

**Minutes of Meeting**  
**First Technical Advisory Committee Meeting**  
**Financing faecal sludge and septage management**

Ahmedabad

9<sup>th</sup> January 2018

In recent years, there has been an increased attention on Faecal Sludge and Septage Management (FSSM) within the wider national priority through the Swachh Bharat Mission (SBM) on urban sanitation. This research intends to explore potential sources of financing capital and operating expenditure for FSSM in urban India. It will focus on the state of Maharashtra but will also explore replicable financing framework for other states where BMGF has state wide interventions through Technical Assistance units, viz., Odisha, Tamil Nadu and Andhra Pradesh.

A Technical Advisory committee (TAC) has been formed to guide the study and provide feedback on the work. The first TAC meeting was held on 9<sup>th</sup> January 2018 at CEPT University in Ahmedabad.

**Meeting Deliberations:**

**1. Effective communication strategy for FSSM advocacy to state/ULB government is critical to leverage public finance**

- Overall the financing requirements for FSSM capital investments are not very large. It is generally felt, that these can be easily mobilized from public finance resources. This would include particularly the capital investments needed for treatment.
- Recently, there has been significant interest created around provision of citywide FSSM service through National FSSM Policy, AMRUT reform on preparing state level FSSM policy, allocating weightage for septic tank emptying services and treatment under Swachh Sarvekshan 2018. Even for the rural sanitation, MDWS is keen to ensure FSSM services.
- Despite these efforts, however, non-network sanitation solutions through city wide FSSM services are still not recognized adequately by most State and local governments, for allocating public funds for these options. This suggests that it is also important to develop a State level programme for effective city wide FSSM implementation strategy.
- In this context, it is essential to develop an effective communication strategy for advocacy to State government and ULBs to prioritize/ leverage public finances for FSSM projects. Continued advocacy measures with good communications are critical.
- Similarly, advocacy efforts will also be needed to influence allocations by the 15<sup>th</sup> Central Finance Commission. Currently, transfers from the 14<sup>th</sup> CFC is among the biggest sources of funding for the sanitation sector.

**2. Engagement with private sector is critical to draw on their management capacity for effective implementation of FSSM services. This needs to be explored through different service and business models.**

- Even if public finance is used to mobilise capital funds for FSSM service provision, it is essential to ensure good service delivery and that requires appropriate business models that involve private sector and draw on their management capacities. For this, it is important to understand the types of private sector players for both conveyance and treatment across the four states.
- In this context, it is also important to review similar experiences from other sectors, such as solid waste management, transport and other sectors – particularly, to capture ideas around business models and financing for engaging the private sector.
- It would also be critical to explore and evaluate different business models being used for engaging the private sector – e.g. a) a citywide contract for scheduled desludging in Wai and Sinnar in Maharashtra, b) the decentralised Faecal Sludge Management (FSM) project in the Savda Ghevra locality of Delhi funded by WaterAID/BMGF and implemented by CURE and IWMI, c) the PPP model for FSM services being implemented in Dhaka and Faridpur (link), and d) the use of hybrid annuity model for FSSTPs in over 70 towns in Andhra Pradesh. There are also possibilities of integrated contracts across the service chain and regional clustering of treatment for a few ULBs – as these would provide a better scale, which may be important for private sector.
- It is also likely that if such opportunities are created new players will come in. For e.g. Sumeet Pvt Ltd (which is a services management agency) for citywide scheduled emptying contract in two ULBs in Maharashtra. Similarly, it is also possible that the large players may come through the Expression of Interest for floated by Government of Andhra Pradesh for 60+ towns, if there is a possibility of scale by taking on more than one towns.
- Some TAC members pointed out the importance of creating a robust database to ensure better understanding of commercial implications for private sector to participate for FSSM service delivery.
- It was felt that it would be useful to develop a few core models that could be used across states. These can be adapted as per state's context, in terms of level of demand, availability and interest of the private sector, etc.
- It is important to identify and assess characteristics of various private service providers, for both conveyance and treatment, across the four states. This assessment will help to identify the suitability of business models in different States. It will also help outline the capacity building needs as well as special support needed by service providers to participate in different business models.

**3. Innovative financing is important, as it can help to both leverage additional resources when needed and create appropriate incentives for the private sector for good service delivery. This would vary across states and will need to be designed carefully.**

- Key elements of business models and ability to finance both capital and O&M expenditure through public finance will vary across the States. This suggests the need to understand the differences among states in terms of FSM related programs, public finance as well as service context and business models. Therefore, it is important to explore various sources of finance both capital and O&M expenditure in context of different states.

- It is good to review the experience from other sectors for financing models for capital works for e.g. PPP models, including the hybrid annuity model being used extensively in the Roads Sector. There was a suggestion to explore guarantee funds to mobilize private funding. This may be done by using CSR / grant money. However, it was points out that use of guarantees is not easy and can lead to perverse incentives.
- It is important to explore the possibilities of using property tax or linked tax-based resources for O&M expenditures as current practices of user charges tend to be high and based on distress prices.
- It is also important to explore the possibilities of leveraging other resources – commercial ones from the private sector, through borrowing from banks/ municipal bonds/pooled funding etc. This will require a rigorous assessment of municipal finances. This would be easier in States such as TN as the ULBs have credit history through the TNUDF operations.
- Finally, it is important to recognize that as the FSSM funding requirements are not very large, the focus on leveraging will need to be on modalities hat will help leverage not only additional funds, but incentives for the private sector to deliver better performance.

**List of Participants:**

Name	Designation	Organization
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