CREDIT CONNECTIONS

Meeting the Infrastructure Needs of the Informal Sector Through Microfinance in Urban India

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GUJARAT MAHILA HOUSING SEWA TRUST
Foreword

The successful provision of municipal services, including water and sanitation, to poor people living in South Asia’s cities and towns is a growing challenge. Far from improving coverage and raising standards of living, conventional approaches to service delivery have failed to keep pace with increased demand. Investment in inappropriate facilities, coupled with inadequate arrangements for their operation and maintenance, have led to a situation of waste, where infrastructure rapidly falls to pieces. Service coverage has consistently fallen rather than risen.

In response to this state of affairs, new approaches to service provision widely recognize the role of consumers, even poor consumers, in decision-making and financing services. For many poor people, taking control of decision-making, and increasing their financial stake in service provision is an attractive proposition and small scale credit services are often utilized by poor communities to access services which have an associated investment cost. Despite being less well understood than credit provision for economic development and income generation, the small scale infrastructure credit sector in India is large and thriving. Increasingly, large scale financing agents, such as donors and domestic financial organizations, are seeking to channel more funds into the sector, and there is enormous potential in the partnerships which can be developed between major financial agents, microfinance institutions, municipal government, technical agencies and communities.

This study takes a look at some of the prominent microfinance institutions in India and explores four very different experiences with the delivery of micro credit for infrastructure. The purpose of the study is to examine what is already happening on the ground in this important sector in India, what are the constraints currently faced by microfinance institutions, both in terms of upward and downward linkages, and to begin to identify some of the changes which would be required to unleash the potential of this intervention to improve the lives of the millions of people who live in appalling conditions in India’s cities. Further research and investigation is needed to establish the best modalities for partnership in the micro credit arena, but we hope that this study, with its practical guidelines for microfinance institutions, coupled with a broader overview of the national situation, will be a useful introduction to the issues of micro credit for urban infrastructure.

While this study is focussed on the Indian experience, there are clear lessons for other countries in the region and beyond. The potential of small scale credit to improve access to municipal services which can be relied on, is universal, and it is hoped that the information presented here will be of interest and use around the region, and internationally.

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