

Impact of Government Partnership in India | NRLM/SRLM lending

National priorities to promote sanitation have resulted in another landmark development for financing options for sanitation – toilet construction has recently been included as a category under which Self Help Groups (SHGs)¹ linked to the National Rural Livelihoods Mission (NRLM)²/State Rural Livelihoods Missions (SLRM)³ can avail loans⁴.

Potential Impact

This change is expected to create a ripple effect in the sanitation lending space in India and provide a huge boost to the Swachh Bharat Mission⁵ and its goal of achieving an Open Defecation Free (ODF) India.

1. **Access to a lending channel with wide reach:** Over 32.2 million rural households are linked to the program; an estimated 11.53 million of those households are currently without toilets⁶. This regulatory change now enables access to sanitation loans and subsequent toilet construction/repair in these households.
2. **Increased confidence towards sanitation as a loan product:** The Reserve Bank of India (RBI)'s inclusion of household water and sanitation as a priority lending sector in 2015⁷ resulted in interest from scheduled banks⁸. However, the uptake of sanitation loans has been slower than anticipated. This inclusion of toilet loans under the NRLM reinforces the central bank's confidence in sanitation as a viable loan product. Furthermore, NRLM-affiliated SHGs provide a new avenue for reaching the most remote ("last-mile") borrower, a key bottleneck for large banks and financial inclusion efforts.
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 available⁹.

¹ 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.

² The 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.

³ The SLRM is the state-level management of the NRLM program.

⁴ India's central bank, the Reserve Bank of India (RBI), has given its formal assent in its latest guidelines.

⁵ Also known as the Clean India Mission, the Swachh Bharat Mission (SBM) was initiated in 2014 and set a number of ambitious targets to be achieved by October 2, 2019. Prominently among those is the goal of making India Open-Defecation-Free (ODF).

⁶ Estimates generated by applying India's current rural ODF coverage of 64.18%. In addition, a recent study by Accountability Initiative of the Centre for Policy Research estimated that 36% of toilets previously constructed are now defunct.

⁷ This major advocacy success by Water.org achieved the inclusion of water and sanitation lending as an eligible category under Priority Sector. Every bank in the country needs to make a minimum of 40% of loans to the Priority Sector.

⁸ Public, Private, Regional Rural and Scheduled Co-operative with a combined credit portfolio of \$11.65 trillion.

⁹ In 250 identified districts in the country, the SHGs will get an additional interest subvention of 3 percent upon prompt payment, reducing the effective rate of interest to as low as 4 percent.

How Was This Achieved? What Does This Mean for Water.org?

Water.org acted as a resource to the RBI as it developed the concept that culminated in the release of this circular, helping highlight the crucial role¹⁰ that NRLM could play in driving Prime Minister Narendra Modi's goal of a Swachh Bharat (Clean India). 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).

The inclusion of toilet construction loans as eligible under the NRLM has or is expected to accomplish the following results:

1. **Regulatory change:** sanitation loans have been included as a category under which banks can lend through the NRLM program. *This will mobilize efforts to tap into NRLM-affiliated SHGs for sanitation lending;*
2. **Pro-sanitation-lending advocacy to implementing agencies:** The MoRD and NRLM will promote lending for toilet construction to all State Rural Livelihoods Missions (SRLMs);
3. **Catalyze additional sanitation lending portfolios:** All SRLMs are paired with scheduled banks for meeting NRLM objectives. Therefore, through partnerships with SRLMs, Water.org anticipates that this exposure to sanitation lending will motivate many of those financial institutions to mainstream sanitation lending portfolios into their non-NRLM lending activities.

¹⁰ This lending channel has inherent strengths to be an effective partner for sanitation: women are leaders of the SHG movement and mobilization/demand generation is built into its functioning.