



Financing Urban Sanitation: Development Impact Fund

April 15, 2014

A Roundtable on Financing Urban Sanitation through a Development Impact Fund To meet the goal of open defecation free (ODF) cities

Organised by

National Housing Bank, Delhi and CEPT University, Ahmedabad April 15, 2014, Delhi

Background

Despite significant public investment in urban sanitation over the past decade, over 46 million people in Indian cities resort to open defecation. Another 22 million people lack access to on-premise toilets. Recent literature suggests adverse health impact of OD leading to stunting among Indian children. This impact has been observed to be worse in more dense urban areas. Other analysis shows that access to on-premise toilets is critical in reducing open defecation in urban settings. There is thus an urgent need to improve access to on-premise toilets in our cities.

In January 2014, a workshop on urban sanitation financing organised by Ministry of Urban Development with support from CEPT University and Centre for Policy Research (CPR) emphasized the need to explore the possibilities of using microfinance for financing urban sanitation at the user end. The deliberations highlighted the need to address policy issues and particularly improve access to debt funds for micro-finance lenders along with appropriate capacity building support. It also emphasized the need to tap new opportunities from corporate social responsibility (CSR) funds as well as from the emerging breed of social impact investors.

Recognising that there is a significant demand for 'toilet credit' and that the conventional approaches have not been able to meet this latent demand, it is imperative that some innovative financing mechanisms be explored. With that as a background, this roundtable was organised by the National Housing Bank, Delhi and CEPT University, Ahmedabad to review the constraints in scaling up of lending for household sanitation and explore possibility of setting up a Development Impact Fund for Urban Sanitation. The participants at the meeting were drawn from: development partners, microfinance institutions, housing finance companies, and NGOs working on urban sanitation and housing.

Welcome Address

Mr. R.V. Verma, Chairman and Managing Director, National Housing Bank



welcomed Smt. Anita Agnihotri, secretary, MoHUPA, and the participants. In his address, he highlighted the critical nature of urban sanitation in India and pointed out the fact that there are still over 14 million urban households without an on-premise toilet in India.

As a first step to providing a solution to this, he said that the focus should be on the identification of households that need support. He also talked of the need to create a sustainable business model focusing on urban sanitation financing. Scaling up sanitation financing, according to him, was possible by creation of a special fund that has participation of multiple stakeholders. He assured NHB's commitment towards supporting such an initiative. He urged the participants to provide specific inputs to move forward quickly on scaling up sanitation financing.

Opening Remarks

Dr. Dinesh Mehta, Professor Emeritus, CEPT University in his opening remarks laid down the



purpose and agenda of the meeting. He provided a snapshot of sanitation scenario at national level on availability and access to on-premise sanitation facilities.

Dr. Mehta expressed his concern that the funding in urban sanitation has been directed towards large infrastructure projects, with very little funds allocated for household

sanitation. He argued that with rising construction costs, household affordability for toilets has been affected. There is, thus a need to develop financing mechanisms and products that can support household aspiration to have an on-premise toilet. He urged that toilet construction loans should become a part of the housing improvement loans.

Ms. Anita Agnihotri, Secretary, MoHUPA, in her special remarks as the Chair of the meeting, emphasised that the Ministry of Housing and Urban Poverty Alleviation (MoHUPA) has an important role to play at the policy level for urban sanitation.



She highlighted the health dimension of sanitation and the implications of open

defecation on health, especially for children. She also suggested that in the discussion on sanitation, the gender dimension must receive emphasis, especially the issues of safety, security and dignity for women. The current regulatory framework is often biased against the poor and does not allow them to have adequate water and sanitation facilities at their doorstep. She felt that along with important issues of financing sanitation, the participants should also discuss the regulatory aspects and the capacity of urban local governments to deal with the poor.

Ms. Rita Bhattacharya, Assistant General Manager, NHB shared experiences of NHB in financing pro-poor sanitation through MFIs in three cities – Nagpur, Anand and Bhuvaneshwar.



She described the partnership between NHB and UN Habitat that since 2008, has been involved in capacity building on sanitation as well as building

demonstration projects. In addition, she highlighted NHB's current Water and Sanitation (WATSAN) assistance that is spread across six states in India. Based on this experience, she outlined important lessons for improving access to sanitation finance for poor. These were; a) need for developing a sustainable financing system, b) resolving issues of

land security and tenure, and

c) need for appropriate sanitation technology for the poor.

Dr. Meera Mehta, Professor Emeritus, CEPT University in her presentation discussed the current challenges in urban sanitation and highlighted the



slow pace of improvement in last few decades. According to Dr. Mehta, the negative externality of poor sanitation is much higher in urban areas due to high density. Dr. Mehta said that the ultimate goal for urban sanitation should be to completely eliminate open defecation. This

can be done through increasing "access" and "awareness". She pointed out that lack of toilets is not only prevalent among slum dwellers. In fact two-thirds of the latent demand for on-premise toilets is from non-slum households.

Based on past research, she cited two key reasons for lack of "own" toilets as: a) lack of space, and b) lack of affordability. She discussed the possibility of resolving the space constraint by promoting group toilets (toilets shared by 2-3 families that know each other well) and pointed out that the new post-2015 targets set out by the WHO and UNICEF have also accepted this concept as an improved toilet. She also referred to the current work of CEPT in Maharashtra on design and implementation of such group toilets. The affordability constraint needs to be addressed through developing appropriate financing mechanisms.

Although many MFIs and HFIs are involved in financing urban sanitation, there is still a large funding gap and additional funds and actors are needed. She spoke of a need for 'dedicated' fund for urban sanitation. According to her, three major purposes for such a fund would be: 1) debt funds for MFIs at affordable and competitive rates, 2) support grants for lenders to meet mobilization and capacity building needs, and 3) support grants for cities. She spoke about capitalizing such a fund through government and donor funds and also new sources such as CSR and social impact investors. Specific smaller needs could also be funded through crowd funding. At the end, she presented potential structures for a proposed Development Impact Fund, as well as a city/state level sanitation support fund.

Summary of Discussions

Policy Aspects of Sanitation Financing:

- a. Most participants agreed that toilet loans should be considered as a part of home improvement loans. This also suggests that it may be possible for households to access funds from HFIs and SCBs. Participants also urged the National Housing Bank to consider toilet loans as 'home improvement' and include these in its 'refinancing' norms.
- b. There was some discussion about inclusion of sanitation as a part of priority sector lending. Although, some participants felt that this would not bring down interest rates significantly for the borrowers, it would help financial institutions to include this within their PSL norms.



- c. Participants also emphasized the need to include sanitation loans as a part of loans for income generation for MFIs to meet the RBI requirements for qualifying assets.
- d. Some participants also advocated the need to simplify the process of making finance available to the poor.
- e. Several participants highlighted regulatory aspects related to land tenure and building plan approvals. It was suggested that in view of the national priority on eliminating open defecation, it would be important to ensure provision of sanitation services to the poor by easing issues related to

tenure and building regulations at local level.

Proposed Urban Sanitation Fund (USF):

- a. It was agreed by all participants that it is essential to set up a special Urban Sanitation Fund. Given that the proposed fund is expected to have both "grant" as well as "debt" funds, its legal structure will need to be examined carefully. It was also felt that since the fund expects to do both technical support activities as well as lending to MFIs and other financial institutions, its operational aspects will also have to be defined well including aspects related to: service provision, loan origination, third party verification etc.

b. The Urban Sanitation Fund should be designed in a manner that it can mobilize both government grants and CSR funds. It should also be able to raise debt from potential social impact investors. It was felt that it should be possible to have the CSF listed as eligible to receive CSR funds. At a more

c. There was some discussion about the size of the fund. It was suggested that for this fund to become effective, it should be a large fund, addressing not only financing of toilets, but the whole chain of sanitation. However, it was felt there is a significant grant fund available for large infrastructure. There is also a possibility of debt



funds for larger infrastructure from existing financial institutions. On the other hand, there is lack of funds at affordable rates for toilets. Thus, it was concluded that to begin with, one needs to start small and iron out all the issues.

d. There was a general agreement that once an Urban Sanitation Fund has been designed and capitalized, a programme of maybe initiated in a few cities. Most MFIs present in the meeting expressed their willingness to participate in such pilot programme. To support this, a local fund at state or city level may also be set up to mobilize funds from local benefactors.

e. On the activities of the proposed USF, it was agreed that the fund would prioritise 'last mile connectivity' and focus on providing a credit line for loans for toilet construction with on-site sanitation system or a connection to the sewerage system. These would be backed by grants for capacity building. There was also agreement that it should

support technical assistance to state governments and urban local bodies to develop appropriate regulatory frameworks and policies for making cities open defecation free.

In conclusion, Mr. R.V. Verma, CMD, NHB suggested that an emphasis on sanitation as a part of housing improvement is essential. In this context, he concurred with the recommendation of the round table on the need to set up a special fund for urban sanitation to ensure adequate and affordable funds to meet the demand. Ms. Agnihotri, Secretary, MoHUPA also suggested that the government has an important role to play in such an endeavor. It was decided that NHB and CEPT will form a small working group to explore details on establishment of funds and identify operational guidelines for such a fund. Representatives of DFID and IFC readily agreed to be a part of such a working group.

The meeting ended with a vote of thanks by Mr. Arnab Roy, ED, NHB.



List of Participants

Sr. No.	List of Participants	Designation/ Organisation
1	A P Saxena	DGM ,National Housing Bank
2	Anil Mehta	CEO, ISFC Ltd.
3	Anita Agnihotri	Secretary, MoHUPA
4	Arnab Roy	ED, NHB
5	Bertine Kamphuis	Private Sector Development Specialist, South Asia, World Bank
6	Dinesh Mehta	Professor Emeritus, CEPT University
7	Friedemann Roy	Global Product Specialist, Housing Finance, IFC
8	Harish Khare	Regional Housing Finance Specialist ,IFC
9	Harshil Mehta	MD & CEO, Adhar Housing Finance Ltd.
10	Justin Jebakumar	Director, Habitat For Humanity
11	Manish Gandhi	Regional Manager ,GRUH Finance Ltd., Gujarat
12	Meera Mehta	Professor Emeritus, CEPT University
13	N. Udaya Kumar	DGM ,National Housing Bank
14	P.Uday Shankar	Regional Director-South Asia,Water.org
15	Peeyush Pandey	Manager, National Housing Bank
16	Pradip Nandi	Chief Technical Advisor, UN-HABITAT
17	R. Bhattacharya	AGM ,National Housing Bank
18	R.V. Verma	Chairman and Managing Director, National Housing Bank
19	Rajiv Siwach	DGM, NABARD
20	Ravi Kumar Joseph	Senior Specialist, WSP-SA
21	Ravi Ratan	Asst. Manager, HDFC
22	Renu Khosla	Director - CURE India
23	Sharad Venugopal	P& D Advisor, DFID
24	Shruti Gonsalves	CEO, SEWA Grih Rin Pvt. Ltd.
25	Shubhagato Dasgupta	Senior Fellow, Centre for Policy Research
26	Sunitha Rangaswami	SD Advisor, DFID
27	Supriya Kalkani	Consultant, CEPT University
28	Titus Mathews	Executive Director, Sadhan
29	Ujjal Pan	Zonal Tech Manager, DHFL
30	Utkarsha Kavadi	Research Associate, CEPT University
31	V. Magesh Kumar	Manager, National Housing Bank
32	V. Vaideshwaran	AGM ,National Housing Bank
33	Veena Bhardwaj	Programme Co-ordinator, Mahila Housing Trust
34	Vikram Deva	Manager, National Housing Bank
35	Vikrant Bhagwat	Business & Social Initiatives Head , Suryoday Microfinance Pvt. Ltd

Programme Schedule

Roundtable Meeting to discuss

“Financing Urban Sanitation and to establish Development Impact Fund for Urban Sanitation”

April 15, 2014

New Delhi

Programme

10:00 am - 10:30 am	Registration
10:30 am - 10:45 am	Welcome address - Mr. R.V. Verma, CMD, NHB
10:45 am - 10:55 am	Opening Remarks - Dr. Dinesh Mehta, Professor Emeritus, CEPT University
10:55 am - 11:10 am	Special Remarks by Chair – Smt. Anita Agnihotri, Secretary, MoHUPA
11:10 am - 11:20 am	NHB experience of financing sanitation through MFIs - Ms. Rita Bhattacharya, AGM, NHB
11:20 am - 11:30 am	Discussion/Interaction
11:30 am - 11:50 am	Presentation - Development Impact Fund for urban Sanitation by Dr. Meera Mehta, Professor Emeritus, CEPT University
11:50 am - 12:15 pm	Discussion/Interaction
12:15 pm - 12:30 pm	Way Forward and Recommendations
12:30 pm - 12:40 pm	Vote of Thanks – Mr. Arnab Roy, ED, NHB
12:40 pm	Lunch

The Performance Assessment System (PAS) Project

The 'Performance Assessment System – PAS' is a five-year action research project, initiated by the CEPT University, Ahmedabad, with funding from the Bill and Melinda Gates Foundation. It supports development of appropriate tools and methods to measure, monitor and improve delivery of urban water and sanitation services in the states of Gujarat and Maharashtra. The PAS Project comprises three components of performance measurement, monitoring and improvement.

The PAS Project is supporting the development of City Sanitation Plans (CSP) to achieve open defecation free status for four small cities in Maharashtra, which are Wai, Hingoli, Ambajogai and Sinnar. These cities were selected by the Water Supply and Sanitation Department, Government of Maharashtra, and Maharashtra Jeevan Pradhikaran (MJP). A framework for city-wide assessment using the full value chain for urban sanitation has been developed, which is being used in developing these CSPs. Initial workshops were organised by the MJP with officials of these cities to discuss the CSP approach. Draft plans for these cities are ready and will be discussed with city officials.