

Catalyzing Small Finance: For Quality of Life Products

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A vast majority of the population globally, and especially in developing countries such as India, does not have access to basic services such as water, sanitation and energy.

Global Scenario on Water, Sanitation and Energy

| Service | Number of people who lack this service | % rural population lacking this service |
|--------------------------------|--|---|
| Improved water sources | 663 million | 80% |
| Improved sanitation facilities | 2.4 billion | 70% |
| Electricity Access | 1.2 billion | 80% |

Source: UNICEF & WHO, 2015; Energy Access Database, 2016

Indian Scenario on Water, Sanitation and Energy

| Service | % people who lack this service | % rural population lacking this service |
|--------------------------------|--------------------------------|---|
| Improved water sources | 6% | 7% |
| Improved sanitation facilities | 60% | 71% |
| Electricity Access | 21.3% | 30.3% |

Source: World Bank, 2015

Major Government Programs and Initiatives

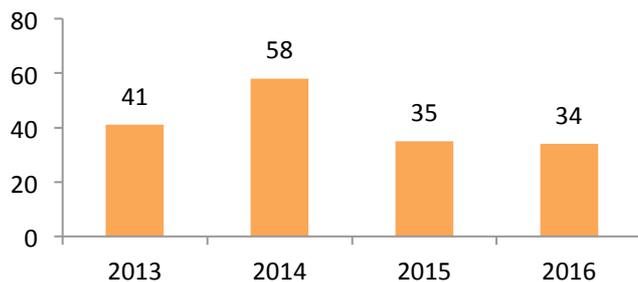
The Government of India has launched several initiatives with the objective of meeting the water, sanitation and energy needs of people.

- Sanitation:** Launched in 2014, the Swachh Bharat Mission aims to improve the basic hygiene and cleanliness and make India open defecation free. Under this program the Central government provides an incentive of Rs.12,000 to rural households (BPL and identified APL) for construction of toilets and the state governments provide information to people on the available technologies and the cost of the same. Previous government programmes include Nirmal Bharat Abhiyan and the Total Sanitation Campaign.
- Water:** The National Rural Drinking Water Programme, 2009 is a revised version of the government's Accelerated Rural Water Supply Program 1972-73. The provisions under this programme include making safe drinking water available at household level, developing water testing facilities at the district, sub-divisional and Gram panchayat level, and encouraging water conservation methods.
- Energy:** To meet the energy needs of households that do not have access to the same there are a number of schemes like the Remote Village Electrification Programme, Deendayal Upadhyaya Gram Jyoti Yojana, and Jawaharlal Nehru National Solar Mission. The objective of these programs is to provide electricity to non-electrified villages. The first and the third program mentioned above aim at tapping renewable solar energy to meet the energy needs of these households.

In addition to these programs, the government has also made some regulatory changes such as inclusion of water and sanitation loans in the Priority Sector Lending (PSL) category, which will encourage more MFIs to give out such loans.

Financing Water, Sanitation and Energy Needs of Poor Households

Number of MFIs engaged in financing water and sanitation services



Source: Bharat Microfinance Reports by Sa-dhan

In addition to the government, a number of MFIs have also entered the market for financing the water, sanitation and energy needs of low-income households. A pioneering effort in the field of water and sanitation microfinance has been by water.org, which is an international non-profit organization focused on providing financial solutions for water and sanitation problems in Africa, Asia, Latin America and the Caribbean. Water.org has a water credit program wherein they partner with MFIs and provide them the necessary resources and support, including capacity building, technical assistance and subsidies, to give out

loans for water connections and building toilets. In India as well there are a couple of MFIs who provide water and sanitation loans – Guardian, Grameen Koota, BWDC and Hand-in-Hand. Similarly, there are MFIs that have entered the energy space – mostly in the form of providing solar powered devices as well as home systems to low-income households. Some of the MFIs in India who provide loans for solar lamps are SEWA, SKS Microfinance, and ESAF.

Challenges

Both government programs as well as MFI financing of these products may encounter some challenges. With the government programs there could be issues like corruption leading to intended beneficiaries not receiving the benefits of the schemes, lack of awareness, and non-involvement of community while designing and implementing these programs. With MFIs, this is a relatively new market for them and they would need to invest a lot of time in developing the technical skills, understanding the needs of the clients and then designing products that meet their requirement.

Evidence of the Impact of Financing Water, Sanitation and Energy

Research done so far, even though limited, suggests that financing quality of life products has a positive impact on the clients. For instance, an analysis of the water credit program by water.org in India showed that the number of households earning INR 3000 per month almost doubled after receiving the loan for improved sanitation and water (Ikeda & Arney, 2015). In a recently conducted study by IFMR LEAD in collaboration with ESAF microfinance, customers reported reduction in electricity bills, increase in income, and setting up of businesses, after receiving loans for solar lamps.

There are multiple initiatives by the government, MFIs, and the NGO sector in the water, sanitation and energy space. A larger collaboration and knowledge sharing between these different players is required so as to maximize the benefit of these different programs. This sector is still in its nascent stage and requires more rigorous research in order to determine clients' requirements for products, as well as for measuring the impact of these products on the lives of the clients.

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