Priority Sector Lending in India | how regulations can support self-supplied WASH

Water.org has been promoting the practice of self-supply for water and sanitation since 2003 via its WaterCredit program, which promotes the establishment of microfinance loan products for household water connections and sanitation construction. This program has recorded its largest achievements to date in India, but it has also faced in-country challenges that required policy changes in order to scale:

In the aftermath of the Andhra Pradesh microfinance crisis of 2010, the Reserve Bank of India (RBI) began closely monitoring and regulating microfinance activities. A strong emphasis was placed on loans that fell under the Priority Sector classification in order to accelerate economic development. Priority Sectors are the developmental sectors of the economy – education, housing, small business, etc. Priority sector lending (PSL) by banks has thus been an integral part of India's financial inclusion agenda.

As mandated by the RBI, 40% of a bank or MFI's net bank credit must be lent to the priority sectors. However, water and sanitation did not fall under the PSL classification and therefore had to compete with retail loans, such as those for luxury items such as cars – much larger loans which were likely to wield greater interest returns to the lender.

Water.org's MFI partners stressed the implications of this omission to the Water.org team in early 2012, highlighting the enhanced flows of capital they could secure for on-lending for water and sanitation if these social needs could be categorized as PSL. This initiated a multi-year effort in which Water.org employees educated themselves about the issue and began cultivating high-level support for bringing water and sanitation into PSL. A succession of meetings between Water.org and various officials at the RBI took place over the course of 2013 and 2015. Water.org co-founders Gary White and Matt Damon as well as senior leadership from Water.org's headquarters and India office pressed the case, presenting data that demonstrated the positive impact this policy change could effect.

In October 2014, Water.org broadened its approach and began speaking with the Ministry of Drinking Water and Sanitation (MDWS) to bolster support for water and sanitation as PSL. The MDWS quickly recognized the value in this idea and brought the Ministry of Finance into the conversation. Meanwhile, Water.org composed a position paper calling for the inclusion of water and sanitation into PSL, citing the strong demand for and repayment of MFI loans for water and sanitation as supporting evidence. From 2014 and 2015, Water.org also engaged in conversations with the Asian Development Bank and World Bank's Water and Sanitation Program India teams to build collective energy around this policy shift.

Momentum accelerated in March 2015, when the RBI publicly announced its intention to revisit the existing PSL Guidelines and invited interested parties to submit recommendations. The Water.org India team motivated its MFI partners to send in their recommendations to the RBI. These efforts were rewarded on 24 April, when the RBI issued a notification that officially classified water and sanitation under the larger category of Social Infrastructure. This was the first of three circulars published between April and 14 August, each with increasing detail and clarification, that confirmed the inclusion of water and sanitation into the PSL.

This policy change, years in the making, represents the important role that sector experts can play in helping government actors understand actions that can be taken to realize mutual goals. At the same time, simply changing the policy is not enough. Water.org is now engaged in helping promote knowledge about the inclusion of water and sanitation into the PSL and encouraging the establishment of a minimum quota for water and sanitation lending.