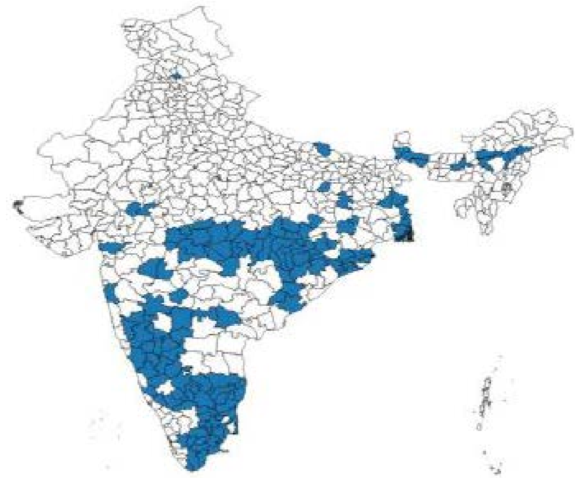
Water and Sanitation Microfinance Operations in India

An Assessment of Challenges and Determinants of Success

Background

From 2011 to September 2015, Water.org scaled an initiative that expanded WaterCredit programs in India to 14 microfinance institutions (MFIs) operating in 12 states[1]. By the end of the program, these MFIs had disbursed more than half a million water supply and sanitation (WSS) loans valued at US $68.3 million, benefiting 2.1 million people. An independent evaluation funded by the PepsiCo Foundation was completed in October 2016 by Tim Foster of the Skoll Centre for Social Entrepreneurship.



Districts in India covered by WaterCredit, 2011-2015

Objective

Synthesize key learnings and evidence from WaterCredit program activities to 1) identify the enablers and constraints for WaterCredit scalability and sustainability in India and 2) to evaluate partner performance metrics and examine the underlying drivers that explain variability in performance.

Methods

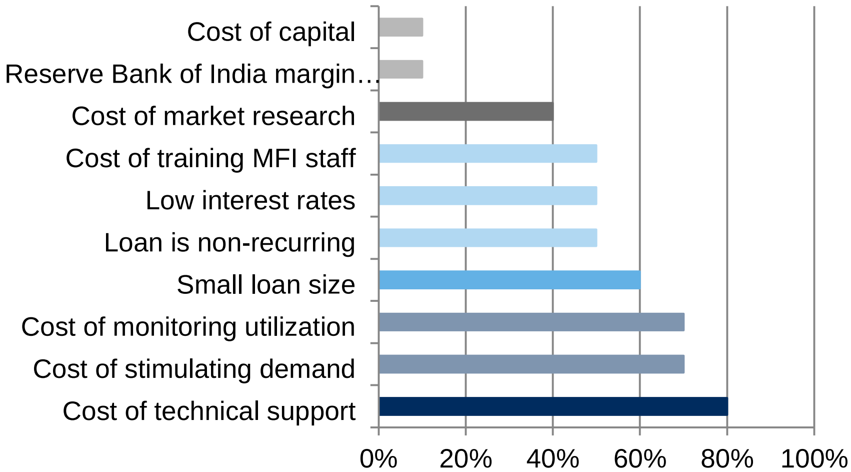
- Quantitative and qualitative analysis of program documentation and program data, including work plans, budgets, evaluation reports, progress reports, household survey data, and loan disbursement data
- Interviews with eight Water.org program staff members and 14 representatives of WaterCredit partner organizations

Key Messages

- By reaching more than half a million households in just four years at a unit cost significantly lower than traditional water supply and sanitation (WSS) programs, the WaterCredit program in India demonstrates that microfinance can significantly amplify the reach and impact of investments in the WSS sector.
- Access to capital, operational costs, loan targets, relationships with local authorities, presence of piped water infrastructure, and size of an MFI's branch network can all shape WSS microfinance outcomes.
- *For development partners:* Supporting WSS microfinance initiatives can amplify the reach and impact of donor funds to levels far greater than traditional approaches to water and sanitation programming.
- *For finance organizations:* WSS loan portfolios enjoy high repayment rates and can be profitable on a standalone basis, particularly once the size of operations attains a critical mass.
- *For policy makers:* Strategic partnerships between MFIs and government could improve the reach and impact of sanitation-related investments by capitalizing on operational synergies across education and behavior change campaigns, market development, technical support and financing.

[1] Programming that was analyzed as a part of this assessment was funded in large party by the PepsiCo Foundation with additional funding from Caterpillar Foundation and Swiss Re Foundation.

Key Learnings



Main impediments to WaterCredit profitability as reported by partners

FINANCIAL

- Subsidies to partners were enabling and incentivizing motivators. The magnitude of subsidies provided to partners was positively associated with the number of loans that have been disbursed.
- Lack of access to capital sometimes led MFIs to prioritize smaller water connection loans over toilet loans.

TECHNICAL

- Lack of supply chains and unavailable skilled masons curbed growth of sanitation loans.
- Lack of piped water supply infrastructure in operational areas hindered water loans.

INSTITUTIONAL

- Fostering and nurturing a relationship with local authorities was seen as a fundamental yet challenging factor of a high performing program.

OPERATIONAL

- An expansive network of branches was leveraged to grow WSS loan portfolios and maximizing outreach.
- Commitment and support at the executive management level is a proven enabler.

ENVIRONMENTAL

- Drought or monsoon conditions influenced loan disbursement or need.
- Depth and quality of groundwater affected the number and type of loans disbursed.

SOCIAL

- Promoting behavior change was difficult in areas of lower socio-economic status. Areas with the highest rates of open defecation were the most challenging areas for scaling up sanitation.

514,286
WSS loans disbursed under the initiative from 2011 to 2015

$68.3M
Loan amount disbursed

2.1M
People reached in the 4 years of the initiative

100%
Average repayment rate

$134
Average loan principal

$25
Average interest repayment

64.3%
Of borrowers earn less than $1.90 per person, per day

$7.85
Subsidy per loan for household water or sanitation improvement