi, Madhura Mainde, Pallavi Palsokar, Utkarsha Kavadi and Vishwa Trivedi.

Meera Mehta
CEPT University
Ahmedabad, India

Dinesh Mehta
CEPT University
Ahmedabad, India

Abstract

Swachh Bharat Mission (SBM) for urban areas of the Government of India has put an emphasis on access to sanitation in urban areas. Under this, the Government of Maharashtra has initiated its Swachh Maharashtra Mission for Urban Areas. The partial incentive subsidy provided under these missions is only 25% of the cost of a toilet in urban areas. With a demand based model adopted in Maharashtra access to household credit becomes important in realizing the SBM and SMM objectives of universal access to toilets and open defecation free cities. Though microfinance institutions have generally taken lead in sanitation credit, it can also be provided by several other financing institutions in urban India such as banks, cooperative sector, and housing finance institutions. This paper provides highlights of credit options available for households in general and in the two project cities in Maharashtra. It also discusses the options for achieving scale, including strategies ranging from initial origination support to specific FIs to better implementation of policies such as sanitation in priority sector lending by the Reserve Bank of India.

Keywords: Sanitation, Urban, Household Credit, Swachh Bharat Mission

This page is intentionally left blank

1. Background

Since the launch of the Swachh Bharat Mission (SBM), there has been a great emphasis on access to sanitation and cleanliness in urban areas. The SBM for urban areas (SBMUA) envisages making all cities open defecation free by October 2019. Along with a major awareness and advocacy campaign, its focus is on ensuring that all households have access to improved toilet facilities. Government of Maharashtra has also initiated its Swachh Maharashtra Mission for Urban Areas (SMMUA) under the SBM flagship program. SMMUA envisages an ambitious move towards ODF cities by 2017 and ODF+ status where cities move towards universal coverage of household toilets along with safe treatment and management of waste water and faecal matter.

The allocations made under the SMMUA by both central and state governments are significant but will not meet the total costs, especially as cities start to move towards greater coverage of own toilets. The SBM and SMMUA allocations by the Government of India and Government of Maharashtra cover only 80% of households estimated to be defecating in the open as per the Census of India 2011. In Maharashtra, this is estimated to be about 0.8 million households. To move towards universal coverage of individual toilets, an estimated 2.6 million additional households will need to get access to resources to build their toilets. The incentive subsidy of Rs. 12,000 is only about 30% of the total cost of constructing a toilet in urban areas in Maharashtra. Thus, while, there is a likelihood of investment of nearly Rs. 80 billion in household toilets, only one-tenth is likely to be met from government subsidies. This clearly highlights the need to mobilize additional resources essentially through household credit. The need for additional finance through household credit is also highlighted by the fact while a significant proportion of households have applied for the incentive subsidy, construction rates have been low.

It is in this context that this paper provides details of credit options available for household sanitation finance. Some of these options have been assessed in the two project cities of Wai and Sinnar under Phase 2 of the project on 'Bringing sustainable and equitable sanitation services to small and medium towns in India' being funded by the Bill and Melinda Gates Foundation and DFID. The project is being implemented in two small cities, Wai and Sinnar, in Maharashtra with 2011 population of 36,000 and 65,000 respectively.

2. Overview of Options for Household Sanitation Credit in Urban Areas

Over the past decade, there have been several efforts in India for providing sanitation credit, particularly from the microfinance sector. A number of microfinance institutions (MFIs) have achieved considerable scale in lending for sanitation, most notable being Grameen Koota that has reached nearly 175,000 households with a portfolio of Rs 180 Crore (about 2.8 million USD) in 2014. Another MFI, Guardian, had provided sanitation loans to over 27,000 households by 2014.¹ Several other MFIs have also provided sanitation credit, though most of these have been in rural areas. MFIs have developed and expanded sanitation credit generally as a part of their Housing Improvement loan products. In most such previous efforts at promoting sanitation credit, as for example by the water.org through the microfinance sector and by the FINISH project in rural areas, the focus has been on the credit providers,

¹ See details on Mehta, Meera et.al. (2014), "Development impact fund: Towards making India open defecation free", presentation at a meeting at the NHB, New Delhi, and the website of MF Transparency at: http://www.mftransparency.org/microfinance-pricing/india/029-Grameen_Koota/P09-Sanitation_Loan/

who then provide loans in areas where they already have operations and a client base.² FINISH Project achieved about 500,000 toilets across 10 states and with 60 different partners.³

Our focus, however, is on all households without toilets in a given city. Given the financial landscape in Indian cities, a number of other options, besides the microfinance institutions, are also possible for household sanitation credit. However, compared to MFIs, other financial institutions in India such as commercial banks, cooperative sector banks and credit societies and housing finance institutions have not really so far explored sanitation finance as a key portfolio. Most of these institutions do have products for personal loans that can be used or dovetailed to household level sanitation credit. Also, it is important to recognise that these finances are available at 9 to 16% per annum rate of interest as compared to MFIs that charge interest rates ranging from 20 to 24% per annum. Thus, it is important to assess all available options for sanitation finance in a local context. Table 1 provides an overview of such options for sanitation credit, in cities in Maharashtra and the related terms and conditions.

Table 1: Assessment of Terms among Financial Institutions

Credit Option	Scheduled Commercial Banks		Credit Cooperative Banks / Societies	Microfinance Institutions	Housing Finance Companies
	Direct	Through SHGs/JLGs			
Loan type	Personal, House improvement	To SHGs	Personal, Home, Improvement loan, to SHGs	Home Improvement loan, to SHGs	Home improvement loans
Interest Rate / Repayment period	10 - 15% (1-5 years)*	9 - 12 % (1.5 years)*	10 - 20% (1 to 5 years)	20 - 27.7% (1-2 years)	15 - 21% (based on credit score) (2-7 years)
Loan amounts	Up to Rs 150,000	Rs. 20,000	No Limit Generally Rs. 20,000 to 40,000	Up to Rs. 40,000	Up to Rs. 50,000
Documents Required	Identity proof Address proof Income proof	Identity proof	Identity proof Address proof Income proof	Identity proof Address proof	Identity proof Address proof Income proof Property papers Life /property Insurance Past debt details
Credit history needed with lender?	No	Yes	No (membership required)	Yes	No
Collateral	Not required for loans up to Rs. 100,000	Identity proof	Not required for loans up to Rs. 25,000	Not required	Insurance Policies or mortgage
Guarantor required	No	Group guarantee	Yes	Group guarantee	Yes, by some
Provided sanitation loans?	No	Yes (few)	Yes (few)	Yes (few)	No

Source: based on discussions with various institutions in project cities. For Housing Finance Companies, this is based on the special product suggested by GRUH.

² See for example Tremolet S and Kumar R (2014), "Evaluation the potential of microfinance for sanitation in India", Research report for SHARE Project, LSHTM, UK.

³ finishsociety.org. 2016. *Progress Report FY 2014-15*. [ONLINE] Available at: http://finishsociety.org/progress_report.html. [Accessed 21 May 2016].

Compared to other options, microfinance institutions are able to provide loans with the least burden on households in terms of documents required and without any collateral. Their interest rate is however higher and the loans have to be repaid generally in up to 2 years.

While there is a widespread presence of scheduled commercial banks and cooperative financial institutions in cities in Maharashtra, it is important to note that sanitation credit is not likely to be aggressively pursued by these institutions. For banks, the main benefit would be that these loans would be part of the priority sector lending (PSL).¹ As per the new guidelines released by RBI for Priority Sector Lending on 23rd April 2015, banks can lend for building social infrastructure such as schools, healthcare facilities, drinking water facilities and sanitation facilities in tier II to tier VI centres. The revised guidelines released on July 2015⁴ more clearly recognize “sanitation facilities including construction/refurbishment of household toilets”. This implies that households are eligible to directly borrow from commercial banks at specified terms and conditions. It also includes Bank credit to MFIs extended for on-lending to individuals and also to members of SHGs/JLGs for water and sanitation facilities as eligible for categorization as priority sector under Social Infrastructure. Since the toilet loan size will range from 20,000 to 35,000 rupees and the Self Help Groups are categorised under the weaker section, loans can also be included under the Weaker Section Category (WSC) for PSL. Thus for the lending institutions such as banks, it will be possible to include all sanitation loans as Priority Sector Lending. This is a noteworthy development within sanitation space. Banks can also extend loans to MFIs under the PSL within the predefined margins and caps.

For some of the new banks such as IDFC Bank, besides PSL, this could also become a way to expand their client base, especially among the relatively lower income groups. Last year, the Reserve Bank of India also granted permission to several small banks.⁵ Some of them, such as ESAF and Ujjivan, are already engaged in providing sanitation or housing improvement loans. Similarly, for both MFIs and HFIs, sanitation credit can help expand their client base. The client base is important as it can lead to subsequent additional business for them. In addition, for MFIs, sanitation loans can help meet the basic needs of their clients and help to meet their own social performance targets.⁶ In a similar vein, over the past few years, a number of HFIs have been promoted with a focus on affordable segments and to address issues related to informal income or tenure. For them also, sanitation finance can be important and can help establish a client base for future housing improvement loans.

However, initial facilitation and push from headquarters of respective organizations will be required and clarity on specifics of the loan product would need to be conveyed at branch level in cities and towns.

Self-help Groups (SHGs)

Use of self-help groups (SHGs) in savings and credit process has been recognized to be a successful approach, especially when dealing with the poor and low income households with relatively informal jobs. A SHG is essentially a group of 5 to 20 women from different households. Generally the group is homogenous and self-selected, and is formed by women who live in the same neighbourhood. Leadership is generally by consent and on a rotation basis. Regular compulsory savings is the entry point and leads to internal lending with terms decided by the group itself.

⁴ Master Circular – Priority Sector Lending – Targets and Classification (RBI/2015-16/53) released on July 1, 2015 available online for download at https://www.rbi.org.in/scripts/BS_CircularIndexDisplay.aspx?id=9857

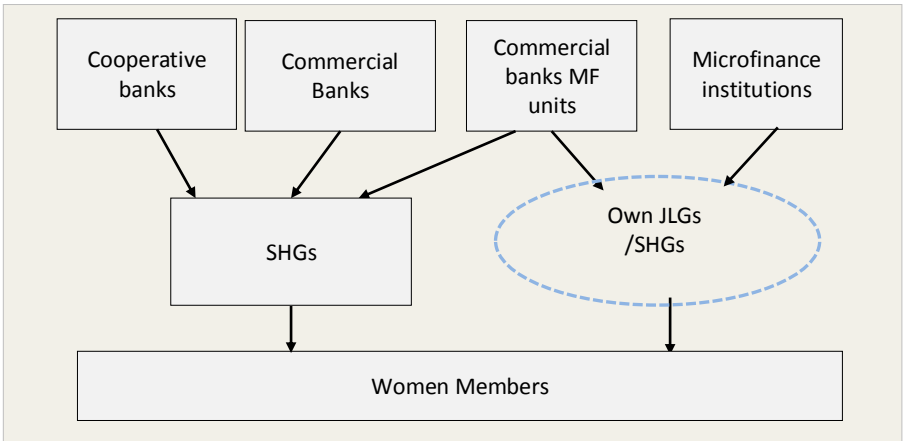
⁵ RBI Press release (2015), “RBI grants “In-principle” Approval to 10 Applicants for Small Finance Banks”, September.

⁶ See for example the discussion on this in Mehta Meera (2008), “Assessing microfinance for water and sanitation: Exploring opportunities for sustainable scaling up” a report for the Gates Foundation.

The approach has been used by the government under its Swarna Jayanti Shahari Rozgar Yojana (SJSRY) and under the scheme by NABARD to link the poor with banks for credit. The NABARD bank-SHG linkage program is for rural areas, but small towns under 50,000 population qualify under this program. In most cities, SHGs are formed by the local municipal Councils. These SHGs are authorized to have a bank account after one year of registration and operation. Under the new program of Jandhan Yojana, most households are likely to have a bank account, yet access to credit from banks is still not easy. The SHGs do provide a potential vehicle to get access to bank credit for the low income households, but it will be important to have a good assessment by banks themselves to avoid problems of credit risk.

The SHG approach is also being used by MFIs, as Joint Liability Groups (JLGs). This approach used by the microfinance sector is also being used by some of the private sector banks such as HDFC Bank and ICICI Bank. Both have special units that focus on development of these groups using MFI approach. For HDFC Bank, their department of "Sustainable Livelihood Initiatives" reaches the un-banked and under-banked segment of the population and offers them livelihood finance. Under this initiative, HDFC forms joint liability groups (JLGs) and lends to women in these groups. Their JLGs are mainly from APL families with 5-20 members per group. Initial loan amount offered is Rs 2 lakhs to a group of 10 women for 18 months. The interest rate at which the loan is offered is 20% for SHGs and 26% for JLGs. Countrywide under this initiative, 56.78 lakh households have been reached in 25 different states and the target is to positively impact 1 crore families in rural and peri-urban areas.⁷

Figure 1: Credit flows from financial institutions through SHGs/JLGs



The available framework of SHGs can be used as a vehicle for channelling sanitation credit to women to build toilets in their homes. The SHGs/JLGs linked to specific lenders (MFIs, Banks etc.) can avail loans from these institutions. While most MFIs already provide such loans, for others such as the private banks, it may be necessary to introduce such a product. For the SHGs developed by the local councils and which have accounts with commercial banks, sanitation loans can be explored to the group against a toilet plan prepared by the SHGs.

Alternatively, the SHGs provide a good base for mobilization and can be used to assess demand for credit. The women can then be supported to gain access to any available options such as from the cooperative sector, banks or MFIs. For example, in one of the project cities, Wai Urban Cooperative

⁷ www.hdfc.com. 2016. *Key Initiatives: Social Responsibility – Sustainable Livelihood*. [ONLINE] Available at: <https://www.hdfcbank.com/htdocs/aboutus/csr/social-responsibility.html>

Bank, when approached by women from a SHG through support from the project, has already extended loans to three women to construct their toilets. This was done essentially by drawing on the joint liability group model where women were guarantors for one another.⁸

3. Demand for Sanitation Credit in the Two Project Cities

Both cities show a possible latent demand for access to sanitation as about 30% of households in Wai and 35% of households in Sinnar do not have their own toilets. Detailed surveys in Wai suggest that nearly 80% of these households that do not have a toilet would like to have an own toilet, but are constrained by reasons of finance and space. Earlier state level surveys in Maharashtra also suggest that the main reasons cited by households for not building their own toilets were lack of space and affordability.⁹

The nature of demand varies across the two cities. In Sinnar nearly 7% of households reside in slums and of these slum dwellers over 90% lack access to individual toilets. Sinnar does not have any significant public housing schemes planned so far. However, most of the slums are located on public land and makes it possible for households to build their own toilets under the SBM.

In Wai, a large proportion of households (97%) are home-owners. While households staying independent houses or wadas generally have better access to own toilets, those in 'row houses' do not have their own toilet. In Wai, there is a high use of community toilets. These toilets are constructed by the local government and maintained through a management contract with a private NGO. These have been in use for many years and some of the households report satisfaction in using these. However, available global evidence suggests health benefits from use of own toilets¹⁰ along with greater convenience especially for the elderly and children.

Given the high demand for toilets, only about 50% of potential applicants have submitted their applications for construction of toilet to the local government in Sinnar. In Wai, only 12% of households without toilet have applied for a toilet construction under SBM. This is also despite the fact that in both cities the local governments carried out a number of activities to create awareness about SBM. A more detailed spatial analysis of toilet applications in Sinnar¹¹ suggests that the non-applicant households are distributed in wards dominated by old city area and slum settlements. Also, Sinnar municipal area was extended to cover a large part of the peripheral area. In these areas, households do not have toilets, and municipal water supply network is yet to be extended. . These areas will require further attention in terms of awareness drives and to build confidence among households that they will actually be able to access subsidies under the scheme.

One of the important reasons for the inadequate articulation of latent demand is the perceived lack of affordability. The cost of a basic toilet (with a water tank and a septic tank) in these cities is estimated to be about Rs 35,000 (about 550 USD). The central government, under SBMUA has made a provision for a partial incentive subsidy of Rs. 4,000 (about 60 USD). In Maharashtra, the state government provides an additional subsidy of Rs. 8,000 (about 120 USD). In the two project cities of Wai and Sinnar,

⁸See Box 2 for further details.

⁹ The surveys at state level were conducted in 2010 and the Wai survey was done in 2014. Wai survey was a full hundred percent coverage. The state survey in Maharashtra covered 7,690 households across the state, of which an estimated 34% did not have access to toilets in their home.

¹⁰ Heijnen M, Cumming O, Peletz R, Chan GK-S, Brown J, et al. (2014) "Shared Sanitation versus Individual Household Latrines: A Systematic Review of Health Outcomes" PLoS ONE 9(4): e93300. doi:10.1371/journal.pone.0093300

¹¹Refer Annex 3 for detailed spatial analysis.

the local municipal councils provide an additional subsidy of about Rs. 5,000 (about 75 USD). Even with these subsidies, there is still a gap of nearly Rs. -18,000 or about USD 275). It needs to be also understood that 50% of the subsidy is provided only on completion the toilet. Thus sanitation credit is required not only to meet the gap between cost and subsidy, but also as bridge finance to complete the full toilet. In practice, it is seen that toilet is aspirational. Once a household decides to build a toilet, there is likelihood that they would add a bathing space and use better quality fixtures and spend a total of Rs 45,000 on the toilet construction. This was observed from a preliminary survey of those who have initiated construction in the two cities under the SBM. This survey also showed that about 50% of households that initiated toilet construction had taken loans.¹²

Box 1: Demand for Sanitation Credit: What women said about taking a loan for toilets

“My daughters have grown up and it is **not safe to go out in the open at night**. Therefore I took a loan from credit co-operative society for constructing an individual toilet.”

“I have taken an internal loan of Rs. 5000/- through SHG for construction of toilet in the year 2009 as we had to **walk 20-25 minutes** to reach to the community toilet.”

“Everyone in our house resorts to open defecation. Our **relatives do not visit us** as we do not have an individual toilet. We feel it is very important to have a toilet. We are very much willing to take a loan for toilet.”

“We had to walk long distance for community toilets; it is not possible to go to these toilets during night. **We have left our home and moved to a rented house which has a toilet**, as we cannot to invest Rs. 40,000 – 45,000 at once, so we pay Rs. 3000 as rent instead.”

Suvarna Lokhande runs a tailoring business. She is a member of Sumananjali Bachat Gat, a JLG started with Spandana in 2008. The group has 10 members like Suvarna, each involved in different economic activities like papad making, laddoo making, running beauty parlor, tailoring etc. They have been taking loans from a MFI since 2008, loan amounts ranging from Rs. 10,000 to Rs. 50,000. Last year (2013) she took a **loan worth Rs. 45,000 as income generating loan but constructed a toilet instead**. Before constructing our own toilet, the family had to walk for 20 minutes to reach the community toilet. Moreover, it was very inconvenient during rainy season and at nights. Heavy traffic on the roads also poses a major problem. Therefore, she decided to construct an individual toilet.

Tara is an agricultural labourer from Wai, Maharashtra. She lives with her husband, two sons and a daughter in Bhimnagar slum. The monthly household income is around Rs. 5,500. Tara is a part of a self-help group (SHG), ‘Mahalaxmi Bachat Gat’ formed by Wai Nagarpalika under a government scheme, since 2008. There are 11 members in the SHG and each belongs to Below Poverty Line (BPL) category. Members of the SHG started with saving Rs. 100 per month and in a year saved enough to disburse internal loans. Before construction of toilet in 2009, the family used to defecate in open fields, at a distance of around 100 meters from their house. Tara and her daughter faced more problems as it was difficult for them to get the privacy they needed. Faces with these for her family she decided to construct a toilet. She could contribute Rs. 10,000 of her own but needed more money to construct toilet. She asked for a loan of Rs. 5,000 from the self-help group in the year 2009. The loan was approved by all the members and she was granted a loan of Rs. 5,000 at an interest rate of 2% per month. She repaid the loan to the SHG.

Source: Based on household interviews and focus group discussions in Wai and Sinnar.

¹² Based on monitoring in the project cities of Wai and Sinnar. The survey covered about 90 households in Sinnar and 60 households in Wai.

4. Assessment of Sanitation Credit Options in the Two Project Cities

Our preliminary landscape study of options for household sanitation credit suggests that households have a choice of approaching a range of financial institutions for toilet loan. Thus, rather than working with one particular type of financial institution to provide sanitation credit in a city, it is important to identify all potential institutions. Table 2 highlights the various financial institutions available in the two project cities. As a first step, inquiries were held with several institutions from each category to assess their interest as well as their terms and related requirements to avail credit.

Table 2: Presence of finance institutions in Wai and Sinnar

Institution	Sinnar (population 65,000)	Wai (Population 35,000)
Scheduled Commercial Banks	Branches of about 10 Public sector and 5 private sector banks	Branches of about 6 Public sector and 3 private sector banks
Urban Cooperative Banks – Branch office	About 4 Coop Banks	About 9 Coop Banks
Credit Coop Societies	About 24 credit cooperative societies	About 15 credit cooperative societies
MFIs – Branch office	About 4 MFIs with branch offices in Sinnar and another 3 in Nasik	No MFI branch offices in Wai city, but served by 3 MFIs in Pune
Housing Finance Institution – Branch office	No HFI branch office in Sinnar but served by HFIs in Nasik	No HFI branch office in Wai but served by HFIs in Pune and Satara

Source: based on local field studies. See Annex 1 for more details.

Both cities have a presence of scheduled commercial banks, cooperative banks and cooperative credit societies. While these institutions have so far not provided sanitation loans, they are generally willing to explore sanitation loans. Most credit cooperative societies interviewed in both cities expressed willingness to consider sanitation loans. The Commissioner for Cooperation and Registrar, Cooperative Societies (CC & RCS) has shown willingness to encourage the credit cooperative societies to lend for sanitation. For the societies willing to lend, the lending would happen under the category of 'general loans' which are unsecured personal loans. The loan amount would be below Rs. 50,000 with a repayment period of 4-5 years. The borrower however needs to be a member of the society with two other members willing to be a guarantor for the loan.

Comparatively, scheduled commercial banks, in general were far less willing to explore sanitation loans, especially through the SHG route. As we discuss below, it is likely that some of them have faced problems of delinquency from these groups earlier.

In Sinnar, where a number of MFIs have a presence, they have generally organized their own groups. For example, Grameen Koota which started operation recently in Sinnar has already organized about 150 groups. Grameen Koota, has a strong commitment to water and sanitation credit through its housing improvement loans. It also plans to provide such loans in Sinnar.

Housing finance companies do offer housing improvement loans at comparable rates, but have rather onerous documentation requirements. They also require insurance and their processing fees account for nearly 10% of loan amount. While many MFIs in India have introduced sanitation products, their

presence is more in rural areas. The presence of MFIs in the project cities is limited, with none in Wai and a few in Sinnar.

Both cities have a presence of SHGs, largely formed by the local governments under various programs. All the SHGs in Wai have bank accounts. However, less than half in Sinnar have a bank account as these were formed more recently. Their experience with credit repayment is mixed with some showing good performance. A few banks are hesitant to lend to these groups due to the past problems on delays and defaults, especially when loans were linked directly to government programs.

In addition to these publicly formed SHGs, both cities also have SHGs/JLGs formed by the HDFC Bank and a few MFIs in Sinnar. The HDFC Bank branch in Wai has lent to 142 groups, though some of these are in the city periphery areas. In Sinnar, HDFC Bank has around 40 groups (~30 SHGs and 10 JLGs) and has been lending to all of them. So far, the repayment rate in Wai is 100%. However, so far they have not considered sanitation loans. HDFC Bank did participate in the ‘Toilet and Lenders fair’ conducted in Wai where the footfall was high.

Table 3: Self Help Groups in Wai and Sinnar Cities

SHGs Promoted by	Sinnar	Wai
Local Council under SJSRY (with bank accounts)	284 (130)	155 (155)
HDFC Bank	35-40 groups	142 groups in Wai region, about 20 in city
Microfinance institutions	Grameen Koota (150 groups) Chaitanya Cooperative (9 groups) Spandana (120 groups), Asmitha (340 groups)	None

Source: based on inquiries with the local councils and other financial institutions.

5. Strategy for Increased Access to Household Sanitation Credit in Project Cities

The above analysis shows that there is demand for sanitation credit in cities, and there are several potential credit providers. However, support is needed for making a link between the suppliers and potential borrowers. This requires a strategy that includes demand mobilization and creating awareness among households about various options as well as for the potential lenders, making available information about the nature of demand and profile of potential borrowers. It will also be essential to help establish processes that will make it possible for these linkages to actually take place on ground. The lenders also need to ensure that loan fund is actually used for toilet construction and is used efficiently for an appropriate sanitation product. It is also important to avoid any political risks linked to defaults that may arise due to the political importance being given to the SBM program.

Based on experience in cities a number of strategies for increasing access to sanitation loans have been initiated. The first set of strategies focus on demand mobilization and creating links with potential credit providers. The Lenders’ Fairs held in each city focused on facilitating information sharing and links between households and potential lenders. The supply side strategies go beyond the project cities and necessitate interactions with potential financial institutions even beyond the cities.

Create awareness among current applicants of SBM about available credit options for getting sanitation credit in each city. This has already been initiated in each city where the applicants are given details of credit options along with the approval of applications (see Annex 5). Further efforts are

needed through awareness drives among households that have already applied for the SMM subsidy but have not initiated construction.

Demand mobilization and credit access through SHGs: Most cities have a large number of SHGs that have already been set up. Some of them have established links with different banks. One advantage of taking this approach is its applicability to many other cities in the entire state as well as many other states that already have a system of SHGs set up under Government of India and State Government programs.¹³

Efforts have already been initiated under the project by working with SHGs in Wai and Sinnar. Across these SHGs, nearly 40 women had an estimated demand for sanitation credit of about Rs. 400,000 (about 6000 USD). They are also assisted in identifying space for constructing toilets. Based on this assessment, women from two SHGs in Wai approached a local cooperative bank and have already received loans to build their toilets. Based on this initial success, a Nagpur-based NGO, CHF-India is now providing support to SHGs in Wai, and will facilitate access of interested women to take sanitation credit from local financing institutions.



Box 2: Sanitation Loans by Wai Urban Cooperative Bank

In Wai, support was provided to two SHGs in identifying potential applicants for toilet construction programme. . As a result of this effort, three women applied for the toilet subsidy scheme to the Wai municipal council under the Swachh Maharashtra Mission. Applications of all three were approved and they received the first subsidy instalment of Rs. 6000. To raise the remaining amount required for actual toilet construction, the women were supported to approach the Wai Urban Cooperative Bank (WUCB). Each of the three women borrowed Rs. 20,000 from the WUCB at an interest rate of 11% for 1 year. They became guarantors of one another, and the Bank did not require for any other collateral. Construction of all the three toilets has been completed and the households have started using them. One of them has already repaid the entire loan amount and the other two are paying the instalments regularly.

Most of these SHGs have been formed under different government programs with support from the Urban Councils. These are now being supported through a National Urban Livelihood Mission (NULM) for the larger cities and a State Urban Livelihood Mission (SULM) for the smaller cities. Under these, financial inclusion is promoted and SHGs are trained on book keeping, accounting, developing linkages with banks, forming federations at area and city levels and establishing links to ULBs to mitigate social, occupational and residential vulnerabilities. This route can be utilized to empower SHGs to get sensitized on sanitation and to access credit from banks and other financial institutions to build household toilets. By adding the sanitation component in the ongoing capacity building efforts for SHGs, it will be possible to better link the SBM processes.

¹³ For example, Self-help Groups (SHGs) have been formed by most urban local governments under the Swarna Jayanti Shahari Rozgar Yojana (SJSRY) program of the Government of India. These are now being supported under the National Urban Livelihood Mission (NULM) and State Urban Livelihood Mission (SULM).

As a result of recent efforts in Wai, a task force committee for SULM has been formed at Wai Municipal Council. Members of this committee include Chief Officer of the council, Lead District Manager from Lead Bank of the district, 2 bank managers from the local branch, 2 city representatives, general manager of district industries centre and few other members from the town. These committee members are scheduled to meet once, every month. Any proposal/project for the town can be discussed during these meetings. The proposal can then be forwarded to the banks for financing. Linking SULM with SBM via empowering SHGs can be discussed during these meetings for facilitating toilet construction. A proposal for this can be submitted to the banks for financing.

Special awareness drives in selected clusters: Our assessment shows that despite latent demand, there are some areas in each city from where less demand for toilet is manifested. Based on discussions with households, it appears that some households lack adequate knowledge of the scheme and are hesitant to apply as they perceive affordability constraint. For some others, there is a lack of understanding of the application process. Annex 3 provides highlights of this assessment. An awareness drive is needed incorporating different aspects such as: a) better understanding of the scheme process to create confidence, b) to share potential health benefits of shifting from community to their own toilets, and c) possible credit options to enable them to decide on appropriate options and to meet the affordability constraint for toilet construction.

Lenders Fair can be a good mechanism to support a market place for interactions among potential scheme applicants and credit providers or lenders. These fairs have been organized in both project cities with a fairly good turnout and footfall. The fairs were organized in partnership with the local municipal councils and exhibitors included toilet providers, sanitary ware merchants as well as potential credit providers.

Such fairs can be used to invite all potential applicants in the city. This can help in demand mobilization by creating greater awareness about the scheme and possible credit options. For the lenders, it will provide with a first-hand interaction with a large number of potential applicants and help improve their lending products. For example, in response to the queries and interest during the Fair, HDFC Bank has decided to explore the possibility small groups (of 5 rather than 10 women) for such lending, Harihareshwar Bank decided to waive their processing fees and GRUH has decided to explore options to deal with issues related to land/house ownership.

Box 3: Toilet and Lenders fairs in Project Cities

In partnership with the local city councils Toilet and Lenders Fairs were organized in both Wai and Sinnar, the two project cities. The main purpose of these fairs was to create a platform for interaction and information exchange for different stakeholders like various sanitation technology providers, sanitary ware suppliers, financial institutions and applicants of the SBM toilet scheme. Fair was conducted with an aim of making people aware of the various options of toilet construction and different loan products available in the market. Participants of the fair displayed their product and technologies at their stalls for the visitors.

Support to interested lenders for sanitation credit: During initial inquiries, a number of financial institutions evinced interest, but it was also clear that many of them had never done sanitation loans. It is important to recognize that even when a financial institution is present in the city, it is essential to establish links with the senior management in order to get them to consider sanitation finance. Many of them – especially commercial banks and MFIs in Sinnar, when approached in branch offices in the

project cities, indicated that their loan products are designed by head office. This suggests that efforts will need to be made to convince the senior management of these institutions to design a loan product for sanitation or facilitate the use existing products for this purpose.

To convince other FIs such as HFIs and Microfinance arms of commercial banks, different support measures would be needed. Many of these institutions would require initial aggregation of eligible borrowers. This may be achieved through a NGO or an intermediary organization to help mobilize clients to demonstrate the existence of a potential market. However, they would also need to put their own resources to further build a market. The initial support is only to help them gauge the market in a new geography and a new product. During our meetings with several FIs, such origination support has been requested. The FIs would also need assistance to liaison with the local government as the SBM application and subsidy release process is managed by the local government. This is also likely to be a relatively new area for these FIs.

Box 4: Support to Lenders for Sanitation Credit in Wai and Sinnar

A few potential lenders such as GRUH, a housing finance company has shown strong interest in sanitation credit. For this they have also developed a special product as part of their housing improvement loans. However, GRUH will need support to mobilize clients for this product in the city. Another Housing Finance Company (Micro Housing Company Limited), which focuses on affordable housing segment, showed interest to exploring sanitation finance in the project cities. MHCL will also need support in identifying potential clients. MCHL is flexible in terms of details of income and tenure proof needed by them.

Both GRUH and MHCL are HFIs and do not require a SHG base and a prior loan cycle. However, most MFIs will require a base in the city and at least one cycle of loan. An established MFI such as Grameen Koota which has a strong presence in Maharashtra – both rural and small cities, has a branch in Sinnar one of the project cities opened about 6 months ago. Based on meetings with senior management, it has been decided to promote sanitation loans there. Others such as HDFC Bank MF unit also have shown similar interest. Such lenders may be supported in exploring potential clients (households or SHGs) in the project cities.

In general, the MFI type lenders who do not have a base in the city will require more time before they can undertake sanitation loans. However, those with a presence in Maharashtra, such as Suryoday, Janalakshmi, ESAF and Ujjivan can be approached to assess their interest in taking up sanitation finance in other cities in Maharashtra.

Access to funds for FIs: While a number of lenders are likely to come forth to extend sanitation loans, two issues plague the prospects on a wider scale. First, is access to funds for financial institutions that can be used for sanitation credit (i.e. for activities classified a non-income generating activity). MFIs, in particular are affected by the RBI regulations in this regard. However, with the recent changes in the PSL guidelines as discussed earlier, this constraint can largely be addressed.

Another route to pursue would be to get sanitation included as an explicit part of the Annual Credit Plans which provide targets for key areas of priority sector lending as per the RBI guidelines. This would help provide specific sanitation related targets for all participating banks in the district.

Box 5: Annual Credit Plans under Priority Sector Lending

The Lead Bank Scheme was initiated in 1969 by the Reserve Bank of India (RBI) to involve credit institutions especially, commercial banks, to become drivers of economic progress and social development. In each district, a concerned bank is designated as the Lead Bank. The Lead Bank in coordination and consultation with other banks in the district as well as government officials prepares Annual Credit Plans. During this process, critical infrastructure gaps are also identified. Under the leadership of Lead District Manager, a meeting of Block Level Bankers' Committee (BLBC) is organized to discuss the block-level credit plans which are aggregated to District Credit Plans (DCP). The DCPs are reviewed by District-level Consultative Committee (DLCC). Inputs are taken from District Development Manager - NABARD, relevant government agencies, district co-ordinators of all participating banks and Lead District Manager before finalizing the plan. DCPs are eventually consolidated to form a State Level Annual Credit Plan that is then finalized by State Level Bankers' Committee (SLBC) and the State Convener Bank. As per RBI's guideline, the State Level Annual Credit Plan is launched by 1st April of every financial year in RBI format.

As sanitation is now included in the new PSL guidelines, it should be mentioned explicitly under the Annual Credit Plans with appropriate targets. Local Governments can support the lead district managers by providing accurate data on gaps in sanitation infrastructure to assess the credit need at block, district and state level and total quantum of funds to be earmarked as credit by financial institutions. This would help provide specific sanitation related targets for all participating banks at district and state levels as well as help the banks achieve a percentage under the PSL.

A meeting with one of the Lead District Managers in the state informed us that sanitation is being considered for inclusion followed by revisions in the Annual Credit Plans. Banks will be eligible for lending towards sanitation under PSL. However, initial facilitation and push from headquarters of respective organizations will be required and clarity on specifics of the loan product would need to be conveyed at branch level in cities and towns.

A loan under this would be available for an amount of Rs. 50,000 or below at around 11.2-11.6% for a tenor of 5 years. Quotation for toilet construction, KYC document and land ownership proof would be required for documentation. Since the scheduled commercial banks have a large network of branches, this would address the issue of scale.

Loan fairs are conducted at taluka level in districts to spread awareness on various loan products under PSL. As per the lead district manager, sanitation loans can also be included as a part of these fairs.

6. Way Forward – Credible Pilots and Moving to Scale

Based on the assessment in project cities and the strategies identified above, it is clear that there is a potential demand for toilet credit that has been unlocked by the Swachh Bharat Mission. The challenge is in getting the households to articulate this demand. Upon manifestation of the demand, households need to be facilitated to access credit to build individual household toilets.

A multi-pronged strategy is needed as discussed above which helps mobilize demand on one side and simultaneously supports various potential lenders to enter or scale up their sanitation finance. Efforts are needed at city level to try different approaches through pilots as detailed in strategies above and draw lessons. However, it is also important to focus on ensuring scale where a large number of cities in the entire state can be reached.

To achieve scale, links will need to be established with larger MFIs such as the Grameen Koota that have a pan-Maharashtra presence across several cities. Further efforts with other MFIs such as Suryoday, Janalakshmi, Ujjivan and ESAF which have a presence in Maharashtra will need to be pursued. Similarly, a HFI such as GRUH, which has developed a specific sanitation product and has branches in more than 45 cities in Maharashtra, can also help attain scale. However, first efforts will be needed to effectively demonstrate a market for their product in a few cities.

Scale can also be achieved using the SHGs route by exploring links of SBM with the State Urban Livelihood Mission (SULM). Concurrently, efforts should be made to make Sanitation an explicit part of the District Annual Credit Plans which provide targets for priority sector lending as per the RBI guidelines. This would provide specific sanitation related targets for all participating banks.

Further follow up will also be required at the state and national level to mobilize funds for support to financial institutions in establishing new products and markets for sanitation and the need to better understand the Swachh Bharat Mission programme. The initial hesitancy in taking up sanitation finance by many of the financial institutions revolves around a lack of deep understanding of this space. Access to such funds for market making, and for aggregation of demand in new areas, will help overcome this barrier for financial institutions. It would be useful to have a credible national or even state level institution set up a special fund for this purpose with funding from donors and through CSR.

Lessons from ongoing efforts in mobilizing household sanitation credit in project cities along with wider discussions with financial institutions provide guidance on emerging directions. These will help ensure that access to sanitation finance becomes possible at scale and will effectively help realize the objectives of the Swachh Bharat Mission.

Annex 1: List of existing financial institutions surveyed in Project Cities

	Sinnar	Wai
Scheduled Commercial Banks	<p><u>Public:</u> State Bank of India, Bank of Maharashtra, Bank of Baroda, Bank of India, Union Bank of India, Dena Bank, State Bank of Hyderabad, Central Bank of India, Canara Bank, IDBI</p> <p><u>Private:</u> Axis Bank, HDFC Bank, ICICI Bank, Yes Bank, IDFC</p>	<p><u>Public:</u> State Bank of India, Bank of Maharashtra, Bank of Baroda, Bank of India, Union Bank of India, IDBI Bank,</p> <p><u>Private:</u> Axis Bank, HDFC Bank, , ICICI bank</p>
	<p><u>Other banks in Nasik:</u> Indian Overseas Banks, Punjab National Bank etc.</p>	<p><u>Other banks in Pune:</u> Dena Bank, State Bank of Hyderabad, Central Bank of India, Syndicate Bank, Indian Overseas Bank, Canara Bank, UCO Bank, Vijaya Bank, Punjab National Bank etc. + ICICI Bank, Indusind Bank etc.</p>
Credit Cooperative Banks	Sangamner Merchant Co-op. Bank, The Nashik Road Devlali Sahakari Bank, The Ojhar merchant co-operative bank, Shri Mahesh Co-operative Bank Limited	The Wai Urban Cooperative Bank, DMK Jaoli Bank, Om Dutta Chaitanya Bank Limited, Harihareshwar Sahakari Bank Limited, Janta Sahakari Bank Limited, Janta Urban Cooperative Bank Ltd., The Karad Urban Cooperative Bank Ltd, Prarthamik Shikshak Sahakari Bank, Satara District Credit Cooperative Bank
Credit Coop Societies	About 24 credit cooperative societies	About 13 credit cooperative societies
MFIs	<p>In Sinnar: Grameen Koota, SKS MF, Spandana Sphoority Fin Ltd, HDFC Microfinance, ICICI Microfinance, Chaitanya</p> <p>In Nasik: Equitas Microfinance, Grama Vidyal MF Ltd, Ujjivan Financial Services Ltd, Suryoday, Grama Vidyal,</p>	<p>In Wai: HDFC Microfinance, ICICI Microfinance, IDBI Microfinance</p> <p>In Pune: Mann Deshi Mahila Sahkari Bank Ltd, Suryoday Microfinance, Grameen Koota, Ujjivan Financial Services Ltd, Equitas</p>

Source: Based on local inquiries and surveys.

Annex 2: SHG profile, Wai and Sinnar, Maharashtra

Parameters	Wai	Sinnar
Number of SHGs	155	284
Number of SHGs formed before 2005	20	15
No. of women involved in SHG	1010	2200
SHGs with bank accounts	155 (all)	130
Banks having SHG accounts	Bank of Maharashtra, State Bank of India and Bank of Baroda	Bank of Maharashtra, State Bank of India, Bank of Baroda and Union Bank of India
SHGs that have taken loans	40	31
	Max. 2,00,000/-	Max. 3,00,000/-
Rate of interest (for loans from banks)	10 - 12% p.a.	10 - 12% p.a.
Purpose of loans (from banks)	Income generation	Income generation
Loan Repayment period (from banks)	1 to 7 years (Depending upon the amount and type of loan.)	1 to 7 years (Depending upon the amount and type of loan.)
Collateral requirement	Nil	Nil
Size of internal loans (Rs.)	Min: 1000 Max: 7000	Min: 1000 Max: 10000
Rate of interest for internal loans	1 – 2%	1 – 2%
Purpose of internal loans	Income generating activities, house improvement, education, medical, domestic use, toilet construction	Income generating activities, house improvement, education, medical, domestic use
Repayment period for internal loans	1 – 3 years	1 – 3 years
Average monthly contribution per member towards savings	Rs. 75/-	Rs. 75/-
Avg. no of members with a toilet /SHG	2	1
Loan amount taken per SHG from Banks	Min. 50,000/-	Min. 70,000/-
Willingness to take toilet loans	Yes (Out of 25 SHGs interviewed, 23 SHGs are willing to take toilet loans)	Yes (Out of 30 SHGs interviewed, 15 SHGs are willing to take toilet loans)

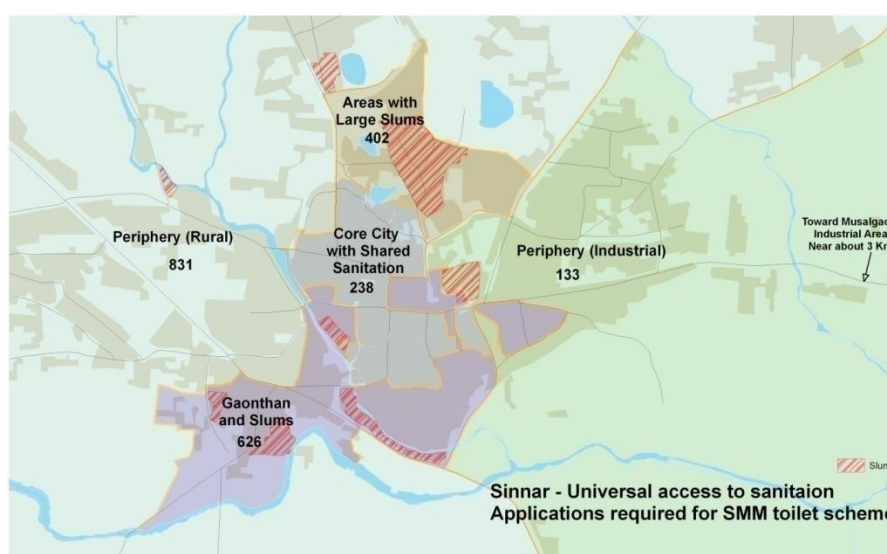
Source: Based on information from local councils, and surveys in 2014. More detailed surveys are currently under way in Wai.

Annex 3 – Areas in Sinnar that require special efforts at demand mobilization

A detailed analysis of applications received after about 9 months of the scheme launch suggests that some areas in the city have done fairly well. When assessed in terms applications received a share of potential applicants assessed in terms of households without individual toilets the city can be divided in about 5 areas as illustrated in the table below and the map. Specifically, there are three types of areas where considerable efforts are needed to mobilize further applications In order to move towards universal access to individual toilets. Type of efforts required to achieve this are likely to be different. In the periphery areas with largely rural character, the focus of demand mobilization maybe both on awareness and need for toilets and addressing affordability concerns by sharing details of possible credit options. On the other hand, in areas with slums settlements, and covering some part of gaothans, issues are more related addressing space constraints by facilitating ideas of group toilets along with credit options. It is also useful to build confidence of households/ communities by sharing details of the scheme process and successful implementation in other areas.

	Applications received as a % of households without individual toilets	Additional applications needed for universal coverage (%)	Reasons for performance and nature of efforts needed
Areas requiring attention for demand mobilization			
Gaothan and central slum areas	33.0	626 (27.9)	Affordability, space concerns and lack of confidence in schemes
Large slums areas on the outskirts	37.5	402 (17.9)	Affordability and space concerns
Periphery areas (rural)	29.9	831 (37.1)	Lack of awareness about need for toilets and affordability
Areas with reasonable/ good performance			
Core city with shared sanitation	32.4	119 (11.1)	Core city areas where shared sanitation is practiced among relatives and neighbours
Periphery (industrial areas)	78.0	133 (5.9)	Greater awareness due to settlements of sanitary workers and industrial workers
Total	40.0	2230 (100%)	

Source: Based on spatial ward-wise analysis of applications received from the SBM portal and Sinnar water audit study.



Annex 4: Toilet and Lender Fairs in project cities

A Toilet and Lender's fair was organized in Wai and Sinnar by their Municipal Councils and PAS team for the citizens. In both the cities, a toilet scheme under Swachh Bharat Mission and Swachh Maharashtra Mission is being implemented. Under this scheme, sanctioned applications receive a subsidy for constructing toilets. Considering the cost of construction vis-a-vis socio-economic condition of the applicants under the scheme, it was realized that subsidy alone will not be sufficient and there was a need of loan option to be explored in the market. Also, it was necessary to make people aware of the various available options of constructing a toilet so that they select the one which is financially viable yet technologically sound as per their needs. Thus a fair involving various stakeholders was organized. The stakeholder group included various sanitation technology providers, sanitary ware suppliers, financial lending institutions and most importantly the residents of the both the cities. The applicants were informed about the event through different means like hoardings at prime locations around the city, local audio announcements, bulk SMSs, flyers in the newspapers etc.

Both, in Wai and Sinnar, the fair were organized in the vicinity of the Municipal Council building. It was inaugurated by the official of the Municipal Council.

In the outreach activity, various toilet manufacturers, credit institutions and toilet ware suppliers were contacted in order to understand their products and solicit their participation. Finally, the fair in Wai was participated by 4 financial institutions, 4 technology providers and 1 sanitary ware supplier. Whereas in Sinnar, the fair was participated by 2 financial institutions, 3 technology providers and 2 sanitary ware suppliers. Participants of the fair displayed their product and technologies at their stalls for the visitors. Precast toilet blocks installed on the site attracted huge crowd. Acceptance of this technology by the visitors was observed at the fair as these toilets can be installed in very less time and are comparatively cheaper. People inquired for the cost of the sanitary wares displayed on the stalls. Individuals and SHGs willing to borrow loan for toilet construction discussed the details of the loan product with the banks present at the fair.




Municipal councils had also put up their stall at the fair. In Sinnar, around 100 work orders were distributed amongst the applicants whereas in Wai, 110 toilet application forms were distributed.

Both of these cities received a good response for the fair from the citizens. In Sinnar, the event was attended by ~ 200 applicants and around 37 inquired for loan. In Wai, the number of visitors was ~ 500 and around 60 individuals and ~25 SHG's enquired for loan.

Annex 5: Pamphlet for credit options

CREDIT OPTIONS FOR TOILET CONSTRUCTION




Do you have your 'Own Toilet'?

No!!

Why?

No Money ???




Where can you get a loan from?? Here are some options..

	Rate of Interest (%)	Documents Required	Maximum loan amount	Collateral	Repayment Period	Guarantors required?
Scheduled commercial banks	10-15%	• Identity and address proof • Income proof • Photograph	Rs. 150,000	Not required for loans up to Rs. 100,000	1 to 5 years*	No
Scheduled commercial banks (for SHGs)	9-12%	• Identity proof • Photograph	Rs. 20,000	No	1.5 Years*	Group guarantee required in some cases
Credit Coop Society/ Coop banks	10% - 20%	• Identity and address proof • Income proof • Photograph	Rs. 20,000-40,000	Not required up to Rs. 25,000	1 to 5 years	Yes
Microfinance Institutions	20% - 28%	• Identity and address proof • Photograph	Rs. 40,000	Not required	1 to 2 years	Yes (Group Guarantee)
Housing Finance Institutions	15% to 21%	• Identity and address proof • Income and employment proof • Photograph • Property papers • Details of past debt	Rs. 50,000	Required (Insurance policy or mortgage in some cases)	2 to 7 years	No

If you don't have money, have you ever thought of taking a loan for constructing your own toilet?

We take loans for house, health, education, vehicles etc...why not Toilet?

Total Cost
Rs. 35,000



SBM + SMA Subsidy:
Rs. 12,000

Credit requirement:
Rs. 23,000

Why not take Loan for Toilet?

Where do we get a loan from? Look back for some options:

People who have taken loans for Toilet construction

Mrs. Suvarna Lokhande, a resident of Sinnar runs a tailoring business. She is a member of a SHG since 2008. She took a **loan from the SHG to construct a toilet.** She has now repaid the loan fully.

Suvarna received a title of '**Swachhata doot**' from the Government of Maharashtra in October 2015.

3 women from 2 SHGs in Wai have received loans to construct toilets from the Wai Urban Cooperative Bank. Each woman received a loan of Rs. 20,000.


The loans have to be repaid in one year and carry an interest rate of 11%. The SHG women were guarantors for one other. No other collateral was required.

All three women have completed the construction of their toilets and are using these regularly.


* Repayment period may differ with type and amount of loan

Identity proof can be PAN card, Voter ID, driving license etc. Address proof can be property tax or electricity bill, ration card, bank statement, etc).

If the applicant or household does not have income proof, the agency maybe willing to assess income using indirect means.



Go to a nearest agency and inquire about the Loan Process...



Disclaimer: This information is provided to facilitate borrowing for toilet construction. The Nagarpalika or any other government agencies are not responsible for accuracy of this information. The borrower will have to ascertain facts and borrow on their own.

This page is intentionally left blank



The Performance Assessment System (PAS) Project

The 'Performance Assessment System – PAS' is an action research project, initiated by the CEPT University, Ahmedabad, with funding from the Bill and Melinda Gates Foundation. It supports development of appropriate tools and methods to measure, monitor and improve delivery of urban water and sanitation services in the states of Gujarat and Maharashtra. The PAS Project comprises three components of performance measurement, monitoring and improvement.

CEPT University has signed a Memorandum of Understanding (MoU) with Government of Maharashtra (GoM) for providing technical and strategic support through the PAS project for implementing Swachh Maharashtra Mission for Urban areas (SMMUA) and to improve access to individual household toilets for their citizens. The project is being implemented in partnership with All India Institute of Local Self-Government (AIILSG) in Maharashtra.

PAS Project

CEPT University,
Kasturbhai Lalbhai Campus, University Road, Navrangpura,
Ahmedabad – 380 009
Gujarat, India

Tel: +91-79-26302740

Fax: +91-79-26302075

www.pas.org.in