HOUSEHOLD FINANCE FOR SANITATION: LESSONS FROM INDIA*

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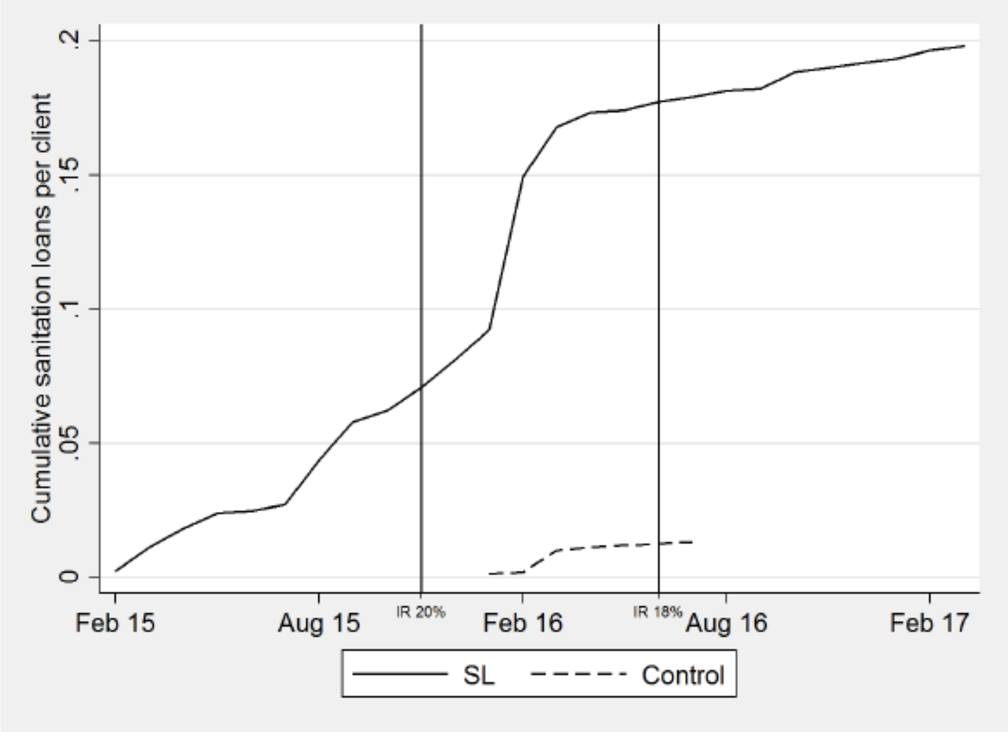
MOTIVATION

- Affordability and lack of money are frequently reported as the most common reason why households do not have toilets
- Safe toilets require a significant outlay
  - Government recommended low-cost toilet in India cost around 20% of annual household income of rural microfinance clients
- Financing tools: **subsidies** and **microfinance**
- Research objectives:
  1. Is microfinance effective in increasing toilet uptake and use?
  2. Can microfinance make subsidy programs more effective?

OUR STUDIES

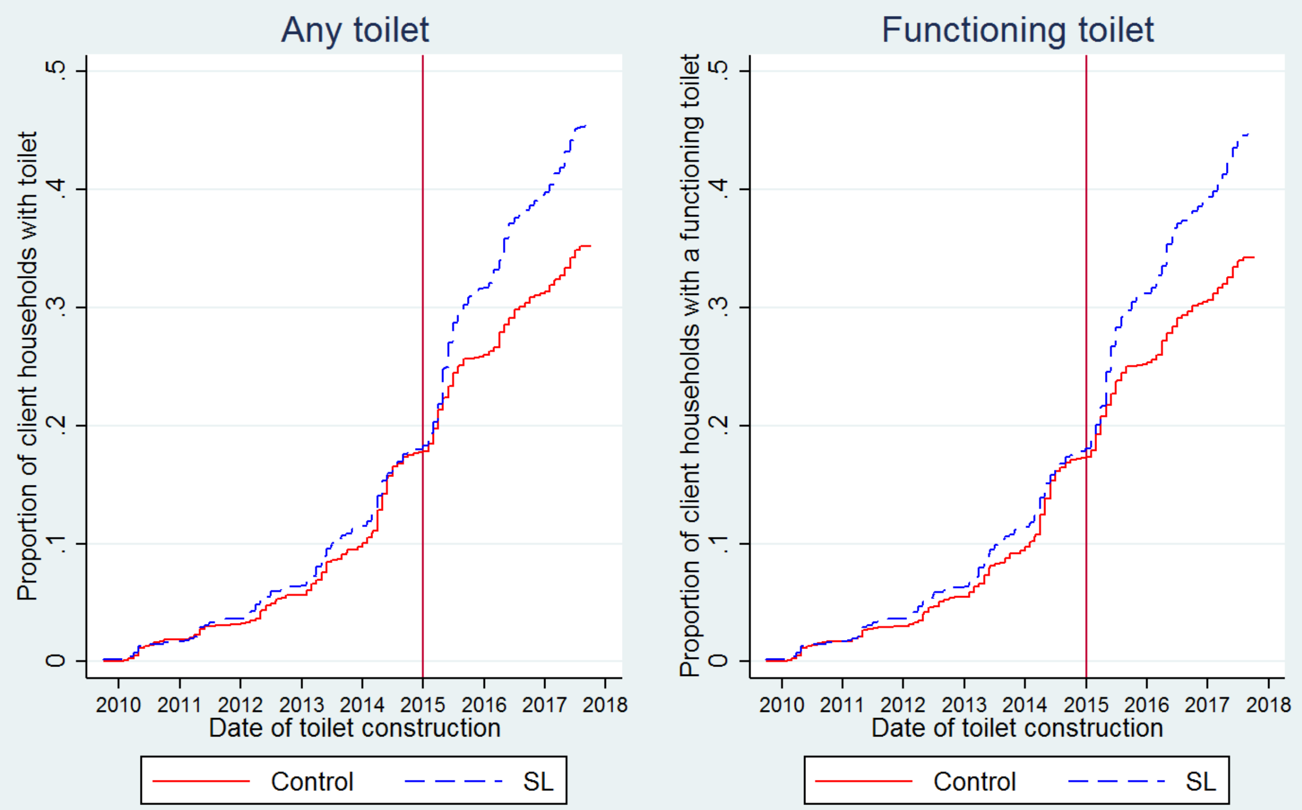
- Cluster randomized controlled trial of sanitation microfinance program in rural Maharashtra, India (81 communities)
  - Loan of INR 15,000 (US$225) offered to existing clients of large microfinance institution, with lower interest rate than other business loans
  - Loan **labelled for sanitation**
- Around the same time (late 2014), Government of India introduced Swachh Bharat Mission
  - One-off behaviour change activities
  - One-off toilet construction subsidies of INR 12,000 for vulnerable households: 50% on digging pit, 50% on finishing construction
  - Post-construction access to subsidies: need for bridge financing
- Toilets constructed by households cost on average INR 26,000, so loan and subsidy covered part of cost

FINDINGS – SANITATION LOAN TAKE-UP



- Close to 20% of clients took a sanitation loan; almost all repaid on time

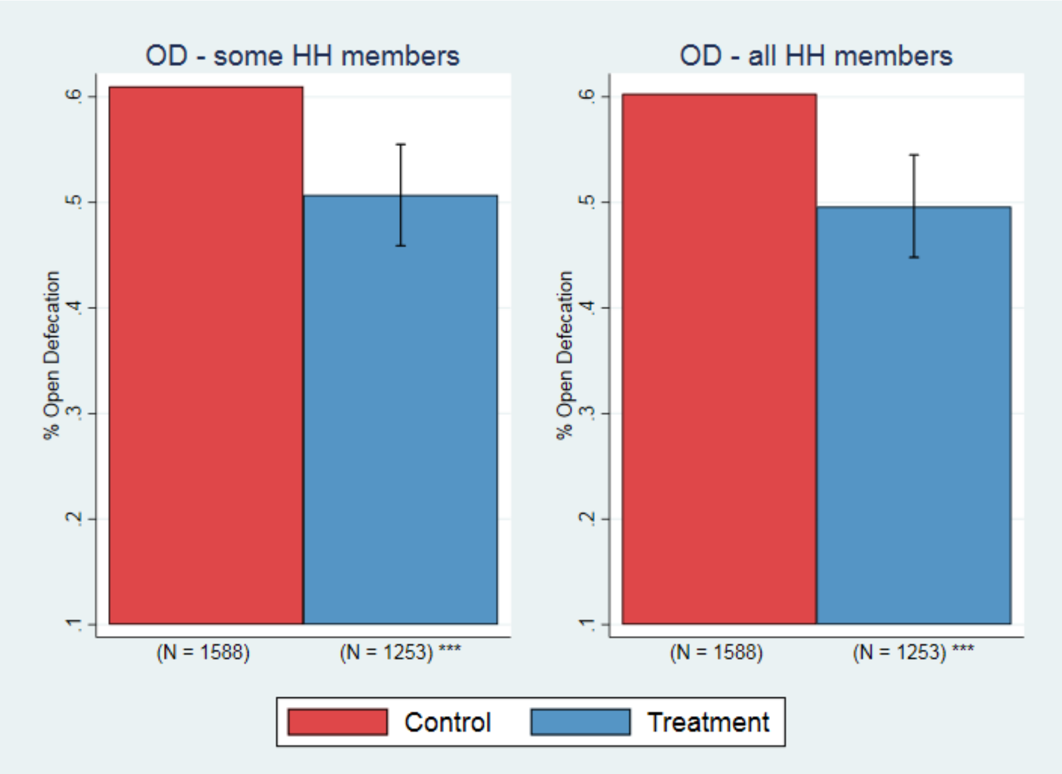
FINDINGS – IMPACTS ON TOILET TAKE-UP



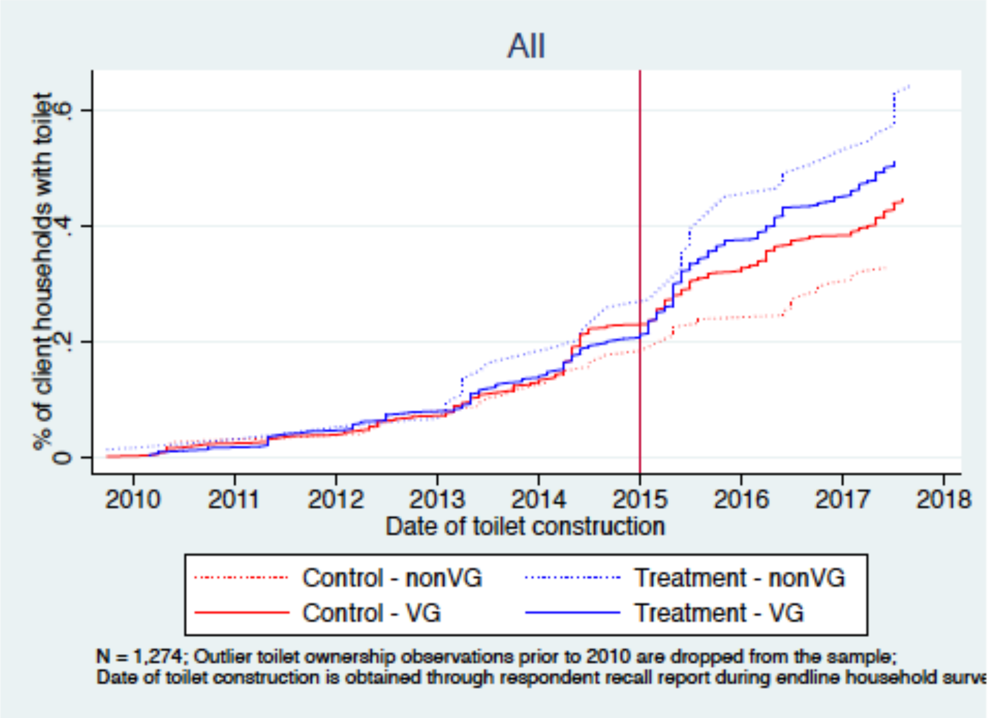
Notes:
N = 2762; 3% outliers are dropped from the left tail; The red vertical line denotes the start of the intervention (which happened to coincide with the launch of SBM(G))

- Increase in any toilet take-up of 9 percentage points
- Few loans used for toilet repairs or upgrades
- Up to 50% of loans were not used for sanitation investments

FINDINGS – OPEN DEFECATION



FINDINGS – HETEROGENEITY BY SUBSIDY ELIGIBILITY



- 22% of subsidy ineligible took a sanitation loan → 20ppt increase in toilet adoption (over control)
- 17.6% of subsidy eligible took a sanitation loan → 8 ppt increase in toilet adoption
  - Low conversion possibly due to delays in subsidy receipt, and need for complementary financing

TAKE-AWAYS

- Sanitation loan program increased sanitation investments among clients of leading MFI
- Very high repayment rates (>99%) → MFI broke even and probably made a profit
- MFI has strict lending criteria and incentives for repayment
- Sanitation loan program made Swachh Bharat Mission more effective

THANK YOU

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