



**Water and Sanitation Program**

An international partnership to help the poor gain sustained access to improved water supply and sanitation services

**National Workshop on  
Microfinance for  
Infrastructure: Recent  
Experiences**

**August 31, 2000**

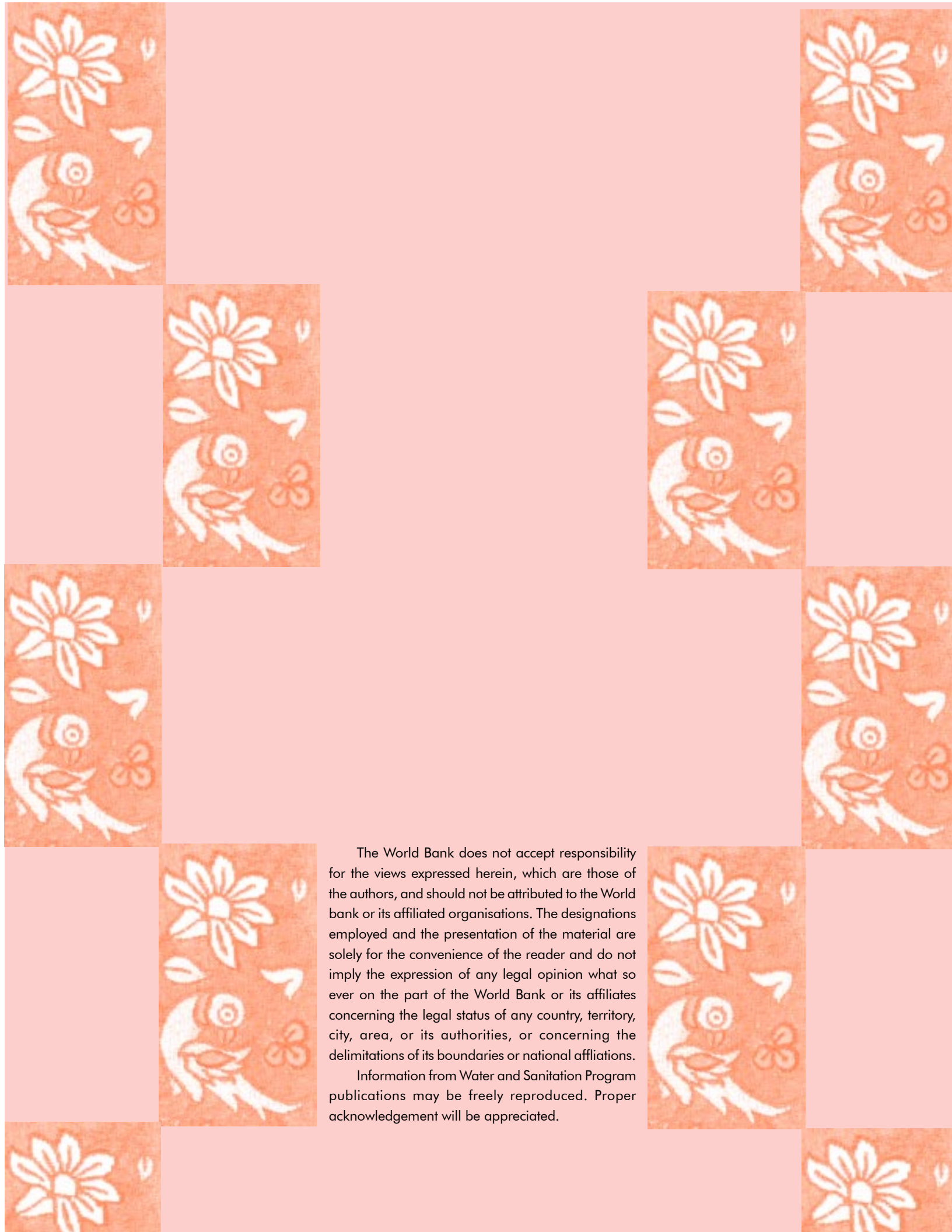
**South Asia Region**



Organized by  
**Water and Sanitation  
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&  
Gujarat Mahila  
Housing SEWA Trust**

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# Introduction

The growing number of slums in Indian cities are characterized by low levels of access to safe drinking water and inadequate or complete absence of sanitation services. State-mandated service provision for community infrastructure has by and large failed – the sector is plagued by problems such as inadequate coverage, investments in inappropriate facilities and poor maintenance of the available services. The successful provision of community infrastructure, including water and sanitation services to the urban poor, is a growing challenge.

The active participation of consumers in financing infrastructure is widely recognized as a key component of long-term sustainability of services. For the poor, an increased financial stake can guarantee improved delivery and operation of services. To facilitate such financial participation, poor communities often use small-scale credit services. There is enough evidence on the ground about the enormous potential of microcredit in improving service delivery at the lowest income levels.

Considerable interventions in service delivery have been made in a number of cities using these principles at the individual settlement level. However, scaling up these efforts to bring them to city levels has proved to be difficult. It therefore becomes important to identify the constraints in unleashing the full potential of this intervention and to explore the best modalities of partnerships in order to effect improvements in urban infrastructure.

In response to these trends, the Water and Sanitation Program-South Asia (WSP-SA) and Gujarat Mahila Housing SEWA Trust (MHT) jointly organized a workshop on **Microfinance for Infrastructure: Recent Experiences**, on August 31 2000, in New Delhi, India. Over 90 delegates from India, Pakistan

and Bangladesh, including representatives of the international aid agencies, housing finance institutions, microfinance institutions, government and NGOs participated in this workshop.

The workshop is part of a joint ongoing effort by WSP-SA and MHT, Ahmedabad, to highlight the role of microfinance institutions in providing infrastructure credit and services to the informal sector. It builds on the national level study titled 'Credit Connections: Meeting the Infrastructure Needs of the Informal Sector through Microfinance in Urban India' conducted by WSP-SA and MHT in 1999 and is a follow-up to the workshop on 'Housing Finance for Women in the Informal Sector' held in March 1999.<sup>1</sup>

The workshop was divided into five sessions. Sessions two and five were brainstorming sessions during which the participants, who were divided into various groups, discussed exciting developments and identified sector gaps in infrastructure investments. Presentations on the recent/proposed initiatives on microcredit and community infrastructure were made during sessions one and three. The Microfinance Training

Module prepared by MHT and WSP-SA was presented during session four.

This document records the proceedings of the workshop. It is divided into two parts. Section I summarizes the presentations made during sessions one, three and four. (See Annexure 1 for the Agenda.) Section II documents the Action Plan and other issues highlighted during group sessions.

## Welcome Address

**Renana Jhabvala,  
Executive Trustee, Mahila  
Housing SEWA Trust**

Renanaben stated that this workshop would take up the issues highlighted in the last workshop on 'Housing Finance for Poor Women in the Informal Sector' held in 1999. Follow-up action to the previous workshop included the setting up of a National Task Force on Housing Finance, and an internal working group within the Housing and Urban Development Corporation to streamline guidelines and procedures for providing housing finance to NGOs/microfinance institutions, as also the compilation of a national microfinance institutions' database with details of over 100 microfinance institutions providing housing microfinance to the poor.

Self-employed women need economic security, social protection, and a voice to organize them, in order to combat poverty. Crucially, these women need housing and infrastructure including a pucca dwelling, and associated facilities such as water, drainage, electricity and sewage connections, toilets and street lighting. There is a direct correlation between better housing and infrastructure facilities, on the one hand, and increased income levels, improved health and decrease in poverty, on the

### OBJECTIVES

The main objectives of the workshop were:

- ◆ To share current experiences that highlight the growing sector of microfinance in infrastructure.
- ◆ To identify sector gaps and challenges to effective community infrastructure investments.
- ◆ To explore appropriate steps for capacity building, including the imparting of training to microfinance institutions/NGOs for facilitating access to infrastructure credit.

<sup>1</sup> Mahila Housing SEWA Trust, Ahmedabad in partnership with the Housing and Urban Development Corporation and WSP-SA organized the workshop in New Delhi in March 1999. The objective of the workshop was to highlight the housing and infrastructural needs of women in the informal sector and to chart out strategies to deliver affordable housing to them.

*"In today's globalized world, where decisions taken in Washington affect the furthest village in Kutch, we would like it to be a two-way process, where what happens in Ahmedabad, Kanpur and Chennai [would also] affect global decisions."*

other. Microfinance is one of the key tools for effecting these improvements in the status of the poor.

In the current environment, infrastructural investments should focus on community infrastructure, resource flow and institution building at the grassroots level, and the promotion of economic organizations in the 'people's sector', which work on the basis of mutual co-operation.

## Welcome Address

**Junaid Kamal Ahmad,  
Regional Manager,  
WSP-SA**

Three fundamental changes have taken place globally which affect how we think about investments in infrastructure. Firstly, the era of large-scale public provision of infrastructure is on its way out: both the private sector and the community now have an increasing role to play. Secondly, the institutional revolution ushered in by these changes has highlighted the importance of two crucial actors, the community and women. The examples of Self Employed Women's Association (SEWA), Society For Promotion Of Area Resource Centre (SPARC) and Baroda Citizen's Council (BCC) show that service provision can no longer be confined to the private sector but that the communities too can be organized to deliver equally well. Gender constitutes another important part

of this process of change — it matters if the person managing the service is a man or a woman. The third important development is the 'revolution of decentralization', which is aiding the transition from large infrastructure projects to community-driven investment programs.

The workshop should address important issues such as the institutionalization of the community delivery

*"The challenge today is to mainstream the 'islands of revolution' — to institutionalize these modes of delivery....Our role as a development organization is to support the local actors to bring [about] this change."*

systems; linkages between the financial world and microfinance institutions in a mutually supportive partnership; institutionalization of risk insurance; and avoidance of institutional monopolies. Solutions should reflect the local environment rather than being 'global'. Policy reforms are needed in the sector but formalization of the informal sector carries its own risks and should be treated cautiously. Mr Ahmad welcomed the participants and said that he looked forward to the recommendations of this workshop.

## Keynote Address

**Ela Bhatt, Founder, Self  
Employed Women's  
Association, Ahmedabad**

Elaben highlighted the need for capital ownership or asset creation at both the household and community levels, which alone can facilitate the development of an efficient infrastructure in a user-friendly and demand-responsive manner. For the government, infrastructure implies large projects for

building highways, bridges, dams, power and solid waste management plants, among others; but it is only at the community level that infrastructural programs such as sanitation, street lighting, or rural electrification can be taken up successfully. Back-up support is thus essential to ensure the community's collective action and value-addition to a particular project, which in turn will strengthen the infrastructure sector.

Ms Bhatt emphasized the need for continuous monitoring of investments in infrastructure to ensure the latter's optimal utilization, and for capacity building at various levels including the community, public sector municipalities, government agencies, and microfinance and technical institutions, to maximize the scope and achievement potential of infrastructural projects.

*"A healthy microfinance sector leads to a healthy finance sector in general. This mutual link has to be established by the microfinance institutions/NGOs and realized by the policy-makers....There is very direct involvement of women in the areas of infrastructure....In Ahmedabad, women have borrowed from SEWA Bank for better living conditions, taken loans for internal paved roads to their slums, sewerage connection, storm water drainage, toilets, street lighting, [and] solid waste disposal. These women's resident associations have negotiated with the Ahmedabad Municipal Corporation for their contribution and on land tenure. It is the microfinance services of savings, credit and insurance that are bringing transformation in the city and its citizens: from being mute victims to active and responsible citizens."*

## Section I

### Recent/Proposed Initiatives on Financing Community Infrastructure

#### Credit Connections: Meeting the Infrastructure Needs of the Informal Sector through Microfinance in Urban India

Jayashree Vyas,  
Managing Director,  
SEWA Bank

Ms Jayashree Vyas presented *Credit Connections*, a study on microcredit provision in urban India conducted by MHT, Ahmedabad in partnership with the WSP-SA. The objective of the study was to identify and document the activities of four urban microfinance institutions providing credit for infrastructure, including water and sanitation services, in the informal sector. The study highlighted the enormous potential of microcredit in improving service delivery at the lowest income levels. The microcredit institutions selected for this study were: SEWA, Ahmedabad; Baroda Citizen's Council, Baroda; Mahila Milan, Mumbai; and Sri Padmavathy Mahila Abhyudaya Sangam, Tirupati.

The methodology of the study included a desk-based review of secondary literature; field survey with a structured questionnaire given to each of the four microfinance institutions, and formal discussions with government officials, bilaterals, donors, and mainstream housing finance and microfinance institutions. An integral component of this study is the Action Research — a detailed report documenting a prototype 'housing/infrastructure loan'

system for microfinance institutions.

There are four broad types of microfinance institutions operating in India: bankers, traditional NGOs, evolving community-based financial institutions and mainstream community-based finance institutions. Each type of microfinance institution responds to different conditions in the community and needs to be supported in a different way. *Credit Connections* clearly demonstrates the direct relationship between investments in housing and infrastructure and the incomes of the target families and provides documentary evidence to convince policy-makers that the sector is viable.

#### Community Empowerment — Microfinance for Infrastructure

K. Rajeswara Rao,  
Managing Director, Andhra Pradesh Urban Finance & Infrastructure Development Corporation Limited,  
Hyderabad

In Andhra Pradesh, the Department of Municipal Administration has taken an initiative to enable the urban local bodies to entrust some of their basic functions involving community contracts to women groups formed under schemes such as the Swarna Jayanti Shahari Rozgar Yojna (SJSRY)<sup>2</sup>.

Under this scheme, women groups are entrusted with the task of ensuring sanitation, solid waste management, and hygiene of specified areas. They are paid an honorarium for their services,

and provided with basic support mechanisms in the form of subsidized loans from financial institutions, for executing their task. Women groups themselves select the works, prioritize their needs and then execute the projects. Administrative approval for the works is granted by Municipal Councils, with technical approval from the Public Health Engineering Department. Women groups are imparted training in engineering skills and financial management, among other things. Fifteen per cent of the project cost is given as an advance and the savings generated by giving the work to community-based organizations form the capital of the women groups, to be used for microcredit interventions.

For the projects which have so far been undertaken as part of this scheme, the women were selected from the poor areas and slums. More often than not, they were illiterate women from the scheduled and backward classes, living in distressed conditions, with an average family size of six members.

Today, there are 26 urban local bodies in Andhra Pradesh which have organized 74 women groups and successfully maintained public sanitation in their allocated areas. Fifty more women groups from different civic bodies are very keen to undertake community sanitation. *Work worth about Rs 84 crore has been earmarked to be undertaken as part of the community contract system, out of which work worth about Rs 18 crore is already in progress.*

There are, however, three major obstacles in implementing this scheme: psychological, political and economic. The first impediment is the lack of confidence among the women to undertake this



<sup>2</sup> Launched in 1997, this GOI employment program had two main components – self-employment and wage employment. For both the components, actual activities are identified through community groups and poor women. Besides access to credit, SJSRY also incorporates a component for training women and elected leaders.

project. The second factor pertains to the threat and pressure of the local contractor, who is often hand-in-glove with the local politician. And, finally, it is the fear of failure, which often deters the women from executing the project. The women groups also harbor doubts that if they were to fail in successfully implementing the project, they would be denied even the low wages that they were getting earlier. None of these obstacles is insurmountable and the Municipal Commissioners have worked hard to counter these pressures and instil self-confidence in the women groups.

The benefits of the scheme are manifold. Firstly, its implementation has resulted in clean roads and improved sanitation. The garbage is cleared every day, sometimes more than once a day, and there is a feeling of community ownership. In monetary terms, the schemes foster employment and asset creation, besides helping to increase family savings and incomes of the communities. Each member of the team gets a minimum daily wage of Rs 50, which is almost twice the wages that they were getting earlier. In some cases, the members have also doubled their family incomes. In one case, the municipality even started a thrift society for the members so that they could save from their increased monthly incomes and take loans. Community empowerment thus translated into better quality of assets, optimal utilization of high quality and adequate construction material, higher mutual interaction and better understanding among the women groups, as also the enhancement of both their social status and monthly savings.

The biggest gains of these schemes

therefore accrue to the target community through the women groups, who are involved in the projects from conception to implementation. These groups gain self-confidence through the process and acquire relevant skills in construction, engineering, material and financial management. The fact that about 26 urban local bodies have already initiated the process to implement the program within the first year indicates that the scheme is replicable.

### **The Asian Development Bank and Microcredit for Infrastructure**

*James P. Lynch, Urban Development Specialist, Water Supply, and Housing Division, Asian Development Bank*

The number of projects undertaken and the total amount of loans disbursed for microfinance have increased since Asian Development Bank's first project was approved in 1988. In recent years, lending operations of the Bank have supported a wide array of institutions, going beyond credit services to promote voluntary savings on a limited scale, emphasizing market-oriented interest rates, and according greater importance to financial viability.

The goal of Asian Development Bank's microfinance strategy is to ensure access to institutional financial services for a majority of poor and low-income households and their micro-enterprises.<sup>3</sup> The objective is to support the development of sustainable microfinance systems that can provide diverse services of high quality. The strat-

egy therefore focuses on:

- ◆ Creating a policy environment conducive for providing microfinance.
- ◆ Developing financial infrastructure.
- ◆ Building viable institutions.
- ◆ Supporting pro-poor innovations and social intermediation.

### **ADB's Urban and Environmental Infrastructure Facility Project and the Technical Assistance Grant**

This project aims at assisting the Government of India in developing urban and environmental infrastructure, to meet the basic human needs and improve the quality of life of urban residents. The project is structured to meet this objective through:

- ◆ Long-term funding for financing commercially viable urban and environmental infrastructure projects. Funding can be channelled through the three borrowing financial institutions and reform-oriented municipal bodies, private sector project sponsors, or microfinance institutions.
- ◆ Technical Assistance to support the integration of microfinance with urban and environmental infrastructure development.

The Bank's loans will be utilized for the following types of sub-projects: water and sanitation, drainage and sewerage, solid waste management, area development including slum upgradation, industrial waste management and air pollution control; construction of streets, bridges and public transport systems and terminals; market development; and enhancement of the financial and managerial capacity of urban local bodies.

A total sum of \$200 million will be allocated to the three borrowers: Housing and Development Corporation Limited (\$90 million), ICICI Limited (\$80 million) and Infrastructure Development



<sup>3</sup> For more information on Asian Development Bank's microfinance development strategy, see *Finance for the Poor: Microfinance Development Strategy*, Asian Development Bank, May 2000.

Finance Company Limited (\$30 million). The loan will be for a 20-year period, inclusive of a five-year grace period.

A Technical Assistance (TA) grant equivalent to \$500,000 will be provided to assist in the integration of micro-finance with mainstream urban and environmental infrastructure development. Housing and Development Corporation Limited will act as the executing agency.

The major components of the TA are:

- ◆ Integrating microfinance institutions in urban and environmental infrastructure development.
- ◆ Capacity building for microfinance institutions for urban infrastructure financing.
- ◆ Pilot projects.
- ◆ Training, workshops and equipments.

The implementation of the Technical Assistance grant commenced in May 2000 and is expected to be completed by April 2002.

## ADB's Housing Finance Project - II

The project aims to improve the efficiency of the housing finance sector so that it can better serve the housing needs of low-income households. The project will develop a systematic and sustainable process whereby financing is made available from formal housing finance institutions through financial intermediaries such as community-based finance institutions and NGOs to assure effective and efficient delivery of market-based housing finance to low-income households. All of the beneficiaries will be low-income households.

Loans of \$100 million will be given to Housing and Urban Development Corporation Limited, \$80 million to Housing Development Finance Corporation Limited, \$80 million to ICICI Limited, \$40 million to National Housing Board, totalling \$300 million with a term of 25 years, including a grace

period of five years. Period of utilization of the loan is till 2007.

## Highlights of the World Bank's Proposed India Community Infrastructure Project (ICIP):

*Meera Mehta,  
Urban Specialist,  
World Bank*

The primary objective of the proposed project is to demonstrate, on a pilot basis, a sustainable financing mechanism and capacity for community infrastructure investments for poor and low-income communities. Community infrastructure includes water supply, sanitation, streets, solid waste, toilets, house connection, landscapes and external connections to local authority and limited shelter financing. The project would be demand-driven and cover the poor and low-income communities in both rural and urban areas throughout India. It would address the critical issue of commercial viability and management sustainability of infrastructure financing through decentralization to empower the concerned communities. These objectives will be achieved through:

- ◆ Strategic alliances of the main financial intermediary, HDFC, with community-based financial institutions, for providing market-based financial services.
- ◆ Community-driven, participatory approach to neighborhood infrastructure upgradation and a municipal level integrated plan to ensure external linkages for community infrastructure.
- ◆ Development of a Community Support Fund (CSF) to channel World Bank funding and other donor resources, where possible, for sub-project development and capacity building for the target community-based finance institutions, municipal authorities and communities.

The three major components of ICIP are:

◆ **Sub-project management and capacity building:** to cover the costs of services for managing sub-projects through community participation in designing and implementing community infrastructure plans (CIPs) and to meet the costs of capacity building support. A Community Support Fund (CSF) is proposed to fund these support activities during project implementation, but it will not finance actual infrastructure investments. Its detailed structure, capitalization and institutional arrangements will be developed during project preparation.

Most of the initial CIPs are expected to be prepared during the project preparation phase itself to create an adequate development of pipeline sub-projects, so that they may be taken up for funding by financial intermediaries (under the second project component) immediately after project effectiveness. Costs of developing these will be met from project preparation expenses. However, development of new CIPs, and their management costs during project implementation, will be supported through the CSF. Capacity building for community-based financial institutions, communities and municipal authorities will also be funded through the CSF.

◆ **Community infrastructure investments:** to partially meet the financing costs of implementing community infrastructure plans at the community or city level. Under this component, finance will be provided by the financial intermediaries to: a) communities or to community-based finance institutions for on-lending to communities or households, or b) municipal or other local governments for investments in facilities required to provide external connections to infrastructure in poor and low-income communities. The remaining cost of infrastructure investments will be met through additional community shares or governmental contributions. While

financing these investments, adequate care will be taken to ensure that necessary legal provisions are adhered to. Within this component, a guarantee facility will be created which will partially cover the non-commercial risks faced by the commercial financial intermediaries, including HDFC, in lending for this sector. Other donor funding is being explored for the guarantee facility.

- ◆ **Market development:** to cover costs of expanding the lending activities to one or more commercial financial intermediaries during implementation. These will be in addition to HDFC, the main financial intermediary, whose costs are covered under the earlier components. It will involve identification of potential institutions and developing a proposal for their inclusion at least by mid-term review. Institutional arrangements for this component will be reviewed and firmed up during project preparation.

The total project size is expected to be about US\$60 million with an IDA credit of US\$42 million. The project implementation period is 2001-2005.

The main institutional actors will be commercial finance institutions, community-based finance institutions, community-based management organizations and municipal/local authorities. The project will be implemented through flexible sub-projects at the local levels, through community-based financial institutions and municipal authorities.

A broad benefit of the pilot project will be to demonstrate the viability of sustainable market-based planning and financing of community infrastructure. Specifically, low-income communities will benefit from the provision of infrastructure; community-based financial institutions/development agencies will strengthen their capacity for financing community infrastructure and formal finance institutions will increase their client base in this sector. It is envisaged that about three cities will be included in the ICIP for ensuring provision of external connec-

tions within the framework of a municipal level ICIP. This will enable the municipal authorities to enhance their capacities to increase coverage of infrastructure to low-income communities in a participatory and cost-effective manner.

## Microfinance Training Module

### Smita Ghatate, Gujarat Mahila Housing SEWA Trust

Ms Ghatate presented the Microfinance Training Module prepared by MHT and WSP-SA, for microfinance institutions interested in expanding their activities to infrastructure provision. MHT is organizing a training program later this year, in collaboration with Friends of Women's World Banking and with the support of the WSP-SA and the Housing Development Finance Corporation Limited. The main objective of this training program is to build the capacity of microfinance institutions and NGOs, to successfully undertake infrastructure upgradation programs and disburse infrastructure loans to their clients. Specifically, the training aims to:

- ◆ Help the microfinance institutions/NGO staff to understand the dynamics of providing infrastructure-related financial services.
- ◆ Provide information about technical, financial and managerial aspects of infrastructure projects.
- ◆ Provide an in-depth insight into *Parivartan*, the Ahmedabad slum upgradation program and share experiences of other infrastructure upgradation programs in India and abroad.
- ◆ Disseminate information about the sources of institutional funding available for infrastructure credit.

The training will address key areas such as the multiple role of microfinance in facilitating access to community infrastructure; community mobilization for infrastructure; the

design of efficient loan systems for infrastructure credit; linkages with public sector agencies; planning and project management; and sources and procedures of institutional funding for infrastructure loans.

The key feature of this course is that it has been developed and will be taught by grassroots practitioners. Training will initially take place in Ahmedabad. Spread over 36 sessions in seven days, the training is based on the experiential learning model and will be conducted in a participatory manner with games, case studies, roleplays, and group discussions. Field visits to *Parivartan* and structured seminars with the municipal staff will also be organized during the training.

## Section II

### Exploring Innovations and Opportunities in Microfinance and Infrastructure

#### Group Work

The participants were divided into groups in this session and each group was asked to brainstorm a list of interesting developments/new opportunities in the field of effective community infrastructure investment. A facilitator was assigned to each table to assist and guide the group work.





### Key Developments in the Sector of Microfinance for Community Infrastructure

- ◆ There is a growing awareness of the **potential of microfinance to facilitate community infrastructure investments**. This is evident in new initiatives (by donor agencies and the private financial intermediaries) which indicate a willingness to explore new approaches to sector investments.
- ◆ A small but increasingly significant number of creative **community-municipal initiatives** highlight the added value that both can gain through working in partnership.
- ◆ Innovative project structuring and processes enable **investments to respond to community demand** and result in capacity building of the community and women's empowerment.
- ◆ There is increasing evidence of willingness, on the part of the **government, to explore a facilitator's role** as opposed to that of a provider.

Participation in this session was enthusiastic. The participants felt that the recent developments in the infrastructure sector were encouraging and that there was an increasing potential for innovative potential. The participants unanimously agreed on the following exciting developments in the sector.

### Key Challenges in the Sector

- I. Changing Attitudes and Raising Awareness;
- II. Capacity Building;
- III. Policy Environment;
- IV. Diversification, Innovations and Risks;
- V. Technology;
- VI. Maintaining Quality While Scaling Up; and
- VII. Consolidation and Regularization of the Existing Structures.

## Bridging the Gap and Moving Forward

The participants of the workshop identified seven major sector gaps in effective community infrastructure investment during group work in this session. An action plan to bridge these gaps was also proposed.

## Changing Attitudes And Raising Awareness

With the recent emphasis on decentralization and local governance, there is a clear shift from the government financing infrastructure towards the poor beginning to pay for services. Similarly, there is a shift from the government being the sole provider of infrastructure to the private sector, including organizations of the poor, beginning to explore community contracting options and assuming the responsibility for infrastructure maintenance. There is enough evidence to suggest that the poor do pay for the services rendered to them and that they thus ought to be viewed as consumers rather than passive beneficiaries. And yet, the perception that infrastructure provision for low-income communities is exclusively the government's business persists. Politicians are seen as benefactors and the services are expected to be funded by state resources.

Microcredit has emerged as an enabling tool to facilitate financial contribution of poor communities. However, widespread funding for infrastructure through microfinance is still an underdeveloped sector. The lack of clear understanding of 'community infrastructure' and the facilitating role of microcredit and microfinance institutions has not helped.

The problem is exacerbated by lack of information on options, partly due to the absence of documentation of the best models, which can be replicated and/or adapted further.

## Action Plan


- 1 Educate stakeholders to raise awareness**
  - ◆ Develop advocacy and information dissemination through media campaigns including TV, website, video documentation, school syllabus, exposure visits, training programs, etc.
  - ◆ Provide grants for community education to microfinance institutions.
  - ◆ Prepare standard advocacy material.
- 2 Create incentives to develop new financial instruments leading to change in attitudes**
  - ◆ Facilitate active partnerships across agencies where each level provides capacity building and resources, starting from External Support Agencies (ESAs) down to the microfinance institutions. (For example, ESAs could provide international experience, while financial institutions could provide expertise to microfinance institutions and they, in turn, could provide more information to financial institutions on customer base.)
- 3 Create incentives for top level attitudinal change**
  - ◆ Link ESA funding to create incentives for institutional change and incorporate this feature in the project design. (The World Bank and ADB are already doing this.)
- 4 Create financial incentives for local governments to empower communities**
  - ◆ Restructure the central and state governments funds to create incentives.
  - ◆ Motivate ESAs to support this activity and bear some of the risk.
- 5 Educate local bodies about the importance and potential of community infrastructure**
  - ◆ Encourage community-based organizations and microfinance institutions to take the lead; local/state institutions can provide a forum for educational activities.
  - ◆ Organize exposure visits for corporation officers to cities such as

Ahmedabad, Hyderabad, Baroda, etc.

#### 6 Mitigate risks to financial institutions for community infrastructure provision

- ◆ Create credit rating instruments and credit bureaux. This can be achieved by a few national level financial institutions working to achieve guarantee funds.
- ◆ Reform the law to use subsidies for risk coverage. This will include developing a new approach to subsidies so that they can be made available to financial institutions to cover the risks of lending to low-income groups.
- ◆ Motivate microfinance institutions, the private sector and financial institutions to create pressure points for changing the political will to bring about the above mentioned legislation.
- ◆ Develop savings products at microfinance institutions level to promote contributions via doorstep collection.

## Capacity Building

 Inadequate capacity of various actors – community, municipality, community-based organizations, microfinance institutions, and financial institutions – has been identified as a major gap in the area of community infrastructure. The following steps have to be taken to resolve this problem:

- ◆ The community and its leaders need to be educated in order to raise awareness and maximize participation of the community. Ensuring exposure and imparting training in negotiation skills to the community are crucial, particularly because interaction with municipalities and other government officials is often required.
- ◆ Community-based organizations and microfinance institutions need to specially focus on urban community infrastructure provision so that they may train community members in technical and maintenance functions and facilitate collective infrastructure

upgradation projects.

- ◆ Municipal officials also require training and exposure which would sensitize them to the potential of the poor communities to finance and manage infrastructure projects and to facilitate their working in partnership with communities.
- ◆ Finally, building capacity of mainstream financial institutions to identify and assess the creditworthiness of microfinance institutions is also essential in order to facilitate the availability of increased re-finance to the microfinance sector. In particular, the conventional requirements of collateral and detailed documentation need to be reviewed.

In spite of the need and the huge demand for them, the sector lacks resources – financial, human and training material – for capacity building in the sector. There are no institutions, no content and no universal methodology for training. Low absorptive capacity and lack of uptake of the available resources further plague the sector.

## Action Plan

### 1 Establish a capacity building investment fund for training

- ◆ Establish a fund to take care of the resource crunch for training and capacity building. National level financial institutions, government, foreign funding agencies, could do this.

### 2 Link up microfinance institutions with training institutes to develop training modules

- ◆ Prepare training modules and conduct training. Organizations such as MHT, Friends Of Women's World Banking, WSP, Housing and Urban Development Corporation Limited, Housing Settlement Management Institute and Habitat Polytechnic can prepare the modules individually or jointly and institutes such as BIRD (Bharati Integrated Rural Development Society), MHT, SPARC (Society For Promotion Of Area Resource Centre), Sa-Dhan (The

Association for Community Development Finance Institutions), and Xaviers Institute of Management can conduct the training. WSP-SA, in partnership with MHT, has already developed a training module for microfinance institutions interested in expanding their activities to infrastructure provision.

- ◆ Further enhance the capacity of microfinance institutions who are given training through networking and consultancy for others.


### 3 Evolve a commonly agreed upon methodology for training

- ◆ Build certified cadres of trainers who can conduct these training and large-scale exchanges/exposures between community organizations.
- ◆ Encourage lateral training amongst community groups, facilitated by NGOs such as Society For Promotion Of Area Resource Centre (SPARC), MHT, etc.
- ◆ Increase the pool of case studies by documenting initiatives, including those of smaller microfinance institutions, to understand bottlenecks faced by them in scaling up. International experience outside India could also be explored.

### 4 Build/enhance the capacity of municipalities

- ◆ Build perception through training programs and exposures to successful private-public-people partnerships.
- ◆ Encourage inter-municipality experience exchange.
- ◆ Pilot and document action research projects.
- ◆ Link financial incentives with capacity building efforts, for example, the Department for International Development (DFID)-supported APUSP project.

## Policy Environment

 A key factor determining the formation of municipal-community partnerships is the political background and framework. An enabling environment which allows user partici-

pation to flourish through a supportive context for development would constitute the ideal policy and political context. People-centered decentralized development policies and laws which enable and facilitate community participation provide a useful platform for municipal action. And yet, despite the formal enactment of decentralization, there is a powerful, informal dimension constantly influencing processes. Devolving power at the local levels has no meaning if attitudes are unchanged, skills are undeveloped, organization structures are unreformed and people's organizations are not promoted.

The major issue which emerged in the discussions is the presence of contradictory policies in the sector, particularly with reference to subsidy and credit. Subsidized interest rates and foreclosure laws are issues on which there are no clear-cut policies. Microfinance institutions feel that there is lack of a clear and sustained commitment to finance community infrastructure. Ironically, the government's *National Slum Policy (draft, 1999)* does not even mention community infrastructure. The issues of collateral, security, land *pattas* and community contracting continue to hinder the growth of the sector. Efforts to make institutions and systems user-friendly for the poor have yielded no results. This is an emerging sector and lack of experience often translates into ambiguous policies.

## Action Plan

- 1 *Review existing policies on land tenure, collateral and security*
  - ◆ Convene an inter-agency task force to document 'good practice' and review existing policies in the country, besides carrying out a comparative study of legal practice in different states.
  - ◆ Explore community tenure options at the international level.
- 2 *Address conflicts in policy by creat-*

*ing a dialogue between all actors*

- ◆ Create a policy forum of government officials, and financial institutions, NGOs, and microfinance institutions.
  - ◆ Reflect consistency in policy but encourage a wide variety of approaches. The World Bank, the Asian Development Bank and other ESAs should have a clear and common message.
  - ◆ Examine creative modifications and variations on existing government programs promoting MFI-public-private-people partnerships in infrastructure provision scheme design. (For example, Andhra Pradesh Development of Women and Children in Rural Areas (DWCRA) Program, mutually aided cooperative societies, CDS in Kerala.)
  - ◆ Hold state-based policy fora with the government, NGOs and microfinance institutions to discuss local policies/conditions.
- 3 *Change foreclosure laws to make them favorable to the loaners*
    - ◆ Reform the legal, regulatory and contracting structures of the financial sector. Such reforms should be designed to fairly distribute risks between the loaners and the loanees. (Housing Development Finance Corporation, etc, are already pursuing such reforms.)
  - 4 *Explore community's role in land procurement and community contracting*
    - ◆ It is essential to explore the many roles that community members can play.

## Diversification, Innovations and Risks

India has a number of credible microfinance institutions that are actively disbursing substantial loan funds, including those meant for on-plot infrastructure loans and community infrastructure loans. However, there is little variety in the loan products offered by microfinance institutions. In particular, there are no disaster management programs and insurance products are

conspicuous by their absence.


## Action Plan

- 1 *Identify the unmet needs of the consumers*
  - ◆ Ongoing initiatives by SEWA, and other NGOs and community-based organizations are already in place. Market research institutes, NGOs and community-based organizations can take these initiatives further.
- 2 *Design innovative products*
  - ◆ Asian Development Bank, World Bank and domestic microfinance institutions are already doing this, albeit in an ad hoc fashion. Specialized institutes with the requisite expertise can thus take over this role.
- 3 *Build capacity for marketing and packaging the product*
  - ◆ Broaden coverage and reach of these new products. Microfinance institutions, schools/training institutes should begin experimenting with these products.
- 4 *Pilot and implement new initiatives*
  - ◆ Design systems for upscaling loans and savings products offered by microfinance institutions, especially for infrastructure purposes. Microfinance institutions, community-based organizations, NGOs, the private sector, and the government can identify, disseminate and upscale these initiatives.
- 5 *Develop review parameters and participatory evaluation methods for benchmarking community infrastructure interventions and products*



- ◆ Stipulate parameters and benchmarks for review and undertake participatory evaluation regularly.

## Technology

 Conventionally, engineers dominate the decision-making regarding infrastructure provision and the real needs of the users are usually ignored. The blanket application of national standards hinders technical innovation, despite international experience, which shows the potential of appropriate lower-cost solutions to provide services people want and are willing to pay for. Community members can and do play many different roles in infrastructure upgradation projects. They can be the physical providers/contractors, provided they have adequate technical capacity and are trained in construction techniques. They can be the regulators of cost and quality control as they live at the site of construction/infrastructure installation. They can also play the role of supervisors of the physical work or simply of consumers/beneficiaries of services/facilities that they have paid for. To take on these activities, the poor communities need technical training, access to information regarding low cost options, assistance in cost estimation and supervision for quality control, among other things. Engineers also need to be encouraged to accept innovative new solutions which respond to these community roles.

*Rapporteur's Note: This was a contentious issue and the participants could not agree on an action plan. While the group agreed that some standards*

*are needed to maintain quality, no consensus could be reached on whether 'over-engineered' standards hamper community participation or not.*

*This issue was flagged for informed debate at a later date.*

## Maintaining Quality While Scaling Up

 In response to the huge demand at the grassroots level, the sector has been marked by recent efforts towards scaling up both infrastructure provision and infrastructure finance to poor communities. However, maintaining or achieving well-defined standards of quality while scaling up is a common concern to the sector. Reduced quality of group formation and lack of ability to assess the creditworthiness of infrastructure projects and communities are the major risks. Community-based organizations also often find it difficult to identify and properly target the beneficiaries when the scale of operation increases.

### Action Plan

- 1 *Take concrete steps to retain perspectives and objectives of the users, managers, grassroot workers and professionals, etc*
  - ◆ NGOs, microfinance institutions and community members can make this effort.
- 2 *Learn lessons, strategize, evolve and project a coherent vision*
  - ◆ Microfinance institutions can organize themselves, network, lobby with advocacy and support from outside professionals.

3 *Continue the ongoing skill upgradation and training*

- ◆ Community-based financial institutions, microfinance institutions, and 'Barefoot Management Schools' can take up this task with funding from national and international agencies once the needs are identified.

- ◆ Involve mainstream in these efforts.

4 *Evolve efficient systems, detailing the roles and responsibility of different stakeholders and match appropriate actors with these*

- ◆ Make this a process of learning from good practice, initiated by community-based financial institutions. Funding can also be provided for this activity.


- ◆ Conditionality and agreement to learn and improve are also essential for achieving this.

5 *Correlate systems, sustainability and size*

- ◆ Encourage growth by supportive external policy environment.

- ◆ Design regulations to induce and enable scaling up efforts.

## Consolidation and Regularization of the Existing Structures

 Microfinance institutions face a variety of problems, at the institutional level, for onward lending to poor communities. The mainstream finance sector is still neither adequately sensitized nor equipped for on-lending to a poor clientele and its particular needs. Microfinance institutions continue to face procedural problems in accessing timely and adequate bulk-credit from mainstream re-finance institutions. These include problems relating to the furnishing of adequate security collateral, loan procedure leading to indiscriminate delays, lack of flexibility of the loan system in spite of the nature of the clientele, and interest rates being spread too low to meet the

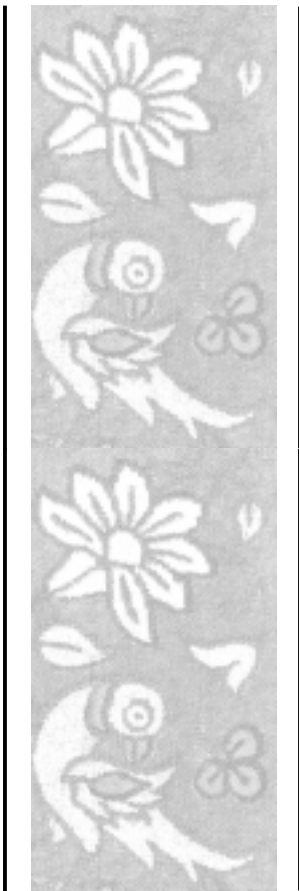


expenses of the microfinance institutions. The lack of 'start-up' funds and bulk financing makes it difficult for community-based organizations to extend their activities to infrastructure provision.

### Action Plan

*Rapporteur's Note: This was identified as an age-old problem of the MFI sector in India but not directly relevant to the specialist sector of microfinance for infrastructure.*

The National Task Force on microfinance has recently submitted its report to the RBI and the Ministry of Finance to tackle many of the problems cited above. The action plan for this was not discussed at the workshop.



# Microfinance for Community Infrastructure

## Action Plan for the Government, External Support Agencies, Financial Institutions, Microfinance Institutions, Community-based Organizations and NGOs

Action	Making it Happen	Identifying Actors <sup>4</sup>
CHANGE ATTITUDES AND RAISE AWARENESS	♦ Educate stakeholders to raise awareness	M
	♦ Create incentives to develop new financial instruments, leading to change in attitudes	G+E+F+M
	♦ Create incentives for top-level attitudinal change	E
	♦ Create financial incentives for local governments to empower communities	E
	♦ Educate local bodies about the importance and potential of community infrastructure	M
BUILD CAPACITY	♦ Mitigate risks to financial institutions for community infrastructure provision	G
	♦ Establish capacity building investment fund for training	G+E+F+M
	♦ Link-up MFIs with training institutes to develop training modules	M+E
	♦ Evolve a commonly agreed upon methodology for training	M
STRENGTHEN POLICY ENVIRONMENTS	♦ Build/enhance the capacity of municipalities	M+E+G
	♦ Review existing policies on land tenure, collateral and security	G+E+F+M
	♦ Address conflict in policy by creating a dialogue between all actors	E+M+G+F
	♦ Change foreclosure laws to make them more favorable to the loaners	G
DIVERSIFY, INNOVATE AND TAKE RISKS	♦ Explore community's role in land procurement and community contracting	G
	♦ Identify the unmet needs of consumers	M+G
	♦ Design innovative products	E+M
	♦ Build capacity for marketing and packaging products	M
	♦ Pilot and implement new initiatives	M
MAINTAIN QUALITY WHILE SCALING UP	♦ Develop review parameters, and participatory evaluation methods for benchmarking community interventions and products	G+F+M
	♦ Take concrete steps to retain perspectives and objectives of the users, managers, grassroots workers and professionals, etc	M
	♦ Learn lessons, strategize, evolve and project a coherent knvision	M
	♦ Correlate systems, sustainability and size	M+F
	♦ Continuously upgrade skills and train staff	M+F+E
	♦ Evolve efficient systems, detailing the roles and responsibility of different stakeholders and match appropriate actors with these	M+F
	♦ Design regulations to induce and enable scaling up efforts	M+E+G+F

<sup>4</sup> G: Government, E: External Support Agencies, F: Financial Institutions, M: Microfinance Institutions/Community-based Organizations/NGOs

**Annexure I**  
**National Workshop on**  
**'Microfinance for Infrastructure:**  
**Recent Experiences'**  
**August 31, 2000**

**Agenda**

8.30 – 9.00 a.m.	Registration	
9.00 – 9.30 a.m.	Welcome	Renana Jhabvala, MHT Junaid Kamal Ahmad, WSP-SA
9.30 – 9.50 a.m.	Keynote Address	Ela Bhatt, Founder, Self Employed Women's Association, Ahmedabad
9.50 – 10.30 a.m.	Session One	<i>Chairperson: J. P. Murthy</i>
9.50 – 10.10 a.m.	Presentation	Presentation of 'Credit Connections' by MHT Speaker: Jayashree Vyas, SEWA Bank
10.10 – 10.30 a.m.	Plenary	Discussion on the presentation
10.30 – 11.00 a.m.	Coffee Break	
11.00 – 12.30 p.m.	Session Two Group Work 1	Exploration of innovations and sector gaps in microfinance
12.30 – 1.30 p.m.	Lunch	
1.30 – 3.00 p.m.	Session Three	<i>Chairperson: V. Suresh</i>
Presentations	Presentations on microfinance investment and support programs for infrastructure	1. Government of Andhra Pradesh Speaker: Rajeshwara Rao 2. World Bank Speaker: Meera Mehta 3. Asian Development Bank Speaker: James Lynch
3.00– 3.30 p.m.	Tea Break	
3.30 – 4.00 p.m.	Session Four Presentation	<i>Chairperson: Vijayalakshmi Das</i> Microfinance Training Module Speaker: Smita Ghatate, MHT
4.00 – 5.00 p.m.	Session Five Group Work 2	Preparation of Action Plan
5.00 – 5.30 p.m.	Reporting back from Group work and final comments:	Barbara Evans, WSP-SA

**Annexure II**  
**National Workshop on 'Microfinance for Infrastructure: Recent Experiences'**

August 31, 2000

SILVER OAKS, India Habitat Centre, Lodi Road, New Delhi

**List of Participants**

**CENTRAL GOVT./  
MUNICIPAL MANAGERS**

**Mr. Abhas Kumar Jha**

Deputy Secretary FB/A  
Ministry of Finance, Dept. of Economic Affairs,  
Lok Nayak Bhavan, Room 143 A,  
Parliament Street, New Delhi 110 001  
Tel: 011-3013355 Fax: 011-3017511

**Ms. Bharti Sihag**

Director - Rural Housing  
Ministry of Rural Areas & Employment  
Room #379, Krishi Bhawan, New Delhi 110 001  
Tel/Fax: 011-3381967

**Ms. Babri Lal**

Joint Director  
Ministry of Rural Development  
Krishi Bhawan, New Delhi 110 001  
Tel/Fax: 011-3381967

**Mr. J. P. Murty**

Joint Secretary (HEPA)  
Ministry of Urban Development & Poverty Alleviation  
Room No. 114, 'C' Wing, Nirman Bhavan, New Delhi 110 011  
Tel: 011-3017665 Fax: 011-3017497

**Mr. K. Rajeswara Rao**

Managing Director  
Andhra Pradesh Urban Finance & Infrastructure  
Development Corporation Ltd., Hyderabad 500 063  
Tel: 040-3224171/3220876  
Fax: 040-3220876/3227254

**Mr. S. Reghunathan**

Principal Secretary to Chief Minister (IT)  
CMO, Government of NCT Delhi  
Room No. 84, Delhi Vidhan Sabha, Delhi 110 054  
Tel: 011-3924217 Fax: 011-3933230

**MICROFINANCE INSTITUTIONS/NGOs**

**Mr. Abhijit Das**

Project Director  
Tarun Sangha  
Vill Phakirchak, P.O. Barabari, (South), Dist. Midnapore 721430  
Tel: 03220-70321

**Ms. Ami Ravat**

Manager (Infrastructure)  
Baroda Citizens Council, Baroda  
Tel: 0265-793415/358091 Fax: 0265-794596/339298

**Ms. Aruna Anand**

Assistant Manager, Consulting Unit  
YUVA  
52/53 Narepark Municipal School, 2nd Floor,  
Opp. Narepark Ground, Parel, Mumbai  
Tel: 022-4155250 Fax: 022-4135314

**Mr. Babu Thomas**

Director (Housing & Infrastructure)  
Society for Integral Development Action (SIDA)  
Koovapally 686518, Kottayam (Dt.)  
Tel: 0482-851115 Fax: 0482-851447

**Mr. B.S. Balachandran**

Bharat Sewak Samaj  
Sadbhavana Bhavan, Brahmin's Colony,  
Kawadiar P.O. Thiruvanthapuram 695 003  
Tel: 0471-433845 Fax: 0471-431664

**Mr. Ernest Paul**

Credit Manager  
Bharati Integrated Rural Development Society (BIRDS)  
No.26/130 B-2 Eva Nest Ganapuram, Nandyal, Dt. Kurnool  
Tel: 08514-43444/46112 Fax: 08514-48444

**Ms. G. Padmaja**

Director  
SPANDANA  
5-54-19, 6/18 Brodipet, Guntur-2, A.P.  
Tel: 0863-350733 Fax: 0863-354289

**Mr. J. Ranga Rao**

Director  
ASSIST  
G.T. Road, Chilkaluripet 522616, Guntur, A.P.  
Tel: 08647-53971 Fax: 08647-54815

**Mr. K. Narender**

Programme Leader  
DHAN Foundation  
18, Piyayarkovil Street, S.S. Colony,  
Madurai 625 010, Tamil Nadu  
Tel: 0452-610794/610805 Fax: 0452-602247

**Mr. V.V. Suryanarayana**

Chief Executive  
Mahila Vikasa Mutually Aided Co-operative Thrift Society Ltd.  
7/87 Ravindra Nagar, Cuddapah 516 003  
Tel: 08562-49287 Fax: 08562-46351

**Mr. Mathew Titus**

Coordinator  
Sa-dhan  
2163, DII Vasant Kunj, New Delhi 110 070  
Tel/Fax: 011-6132629

**Mr. Minar Pimple**  
Executive Director  
YUVA  
52/53 Narepark Municipal School, Opp. Narepark Ground,  
Parel, Mumbai 400 012  
Tel: 022-4155250 Fax: 022-4135314

**Mr. Mohammed N. Amin**  
ADHIKAR  
192 Dharma Vihar, Khandageri, Bhubaneswar 751 030  
Tel: 0674-471051 Fax: 0674-470907

**Mr. P. Uday Shankar**  
CEO  
Indian Association for Savings & Credit  
3-100 G, 'REHOBOTH' 2nd Floor, Crystal Street,  
Martandam 629 165, Kanyakumari  
Tel: 04651-72745 Fax: 04651-72738

**Mr. P. Vedachalam**  
Programme Director  
Community Action for Rural Development Card (CARD)  
Samathuvapuram, Pulivalam 622 507,  
Pudukkottai, Dist. Tamil Nadu  
Tel: 04333-74233 Fax: 04322-66971

**Mr. Prafulla Kumar Sahoo**  
Centre for Youth & Social Development  
E-1, Institutional Area, P.O. RRL, Bhubaneswar 751 013  
Tel: 0674-300983/301725 Fax: 0674-301226

**Mr. Rajendra Joshi**  
Managing Trustee  
SAATH  
18 Amber Society, 2nd Floor, Opp. Kameshwar School,  
Satellite Road, Ahmedabad 380 015  
Tel: 079-6740832 Fax: 079-6730277

**Ms. Reeva Sood**  
Indicare Trust  
1030 Vikas Kunj, Vikaspuri, New Delhi 110 018  
Tel/Fax: 011-5531031

**Mr. S. Damodaran**  
Executive Director  
GRAMALAY  
31, A/29 Neravalur Colony, Salai Road, Worjur,  
Tiruchirapalli 620 003  
Tel/Fax: 0431-761263

**Mr. S. Viswanatha Prasad**  
Vice President  
BASIX  
403, Nirmal Tower, Dwarkapuri Colony, Punjagutta,  
Hyderabad 500 082  
Tel: 040-3350171 Fax: 040-3358846

**Mr. Sukumar Singh**  
Secretary, Mass Education  
Mahamayatala, Garia, Calcutta 700 084  
Tel: 033-4772010 Fax: 033-4359755

**Ms. Sunita Raj**  
The Activities for Social Alternatives (ASA)  
'Sathia Illam', 2-A, 10th Cross, Alli Street, Annamali Nagar,  
Thiruhirapalli 620 018  
Tel: 0431-763980 Fax: 0431-763356

**Mr. S. Vijaya Bhaskar**  
Manager-Field Operations  
SHARE  
'SHEKINAH' 12-13-680, Nagarjuna Nagar, Tarnaka,  
Hyderabad 500 017  
Tel: 040-7174925/7153080 Fax: 040-7173558

**Mr. V. Paul Raja Rao**  
Executive Director  
BIRDS-Bharati Integrated Rural Development Society  
#26/130B1 Gnanapuram, Nandyal (RS) 518 502 A.P.  
Tel: 08514-43444 Fax: 08514-48444

### INTERNATIONAL AGENCIES/ OTHER AGENCIES/BILATERALS/MULTILATERALS

**Ms. Alison Barrett**  
Regional Coordinator - Cities Alliance  
The World Bank, 70 Lodi Estate, New Delhi 110 003  
Tel: 011-4617241 Fax: 011-4619393

**Mr. Faisal Beg**  
Development Officer  
CIDA, Canadian High Commission  
7/8 Shantipath, Chanakyapuri, New Delhi 110 021  
Tel: 011-6876500 Fax: 011-6886478

**Ms. Rita Bhattacharjee**  
Deputy General Manager  
National Housing Bank  
Core 5-A, 4th Floor, India Habitat Centre,  
Lodi Road, New Delhi 110 003  
Tel: 011-4641173 Fax: 011-4646988

**Mr. Graham Jackson**  
AUSAID  
AusAid House, 62 Northbourne Avenue,  
Canberra ACT 2601, Australia  
Tel: 612-6206-4000 Fax: 612-6206-4880

**Mr. Harish Khare**  
Senior Officer, Technical Services  
HDFC Ltd.  
4th Floor, Ramon House, 169, Backbay Reclamation  
Churchgate, Mumbai 400 020  
Tel: 022-2831920 Fax: 022-2046834

**Mr. James P. Lynch**  
Urban Dev. Specialist  
Asian Development Bank  
Water Supply, Urban Dev. & Housing Div.  
6 ADB Avenue, Mandaluyong City, 0401, Metro Manila, Philippines  
Tel: 0632-632-5942/6712 Fax: 0632-636-2305

**Mr. James Stein**  
Director  
Regional Urban Development Office, USAID  
American Embassy, Shantipath, Chanakyapuri,  
New Delhi 110 021  
Tel: 011-4198000 Fax: 011-4198612

**Dr. Jyotsna Bapat**  
Consultant  
National Council of Applied Economic Research (NCAER)  
Parsila Bhavan, 11 IP Estate, New Delhi 110 002  
Tel: 011-3317860/68 Fax: 011-3327164



**Ms. K. C. Ranjani**  
Deputy General Manager  
Small Industrial Development Bank of India (SIDBI)  
10/10 Madan Moham Malviya Marg, Lucknow 226 01  
Tel: 0522-209517-20 Fax: 0522-209513

**Mr. K. Mukundan**  
Urban Specialist  
The World Bank, 70 Lodi Estate, New Delhi 110 003  
Tel: 011-4617241 Fax: 011-4619393

**Ms. Kanika Basu**  
HUDCO  
HUDCO Bhawan, India Habitat Centre,  
Lodi Road, New Delhi 110 003  
Tel: 011-4367653 Fax: 011-4628894

**Ms. Kiran Wadhwa**  
Chief Economist  
HUDCO  
HUDCO Bhawan, India Habitat Centre,  
Lodi Road, New Delhi 110 003  
Tel: 011-4648023 Fax: 011-4627093

**Mr. M. Alam**  
Project Implementation Officer  
Asian Development Bank, 37 Golf Links,  
New Delhi 110 003  
Tel: 011-4692578 Fax: 011-4636175

**Dr. Meera Mehta**  
World Bank  
House No. 12, KenIndia Gardens, Raphta Road, Nairobi, Kenya  
Tel: 0254-2-441991 Fax: 0251-2-623536

**Mr. Nabaroon Bhattacharjee**  
Program Officer & Regional Training Advisor  
Regional Urban Development Office, USAID  
American Embassy, Shantipath, Chanakyapuri,  
New Delhi 110 021  
Tel: 011-4198000 Fax: 011-4198612

**Mr. P.P. Vora**  
CMD  
National Housing Bank  
Core 5-A, 3rd Floor, India Habitat Centre,  
Lodi Road, New Delhi 110 003  
Tel: 011-4642722 Fax: 011-4649030-35

**Dr. Piali Chakrabarty**  
Project Appraisal Officer (I)  
HUDCO  
HUDCO Bhawan, India Habitat Centre,  
Lodi Road, New Delhi 110 003  
Tel: 011-4648023 Fax: 011-4627093

**Mr. Rahul Mane**  
HUDCO,  
HUDCO Bhawan, India Habitat Centre,  
Lodi Road, New Delhi 110 003  
Tel: 011-4367653 Fax: 011-4628894

**Dr. Rakesh Kaushik**  
Director – Development Support  
Nodal Organisation for Development Enterprise & Services (NODES)  
MBCC, SCO 333-34, Sector 35 B, Chandigarh 160 022  
Tel: 0172-600532/533 Fax: 0172-600531

**Mr. Rauno Zander**  
Consultant  
KfW, C/o HDFC Ltd.  
4th Floor, Ramon House, 169, Backbay Reclamation,  
Churchgate, Mumbai 400 020  
Tel: 022-2831920 Fax: 022-2046834

**Mr. S. Ramanathan**  
Programme Officer  
Swiss Agency for Development & Cooperation (SDC)  
Chandragupta Marg, Chanakyapuri, New Delhi 110 021  
Tel: 011-6877819/20 Fax: 011-6873631

**Dr. Sampath Srinivas**  
Manager  
PDCOR Limited  
# 315, Laxmi Complex, M.I. Road, Jaipur 302 001  
Tel: 0141-373457/373464 Fax: 0141-373614

**Mr. Sally Rynveld**  
Senior Consultant  
Coffey MPW Pty Ltd.  
Suite 22 Northbourne Chambers, 54 Northbourne Avenue  
Canberra, ACT 2601, Australia  
Tel: 0612-6248-7366 Fax: 0612-6248-7157

**Mr. V. Suresh**  
CMD  
HUDCO  
HUDCO Bhawan, India Habitat Centre,  
Lodi Road, New Delhi 110 003  
Tel: 011-4693022 Fax: 011-4628894

**Mr. V. Swarup**  
Chief (CD)  
HUDCO,  
HUDCO Bhawan, India Habitat Centre,  
Lodi Road, New Delhi 110 003  
Tel: 011-4367653 Fax: 011-4628894

**Ms. Veena Padia**  
Small Enterprises Advisor  
Department for International Development (DFID)  
B-2, Anand Niketan, New Delhi 110 021  
Tel: 011-6114225 Fax: 011-6871655

#### **MAHILA HOUSING SEWA TRUST & FWWB**

**Ms. Bijal Bhatt**  
Co-ordinator  
Mahila Housing SEWA Trust  
Room #404, 4th Floor, Sakhar IV Building,  
Ashram Road, Ahmedabad 380 003  
Tel: 079-6581659 Fax: 079-5506446

**Ms. Ela Bhatt**  
Chairperson  
Mahila Housing SEWA Trust  
Room #404, 4th Floor, Sakhar IV Building,  
Ashram Road, Ahmedabad 380 003  
Tel: 079-6581659 Fax: 079-5506446

**Ms. Jayshree Vyas**  
Managing Director  
Mahila Sewa Sahakari Bank  
109, Sakar II, 1st Floor, Opp. Town Hall,  
Ellisbridge, Ahmedabad 380 006  
Tel: 079-6581652 Fax: 079-6576074

**Ms. Nayana Vejani**

Mahila Housing SEWA Trust  
Room #404, 4th Floor, Sakhar IV Building,  
Ashram Road, Ahmedabad 380 003  
Tel: 079-6581659 Fax: 079-5506446

**Ms. Parul Raval**

Mahila Housing SEWA Trust  
Room #404, 4th Floor, Sakhar IV Building,  
Ashram Road, Ahmedabad 380 003  
Tel: 079-6581659 Fax: 079-5506446

**Ms. Pratul Ahuja**

Friends of Women's World Banking  
G-7, Sakar I Building, Opp. Gandhigram Station,  
Ashram Road, Ahmedabad 380 009  
Tel: 079-6584199/6580119 Fax: 079-6580119

**Ms. Raja Rajeshwari**

Program Officer  
Friends of Women's World Banking  
G-7, Sakar I Building, Opp. Gandhigram Station,  
Ashram Road, Ahmedabad 380 009  
Tel: 079-6584199/6580119 Fax: 079-6580119

**Ms. Renana Jhabvala**

Executive Trustee  
Mahila Housing SEWA Trust  
Room #404, 4th Floor, Sakhar IV Building,  
Ashram Road, Ahmedabad 380 003  
Tel: 079-6581659 Fax: 079-5506446

**Ms. Sheela Menon**

Mahila Housing SEWA Trust  
Room #404, 4th Floor, Sakhar IV Building,  
Ashram Road, Ahmedabad 380 003  
Tel: 079-6581659 Fax: 079-5506446

**Ms. Smita Ghatate**

Housing Finance Co-ordinator  
Mahila Housing SEWA Trust  
Room #404, 4th Floor, Sakhar IV Building,  
Ashram Road, Ahmedabad 380 003  
Tel: 079-6581659 Fax: 079-5506446

**Dr. Vjyalakshmi Das**

Chief Executive  
Friends of Women's World Banking  
India, G-7, Sakar I Building, Opp. Gandhigram Station,  
Ashram Road, Ahmedabad 380 009  
Tel: 079-6584199/6580119 Fax: 079-6580119

**INTERNATIONAL ( PAKISTAN)****Ms. Tahira Raza**

Executive Vice President  
First Women's Bank, Head Office  
7th Floor, Mehdi Tower, S.M.C.H. Society, Shahar-e-Faisal, Karachi  
Tel: 9221-4540603 Fax: 9221-4556983

**Dr. Tashfeen Kahan**

Director General  
Community Infrastructure Project (CIP)  
Govt. of NWFP, Phase V, Hayatabad, Peshawar  
Tel: 92-91-9217349 Fax: 92-91-9217350

**Mr. Zahur Hussain**

Regional Programme Manager  
Dera Ghazi Khan, National Rural Support Programme  
Al Rehman Manzil, Shah Sikander Road, DG Khan,  
Punjab, Pakistan  
Tel: 92-641-61227/60441 Fax: 92-641-470647

**INTERNATIONAL (BANGLADESH)****Dr. Dibalok Singha**

Executive Director  
Dushtha Shasthya Kendra (DKS)  
5/8-Sir Sayed Road (Ground Floor), Block 1,  
Mohammadpur, Dhaka 1207  
Tel: 0880-2-9128520 Fax: 0880-2-8115764

**Mr. G.K. Roy**

Programme Coordinator, Microfinance  
BRAC  
BRAC Centre, 75-Mohakhali C/A, Dhaka  
Tel: 0880-2-4180-7 Fax: 0880-2-6448

**Mr. Quazi Shairul Hassan**

General Manager  
Grameen Bank  
Grameen Bank Bhaban, Mirpur 2, Dhaka, Bangladesh  
Tel: 0880-2-8011138 Fax: 0880-2-8013559

**WATER AND SANITATION PROGRAM-SOUTH ASIA**

55 Lodi Estate, New Delhi 110 003  
Tel: 011-4690488/89 Fax: 011-4628250

**Ms. Barbara Evans**

Regional Urban Specialist

**Ms. Clarissa Brocklehurst**

Regional Urban Specialist

**Dr. Junaid Kamal Ahmad**

Regional Team Leader

**Ms. Marie Helene-Zerah**

Consultant

**Ms. Poonam Chitkara**

Program Assistant

**Dr. Pushpa Pathak**

Urban Specialist

**Mr. Raja Rehan Arshad**

Team Leader, Pakistan

**Ms. Sara Fatima Azfar**

Urban Specialist

**Ms. Shalini Sinha**

Editorial Consultant

**Ms. Shantana Bannerji**

Team Assistant

**Ms. Soma Ghosh Moulik**

Urban Institutional Specialist

**Mr. Tanveer Ahsan**

Urban Specialist

**Ms. Vandana Mehra**

Regional Communications Coordinator

The page features a decorative border with a repeating pattern of stylized white floral and bird motifs on an orange background. The motifs include a large flower, a bird-like figure, and smaller floral elements. The border is composed of rectangular blocks arranged in a grid-like fashion around the central text area.

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**Water and Sanitation  
Program-South Asia**

**55 Lodi Estate  
New Delhi 110 003  
India**

**Phone: (91-11) 4690488, 4690489  
Fax: (91-11) 4628250  
E-mail: [wpsa@worldbank.org](mailto:wpsa@worldbank.org)  
Web site: <http://www.wsp.org>**

For more information, contact :  
Water and Sanitation Program-South Asia  
55 Lodi Estate  
New Delhi 110 003  
Tel: 91-11-4690488, 4690489  
Fax: 91-11-4628250  
Email: [wpsa@worldbank.org](mailto:wpsa@worldbank.org)

Gujarat Mahila Housing SEWA Trust  
Room No. 404, 4th Floor  
Sakhar IV Building  
Ashram Road  
Ahmedabad 380 009, Gujarat  
Telefax: 91-79-6581659  
Email: [mahilahsg@icenet.net](mailto:mahilahsg@icenet.net)

**Prepared by Shalini Sinha  
Photographs by Ashwani Chopra**

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