



Improving access to safe water and sanitation through collaborative efforts  
and policy-level change

Findings from an Outcome Harvesting Exercise

## Introduction – a national effort to be Open Defecation Free (ODF)

The Government of India (GoI) recognized the importance of achieving an open defecation free and clean India as an integral step towards development. Through the Ministry of Drinking Water and Sanitation (MDWS)<sup>A</sup>, the GoI launched the Swachh Bharat Mission (SBM) also known as Clean India Mission in 2014, which aimed to make India open defecation free (ODF) by October 2019. In 2019, Prime Minister Narendra Modi announced that the country had officially achieved ODF status. In the second phase of SBM, ODF-Sustainability (ODF-S) was initiated by the central government with a focus on continued use of toilets, maintenance of sanitation infrastructure (retrofitting and upgradation of infrastructure at the household level if needed), behavior change in hand-washing and personal hygiene, solid and liquid waste management, and capacity building towards community approach.

Under the 2017 SBM Guidelines<sup>1</sup>, for people below poverty line, the central and the state government shared the cost of toilet construction at the ratio of 60:40, although the households were encouraged to contribute and construct the toilet on their own to ensure ownership. However, the incentives were disbursed only after the toilet was constructed, which made access to upfront capital even more necessary. A study conducted by Dalberg in 2017 suggested an estimated market size for toilet loans of USD 12 billion. This was based on the estimate that at least 53 million rural households would require financial support for their toilets (Dalberg Global Advisors, 2017)<sup>2</sup>. This high demand would require innovative solutions like blended financing and supporting access to sanitation credit from banks, small finance banks, and microfinance institutions (MFI) through direct lending or the self-help group (SHG)-bank linkage program. Micro lending in water and sanitation was recognized as a valuable tool to advance the aim of India achieving and sustaining ODF status through commercial banks with greater geographical reach and lower rate of interest. Not only would it bridge the gap in government subsidy but also give the borrowers the option to construct better quality facilities.

While microlending to households might seem like an obvious solution, lending for purposes not perceived as income generating was considered high-risk. Therefore, small adjustments to existing policies to create an enabling financial environment that would encourage such lending were critical. The first adjustment to be made was in the revision of Priority Sector Lending (PSL)<sup>B</sup> guidelines. In India, banks are required to provide forty percent of their total lending to sectors recognized by the Reserve Bank of India (RBI)<sup>C</sup> as development priorities. The revised priority sector lending guidelines, released in via a Bank Circular in July 2015, recognized 'sanitation facilities including construction/refurbishment of household toilets' as falling under the Social Infrastructure priority sector. The same category also included 'bank credit to MFIs extended for on-lending<sup>D</sup> to individuals and members of SHGs<sup>E</sup>/JLGs<sup>F</sup> for water and sanitation facilities as eligible'. This update to PSL paved the way for commercial banks to start lending for water and sanitation loans through MFIs or through SHG linkages.

In 2017, RBI also included toilet construction as a category in their National Livelihood Rural Mission (NRLM)<sup>G</sup> policy, thus encouraging SHG members within that programme to avail of loans for realizing their water supply and sanitation (WSS) aspirations.

All systems need some nudge to evolve, and Water.org is proud to have been part of the forces that nudged the Indian system at this critical juncture in time. For more than 15 years, Water.org has been catalyzing micro lending solutions for people living in poverty through financial institutions, thereby facilitating access to safe household drinking water and sanitation across India. Encourged by success at the individual financial institution level and seeing the alignment between its mission and National SBM priorities, Water.org adopted a two-pronged strategy to institutionalize water and sanitation finance across the country: national-level advocacy and multi-stakeholder collaboration. This approach was utilized to co-conceive large-scale interventions that accelerated and advanced the National objective of achieving ODF.

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<sup>1</sup> Swachh Bharat Mission guidelines, December 2017

<sup>2</sup> Dalberg Global Advisors 2017 Toilet loans- Understanding the market potential: Landscape Review and Needs Assessment.

At the national level, Water.org has been working closely with the MDWS, now Jal Shakti, to champion WSS financing, and with the Department of Financial Services (DFS)<sup>H</sup> to motivate banks to increase their WSS portfolios and encourage more financial institutions across the country to embrace microlending for water and sanitation. An early collaboration with the national think tank, Niti Ayog, resulted in policy recommendations which highlighted microlending as a best practice when looking at financing strategies to achieve SBM targets that were highly influential in the RBI decision to include WSS in PSL. At a state level, Water.org has been partnering with others to build sustainable financing models that states can adopt to support and sustain ODF initiatives. One such partnership includes collaboration with the State Rural Livelihoods Mission (SRLM)<sup>I</sup> of Maharashtra, UNICEF, and financial institutions to demonstrate a viable WSS financing model and create buy-in among government and financial institutions to replicate and scale the model across the country – a model that is currently being replicated in Madhya Pradesh.

To clearly identify and interpret changes that have contributed in achieving the organization's goal of providing safe access to water and sanitation facilities to people in poverty through microcredit solutions, Water.org conducted an intensive Outcome Harvesting<sup>J</sup> exercise in late 2019. One of the key objectives of this exercise was to assess the systems-level influence and impact of its efforts to create an enabling ecosystem for WSS financing that would make WSS capital more affordable and accessible. The most significant outcomes derived from that undertaking are detailed out in this report.

## Incorporating water and sanitation within Priority Sector Lending (PSL)

PSL is an important strategy overseen by the RBI to ensure that finance reaches sectors considered essential for India's development. It directs finance towards these sectors by requiring that all banks allocate forty percent of their lending portfolio to those categorized as *Priority*. Water and sanitation was not classified under PSL until 2015. With banks generally uninterested to lend for "riskier" categories such as water and sanitation in addition to their forty percent PSL quota, Water.org and its MFI partners recognized the importance of getting water and sanitation included within PSL. Shifting water and sanitation lending within the protected and required category would reduce reluctance to lend and thereby catalyze dedicated lines of credit for water and sanitation through commercial banks to MFIs and SHGs.

Regular advocacy efforts by Water.org along with partners from the Albright Stonebridge Group<sup>K</sup> and Sa-Dhan<sup>L</sup> led to the release of a circular<sup>3</sup> by the RBI on 1st July 2015 which classified water and sanitation as sub-categories within the larger, newly-created PSL category of Social Infrastructure. This landmark policy change was a major feature that Water.org and other stakeholders could leverage to convince banks to start or increase bulk lending for water and sanitation.

### Impacts of PSL inclusion

Including water and sanitation within PSL was imperative not only to advance the government's aim of achieving and sustaining ODF, but also to provide a much-needed boost towards creating a sustainable financing landscape for WSS. The impact of including WSS under PSL:

1. **Increase in access to WSS facilities:** The circular introduced the extension of bank credit to MFIs for on-lending to individuals and members of SHGs/JLGs for water and sanitation facilities. This contributed to a total of 2,248,181 loans disbursed, 10,582,387 people reached, and \$495,808,441 capital mobilized<sup>4</sup> during the period of July 2015 to April 2020.

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3 Circular Number: RBI/2015-16/8 DCBR.BPD.(PCB). MC.No: 11 /09.09.001/2015-16;  
<https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=9815&Mode=0>

4 Data source is India country dashboard from 1st July 2015 to 30th April 2020 in WaterPortal which is an online MIS dashboard maintained by Water.org to measure the global impact of their work in water and sanitation

2. **Advocacy efforts with other government entities:** This circular opened communication channels with other government departments such as DFS and signaled the importance of micro lending for water and sanitation.
3. **Reaching a wider network:** The new classification of water and sanitation within PSL, and Water.org's contribution towards realizing that change, gave Water.org the confidence as well as credibility to increase partner networks and accelerate the uptake of WSS microlending across India.
4. **A thought partner to the MDWS:** The efforts to get water and sanitation classified within PSL began Water.org's longstanding engagement with the MDWS, which has evolved into Water.org's current status as that ministry's informal thought partner on water and sanitation financing. This was marked by another significant outcome in 2018 when the MDWS launched a handbook on credit financing at a national workshop in Delhi. The handbook, while developed by Water.org and UNICEF, is fully owned by the MDWS. It showcases useful tools and case studies that facilitate decision making at the state level to accelerate capital flow for water and sanitation.

Water.org and the MDWS (now known as Jal Shakti) continue to collaborate, leveraging each institution's assets to ensure that ODF status is maintained and close any remaining financial gaps that work against ODF-S.

5. **Integration into other government initiatives.** Two years after the PSL circular was released, Water.org helped ensure sanitation loans were included as an eligible category under the National Rural Livelihoods Mission (NRLM), a national programme that offers preferential lending opportunities to SHGs for qualifying purposes. This new status helped facilitate additional uptake of water and sanitation lending (see next Outcome).

## Water.org's Contributions towards PSL

Through its advocacy and engagement efforts with RBI and MDWS, Water.org helped update an existing policy to encourage WSS financing. This change led to increased water and sanitation lending by public and private banks, contributed to the achievement of SBM targets for ODF and is still functioning to promote ODF-S. Water.org's contributions to the inclusion of water and sanitation within PSL include:

1. **Regular engagement and advocacy with government bodies:** Water.org regularly engaged the MDWS to gain ministerial support in convincing the RBI to amend the existing PSL policy to include WSS lending. Water.org highlighted the natural alignment between the achievement of SBM priorities and water and sanitation lending - a complementary relationship that can stimulate private sector funds to address financing gaps. Both entities recognized that microlending, already included in the official SBM Guidelines<sup>5</sup>, was a valuable tool for achieving ODF status.
2. **Collaborating through partnership:** Water.org worked to build relationships with senior-level staff and develop internal champions at the MDWS to advocate for the importance of microlending in the water and sanitation sector. To lend strength to its advocacy efforts, Water.org additionally partnered with Self-Help Promoting Institutions (SHPIs)<sup>M</sup> like DHAN Foundation<sup>N</sup> and the MFI apex body Sa-Dhan to consistently and strategically advocate for amending PSL to include WSS lending. Finally, strategic partnerships with the Albright Stonebridge Group and Niti Ayog also helped early efforts to gain influence.

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<sup>5</sup> The Swachh Bharat Mission (Urban) guidelines were brought out in October 2014 to provide states and cities with a road map for implementing the SBM-Urban components



## Inclusion of “Toilet Construction” in The National Rural Livelihoods Mission

The inclusion of water and sanitation lending in PSL reflected the national priorities to promote SBM towards achieving its goal of making India ODF. Following this success, RBI, in July 2017, updated its NRLM program policy to include toilet construction as a category towards which SHGs can avail loans for building/maintaining water and sanitation assets<sup>6</sup>.

### Impact of NRLM policy update

1. **Access to more lending channels resulting in a wider reach:** This regulatory change enabled access to sanitation loans and subsequent toilet construction/repair to more than 32 million rural households that are linked to the program.
2. **Confidence towards sanitation as a viable loan product:** The inclusion of toilet loans under NRLM not only provided banks the confidence in sanitation as a viable loan product but also ensured reach to remote borrowers through SHGs.
3. **Cheaper access to sanitation loans:** Through the NRLM program, banks can provide sanitation loans to NRLM-affiliated SHGs at reduced interest rates ranging from 7-12 percent; markedly lower than the non-banking lending rates of 15-24 percent currently available. This will ensure last mile reach and high uptake of WSS loans.
4. **Mainstreaming sanitation lending at the state level:** This policy change led to mainstreaming sanitation lending across SRLMs as well, which are paired with scheduled banks to meet NRLM objectives.

### Water.org’s contribution to NRLM policy change

Water.org, along with partners from Albright Stonebridge Group, acted as a resource to the RBI as it developed the concept that culminated in the release of the toilet construction inclusion circular, helping highlight the crucial role that NRLM could play in driving the Government’s goal of SBM. It also assisted in socializing the concept of including toilet construction as a loan category under the NRLM to the Ministry of Rural Development (MoRD)<sup>9</sup>.

## The Department of Financial Services promotes microcredit lending for water and sanitation

Evidence of the viability of household-level financing to meet the water and sanitation needs of households, as demonstrated by Water.org and the MDWS, convinced the DFS, which is the apex department of government that regulates the functioning of financial institutions, to use credit financing as a feasible and sustainable solution to address sanitation issues. In January 2018, Secretary of DFS, held a video conference with the chief executives of government-owned banks and nudged them to step up sanitation lending to households and small enterprises. Later that year in September 2018, DFS issued a circular<sup>7</sup> to conveners of all State Level Bankers’ Committees (SLBC)<sup>P</sup> to increase the availability of credit for water and sanitation.

These policy changes sensitized the government-owned banks towards the importance of lending for water and sanitation and they started allocating a portion of their portfolio to financial institutions and SHGs.

6 Master Circular: RBI/2017-18/10 FIDD.GSSD.CO.BC.No.04/09.01.01/2017-18, Dated 1<sup>st</sup> July 2017; <https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11035&Mode=0>

7 Circular Number: F.No.1/14/2015-FI Vol.II (C-72641), Dated 6<sup>th</sup> September 2018

## Impact of the Department of Finance promoting WSS microlending

**Forming a central committee:** In February 2019, a committee was formed, which constituted members from MDWS, DFS, top-level executives from banks, executives from Water.org, and sanitation experts to further scale up WSS credit<sup>8</sup>. The purpose of this committee was to suggest ways of reducing the cost and increasing the availability of finance to households and enterprises in the water and sanitation sector. This committee has recommended important policy changes such as an interest subvention to reduce interest rates for water and sanitation loans. The strong endorsement of water and sanitation lending by the DFS helped move up the importance of this asset class with the public sector banks.

## Water.org's contribution in advocating with DFS

Water.org and MDWS played a central role in providing evidence of the viability of household-level financing to meet water and sanitation needs of the household which convinced the DFS to use credit financing as a viable and sustainable solution to address sanitation issues. Water.org also provided its technical support via the central committee by suggesting processes for financial institutions to formalize their lending schemes. A joint workshop was organized by DFS and MDWS for the leaders of all public sector banks and other government owned financial institutions in late January 2019. Water.org developed the content of this workshop and with its financial institutional partners, presented strong evidence of advantages of water and sanitation lending, high asset quality and practical suggestions on the way forward.

## Uptake of Water and Sanitation lending by Maharashtra State Rural Livelihoods Mission

After the formal inclusion of toilet construction as a category under the NRLM policy which gave confidence to financial institutions for deploying more capital in the sanitation sector, Maharashtra was the first state to adopt and implement water and sanitation lending via its SRLM. The Maharashtra State Rural Livelihoods Mission (MSRLM)<sup>9</sup> or UMED promoted self-help group (SHG) based women borrowers to take up loans for their water and sanitation needs using their internal savings and SHG-Bank credit linkage program. The program also aimed towards building the capacity of community trainers – Community Resource Persons (CRPs) to train the SHG members on the importance of water and sanitation in leading a healthy life and that they can avail loans from the internal accruals of SHGs as well as SHG-Bank credit linkage programs.

In July 2018, the MSRLM team led by their CEO, issued circulars to the District Administration promising their increased support in six pilot districts of Maharashtra (Wardha, Yavatmal, Thane, Jalna, Solapur, and Nandurbar) to inculcate demand generation for water and sanitation and for releasing more funds towards WASH microlending. The involvement of the MSRLM CEO solidified the acceptance and belief in WSS credit financing as a necessary solution towards solving the most pertinent issues of access to safe drinking water and sanitation facilities faced by the SHG members under MSRLM. From January 2019 onwards, WSS lending performance was also included in the monthly review process with all district representatives at MSRLM to monitor WSS microlending and the challenges faced in its implementation. This outcome highlighted the uptake of the WSS lending from state to district level.

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<sup>8</sup> <https://pib.gov.in/PressReleasePage.aspx?PRID=1561315>

## Impact of the MSRLM policy update

- 1. Building capacity of community trainers:** The MSRLM community trainers, or Community Resource Persons (CRPs), were trained on all aspects of water and sanitation financing. The CRPs further trained the SHG members on the importance of water and sanitation in leading a healthy life and to avail loans from their internal accruals as well as SHG bank linkage programs.
- 2. Increased access to water and sanitation lending at the state level:** Increased access to water and sanitation lending enabled disbursement of 4,378 loans, with 21,014 people reached and USD 576,389 capital mobilized across the seven selected districts of Maharashtra<sup>9</sup>.

## Water.org's contribution to the MSRLM

In November 2017, Water.org and MSRLM formed a partnership to encourage the SHG based women borrowers to avail loans for their water and sanitation needs<sup>10</sup> using their internal savings and the SHG bank linkage program. Water.org played a crucial role by acting as a catalyst connecting MSRLM SHGs and banks for water and sanitation lending.

Water.org has continued its advocacy efforts with senior leadership of MSRLM and has provided technical support in smooth execution of the UMED program which can potentially impact the lives of 4,363,449 SHG members across Maharashtra. Water.org in collaboration with UNICEF conducted research, designed, and tested IEC materials to create awareness amongst SHGs. Water.org also supported in building the capacity of CRPs by training them on water and sanitation financing.

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<sup>9</sup> MSRLM dashboard in Water Portal

<sup>10</sup> Loans were extended for 5 water and sanitation products including two leach pit toilets, attached bathroom and toilet, water connection, water filter and rainwater harvesting.

## Definitions

- A. Ministry of Drinking Water and Sanitation (MDWS) was a ministry of the Government of India formed in 2011 with focused attention on drinking water and sanitation. Since May 2019, it has been renamed as Ministry of Jal Shakti, with the Ministry of Water Resources and MDWS being merged.
- B. Priority Sector Lending (PSL) refers to lending to those sectors of the economy which may not get timely and adequate credit. This is an important function given by the Reserve Bank of India to banks to extend lending to specific sectors such as micro and small enterprises, low income groups, education, and housing loans etc.
- C. The Reserve Bank of India (RBI) is India's central bank and monetary authority which is responsible for setting directives for private and public banks through central and state government across India
- D. On-lending are loans sanctioned by banks to eligible intermediaries for onward lending only for creation of priority sector assets, in this case Water and Sanitation facilities.
- E. Self-Help Group (SHG) is a group of approximately 10-20 women who all know each other and meet regularly to develop skillsets across a range of activities, including financial management via group lending. Each SHG initially starts with savings by each of the members. After a certain level of saving has been achieved by a SHG, financial institutions will offer loans to SHGs which then allocate the loan among members as per application. The group is responsible for regular repayment. SHGs are popular across South Asia, especially in rural areas. SHGs in India can be supported by government entities/initiatives such as the NRLM as well as by NGOs
- F. Joint Liability Group (JLG) was established in 2014 in India by rural development agency National Bank for Agriculture and Rural Development to provide credit to small farmers
- G. The National Rural Livelihood Mission (NRLM) is a flagship program of the Ministry of Rural Development (MoRD). The objective is to build a network of women's SHGs and enable them to access a range of financial and livelihood services. 32.2 million households are currently linked to this program and have accessed bank credit worth \$87 million.
- H. Department of Financial Services (DFS) is one of the departments under Ministry of Finance which covers banks, financial and insurance services provided by various government agencies and private corporations.
- I. SRLM is the state-level management of the National Rural Livelihood Mission program
- J. Outcome Harvesting is a Qualitative Research methodology developed by Ricardo Wilson-Grau to "identify, formulate, verify and make sense of outcomes, including changes in behavior, relationships, actions, activities, policies, and practices. The outcomes can be positive or negative, intended, or unintended. It allows to look backwards and identify systemic level changes to which the intervention contributed."
- K. Albright Stonebridge Group (ASG) is a global business strategy firm which advises multinationals, financial institutions and non-profit organizations on matters including market entry and risk assessment, regulatory affairs, stakeholder engagement, partner development amongst others.
- L. Sa-Dhan is an association of microfinance institutions (MFIs) that has self-regulatory organization (SRO) status, which gives them the power to monitor MFIs and ensure lenders are following compliance regulations. Sa-Dhan has 178-member organizations with a client base of 46 million.



Member organizations include SHG promoting institutions, MFIs (for profit and not for profit), banks, capacity building institutions, and so on.

- M. Self-Help Promoting Institutions (SHPI) promote and facilitate credit linkages of Self-Help Groups with banks and micro-finance institutions and provide continuous handholding support.
- N. DHAN Foundation – is a self-help promoting institution focused on empowering women through micro financial services
- O. The Ministry of Rural Development (MoRD), a branch of the Government of India, is entrusted with the task of accelerating the socio-economic development of rural India. Its focus is on health, education, drinking water, housing and roads.
- P. State Level Bankers' Committee (SLBC) came into existence under Lead Bank Scheme as per RBI guidelines. SLBC is an inter-institutional forum at State level ensuring co-ordination between Government and Banks on matters pertaining to banking development. It has representation from Scheduled Commercial Banks (SCBs), Regional Rural Banks (RRBs), RBI etc.
- Q. The Maharashtra State Rural Livelihoods Mission (MSRLM) also known as Umed was launched in Maharashtra in July 2011 as a registered organization under the aegis of the National Rural Livelihoods Mission (NRLM) – Aajeevika – which endeavors to impact rural poverty through a range of comprehensive and strategic livelihoods interventions in a time bound manner. The Mission aims at eradication of rural poverty by building sustainable institutions of poor and ultimately leading them to sustainable livelihoods.

