



Workshop on Financing Urban Sanitation

January, 2014

Ministry of Urban Development

CEPT University

Centre for Policy Research

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Workshop Report

Urban sanitation has received focused attention at the national level since the adoption of a National Urban Sanitation Policy (NUSP) in 2008. Following this, a number of efforts have been initiated by the Ministry of Urban Development (MOUD) to fulfil the NUSP objectives. Large investments have also been made under JNNURM and other central and state schemes to improve urban sanitation performance. However, available evidence suggests that large funding gaps exist and impacts of past investments are not clearly known. In this context, MOUD held a brainstorming workshop to discuss sustainable sources and mechanisms for financing urban sanitation both to increase the total pool as well as improve funding effectiveness. The workshop was organized by MOUD with support from the CEPT University and Centre for Policy Research (CPR).

The focus of this workshop was to take stock of financing for urban sanitation in India and to assess the possibility of using the new sources of finance such as the Corporate Social Responsibility (CSR) funds and Social Impact Investments. The deliberations also explored possible measures to strengthen the use of government funding through results-based funding and to tap private funds through innovative public-private partnership arrangements for urban sanitation.

There was great interest in these new opportunities as evident from the participation of a variety of stakeholders including financial institutions, multilateral institutions, donors and foundations, associations of microfinance institutions, research institutions and private consultants active in the area of urban sanitation and urban financing. The meeting agenda and a list of participants are attached to this report.

Three presentations were made to provide a basis for informed discussion:

- The first presentation by MoUD provided background on progress achieved against the national urban sanitation policies and set out core costs and principles for urban sanitation financing

- The presentation by CPR focused on lessons and key opportunities and constraints in public finance for urban sanitation since independence.
- The third presentation by CEPT University highlighted possibilities of using innovative financing instruments for urban sanitation including Social Impact Bonds (SIBs) and performance/results based funding. It also identified new funding sources such as CSR, social impact investors and microfinance institutions.

Copies of these three presentations are available at CEPT University's web portal for PAS Project (www.pas.org.in) and on the [CPR website](#).

Based on the deliberations at the meeting, the following key points of agreement and follow up actions emerged:

Enhancing and improving the effectiveness of public funding:

1. There was a **general agreement on lack of adequate impact of past investments** in the sector and the need to emphasize **importance of assessing and measuring performance** (such as 'no open defecation', clean water bodies, etc) **and impacts** (on environment, human health, local finances). Such assessments would make it possible to link funding with performance.
2. **Priority for urban sanitation is needed due to its impact on dignity, security, health and environment.** It was argued that this is a strong justification for prioritizing public funding of urban sanitation. However, it was agreed that public funding that is currently focused on outputs (number of toilets, length of pipes etc) needs to be move towards outcome based funding to ensure performance and results on the ground.
3. There was general acknowledgement that centralised 'one-size fits all' type of schemes do not promote innovation in technology. The use of standardised technologies also does not work in all cases. The participants highlighted the **need to restructure large public funding (e.g. jnnurm-2) as results based funding linked to performance outcomes**. It was suggested that specific measures are needed to make this happen. In this context, several participants highlighted the importance of good monitoring systems for Service Level Benchmarks (SLB) that will make it possible to put performance-linked conditions on release of public funds. Several suggestions were made to identify lessons from other schemes and programs that have been designed as Results Based Finance (RBF) or performance based grant schemes

(PBGS). Such a review will help identify lessons regarding development and successful use of RBF and PBGS in the Indian context.

4. There was an overall agreement **to explore more on innovative instruments that use results based funding (RBF)** to increase the cost-effectiveness and performance impact of investments in urban sanitation. In this context, some participants cited evidence that RBF type investments have yielded better results e.g. ADB projects in Karnataka and IFC funding for housing. It was also suggested to explore opportunities for convergence of existing programmes – citing the recent initiative of convergence programmes between NREGA and NBA in rural India.

Alternative innovative financing instruments need to be given a boost:

5. **Social Impact Bonds (SIB) is an emerging, but rapidly growing idea globally.** Since the first bond issues in UK for prisons in 2010, there has been a widespread use of SIBs globally, especially in USA. Recent announcement by DFID on use of Development Impact Bonds also suggests its growing popularity.

It would, however, be necessary **to assess specific opportunities for SIBs for urban sanitation.** Given the NUSP objectives, the ideas to pursue for SIBs would be ODF cities (or even ODF states?), clean water bodies revitalized through improved waste water management, and improved state urban sanitation index (which may be derived using appropriate measures such as those covered in GOI's service level benchmarking (SLB) framework as well as urban sanitation rating). This will require better capacity to assess local performance for ODF and for environmental impacts of untreated waste and to develop credible performance improvement plans.

The SIB structure requires repayment of bonds after successful achievement of agreed performance outcomes. The early SIBs largely had governments as the ultimate 'payers', suggesting a continued need to provide for grants. However, new options for 'payer groups' such as CSR, foundations and even community contributions may also be available for urban sanitation.

6. It was agreed by all that the new **opportunity of funding through CSR needs to be tapped for urban sanitation.** Some efforts to focus CSR on sanitation are already being made by a consortium including ACC, Holcim and Ambuja Cement. While the projections of total funding through CSR are large at around Rs 17,000 crore per annum, even at 10% of this, the funding is small compared to the estimated total requirements. **It was emphasized that the CSR should be viewed as a catalyst fund, particularly to support change management and appropriate capacity building efforts.** The main intention of using CSR should be to spur innovation that will help

achieve key sanitation outcomes such as elimination of open defecation and making all cities fully sanitized.

Based on the workshop deliberations it was suggested that it is essential to provide the necessary policy inputs such as: a) getting urban sanitation and new instruments such as SIB and performance based funding qualified as a CSR spend, and b) review rules regarding use of CSR only in their areas of operation (geographical constraints) to enable CSR funds in wider mechanisms such as SIBs that focus on national priorities. It was suggested by some of the participants that a clear message from the Ministry of Urban Development (MOUD) regarding the use of CSR for urban sanitation would be valuable.

7. Participants also suggested exploring other opportunities for innovative finance for sanitation such as **microfinance for financing sanitation at household level**. Given the nature and size of loan required for household level sanitation, it was suggested that micro finance maybe an appropriate choice and sanitation loans maybe easily able to meet the 'qualifying asset' criteria set by the Reserve Bank of India (RBI) for MFIs. It was felt that some key policy issues would need to be addressed for this. The first relates to the cap of 30% on non-income generating loan assets. Based on past studies, household sanitation facilities are expected to result in significant household savings in terms of time and expenditure on health. Sanitation loans would eventually result in net savings that households could avail for other expenditure. Thus, there is a case to include sanitation loans in the category of income generation loans. Advocacy for such a policy change will be needed.
8. Of current opportunities, **a renewed focus is needed on public-private partnerships to attract private funding as well as private sector expertise to enhance service delivery**. While conventionally PPP has been for larger sewerage related investments, new social entrepreneurship opportunities in sanitation include: delivery of fecal sludge management (FSM) services, development and operation of public toilets; reuse of waste water, waste to energy, etc. These opportunities are likely to have a revenue model through user charges that can meet full operation and maintenance costs as well as partial capital costs.
9. Several participants highlighted constraints in the current delivery models where the service providers lack capacity and face poor accountability systems. Thus any move to more innovative financing will also **need to identify appropriate delivery models**. While recognizing the important the role of ULBs in planning, managing and financing, possibilities of accountable and sustainable delivery models will need to be identified. Some suggestions included harnessing the 'base of the pyramid' as a potential delivery channel, particularly for the front end of the sanitation value chain.

This may also include special implementation vehicles particularly linked to a SIB arrangement. **Adequate financing for such capacity building support measures needs to be ensured.**

The way forward:

1. **Importance of policy was highlighted and considered critical for several different areas that would affect actual use of innovative finance for urban sanitation.** For example, to mobilize CSR for urban sanitation and innovative finance, it would be essential to have SIBs included as acceptable for use of CSR. Similarly for attracting microfinance for sanitation, appropriate policy changes will be needed such as amending regulation related to including sanitation loans as income generating loans. While debt funds are available in the system, access to them is limited and appropriate policy is needed to leverage these funds better. Appropriate changes will also be needed in financial sector policies and/or regulatory rules for the use of SIB in India for example related to priority sector lending. On the urban policy front, **policy guidance will be needed on toilet design, and provision of household toilets in slum settlements.**
2. Given the focus on performance outcomes, and the related use of these new instruments, **considerable efforts will be needed for capacity building of various stakeholders.** This would particularly include for the urban local bodies (ULBs) who will have to oversee development of plans, specific project structures to take up for projects funded under SIB. Orientation and exposure to the new aspects of impact investing will also be needed for all the players. For ULBs support will be needed for setting up robust performance monitoring systems as well as capacity to deal with new stakeholders from the financial sector.
3. Measures will need to be developed to support the **capacity building needs of MFIs to engage in these new opportunities.** These loans will require considerable capacity building related to technical assessment, monitoring and changes in their internal systems. Given the margin cap of 12% as per the RBI guidelines, MFIs will need appropriate grant funding support to develop new sanitation products and to create awareness among their clients. Support will also be needed to build the capacity of their credit officers to develop and manage these new loan portfolios.
4. Many participants suggested developing **a review of other RBF/PBGS that have been used in India and other developing countries.** Such a review will help distil lessons for new urban schemes and for sanitation schemes in particular. Such a review should include **approaches used for stakeholder awareness, appropriate**

governance mechanisms as well as various sanitation options to meet the twin challenges of universal access and improved waste water management.

5. It was also felt by several participants that for identifying lessons, **it is essential to develop practical options for urban sanitation** to attract CSR and social impact investors. Such practical options may be developed in key areas urban sanitation such as making cities open defecation free, onsite and/or decentralized sanitation system options, cleaning up and revitalization of water bodies in our cities and increased resource recovery from treated waste. Lessons from developing and implementing such options would provide guidance for the type of capacity building support needed, appropriate financial structuring, methods for involving different stakeholders (local government, communities and private sector) in delivery of services.

In closing the workshop, the Chair indicated MOUD's keen interest in taking forward this agenda and preparation of the advisory for innovative financing for urban sanitation. CEPT University confirmed its commitment to support MOUD in preparation of this advisory.

Annex 1: Workshop Agenda

Ministry of Urban Development CEPT University, Centre for Policy Research

Objective: Urban sanitation has been on the national agenda since the adoption of the National Urban Sanitation Policy in 2008. The workshop aims to discuss sustainable sources and mechanisms for financing urban sanitation both to increase the total pool as well as improve funding effectiveness.

The focus of this brainstorming workshop will be on assessing the possibility of using the new sources of finance such as the Corporate Social Responsibility (CSR) funds and from Social Impact Investors. In addition, the deliberations will also assess measures needed to strengthen the use of government funding and tap private funds through innovative public-private partnership arrangements for sanitation. Possibilities of using results-based funding to improve funding effectiveness will also be discussed.

The workshop will have a few brief presentations that will provide a basis for informed discussions. The MoUD presentation will provide background to the national sanitation policies and set out core costs and principles for urban sanitation financing. The CPR presentation will discuss lessons and key opportunities and constraints in public finance for urban sanitation. The CEPT presentation will provide some information on possible innovative financing instruments for urban sanitation.

09.30 – 10.00	Registration
Session I – Setting the Background Chair: Prof. Dinesh Mehta , Emeritus Professor, CEPT University	
10.00 – 10.10	Welcome, Background to the Workshop and Introductions (MoUD/CEPT /CPR)
10.10 – 10.30	Presentation by MoUD <ul style="list-style-type: none">• Government of India’s vision and strategy for Urban Sanitation• National Urban Sanitation Policy, Follow ups from State Sanitation Strategies , City Sanitation Plans and other activities, Overview of the Financing requirements for achieving Total Urban Sanitation
10.30 – 10.40	Presentation by CPR <ul style="list-style-type: none">• Public Finance for urban basic services – lessons, key opportunities and constraints
Session II – Exploring Innovative Financing for Urban Sanitation Chair: Ms Nandita Mishra, Director, Ministry of Urban Development	
10.40 – 11.00	Presentation by CEPT <ul style="list-style-type: none">• Financing Urban Sanitation – need and the gap• Exploring Innovative options• Potential and need for enabling environment
11.00 – 11.20	Tea break
11.20 – 13.00	Open Discussion - Participants to share their experience on financing infrastructure and service delivery, especially urban sanitation
13.00 – 13.30	Wrap up and Way Forward
13.30 – 14.30	Lunch

Annex 2: List of participants

Sr. No.	List of Participants	Designation/Organisation
1	A. Nandi	Sa-Dhan
2	Adil Zaidi	Director (Govt. & Transaction Advisory Services) - Ernst & Young
3	Adrien Couton	Dalberg Global Development Advisors
4	Alyse Schrecongost	Bill & Melinda Gates Foundation (BMGF)
5	Amandeep Singh	Centre for Policy Research, New Delhi
6	Anjali Chikersal	Centre for Policy Research, New Delhi
7	C. Krishna Gopal	NUSP Cell - Ministry of Urban Development (MoUD)
8	Chandan Chawla	CEPT University
9	Dinesh Mehta	CEPT University
10	Dipika Ailani	Bill & Melinda Gates Foundation (BMGF)
11	Guy Hutton	Regional senior water and sanitation economist, WSP-SA
12	K.K. Pandey	IIPA
13	M. Dhinadhayalan	Joint Adviser (PHEE) - CPHEEO, MoUD
14	Mangesh Gupte	Head of CSR - ACC Limited
15	Mathew Titus	Executive Director - Sa-Dhan
16	Meera Mehta	CEPT University
17	Murali Mohan T.	Deloitte
18	N. Bhattacharjee	Team Leader - PMU, CBUD Project (MoUD/MOHUPA)
19	Nandita Mishra	Director, Ministry of Urban Development (MoUD)
20	Nikhil George	Centre for Policy Research, New Delhi
21	Nivat Bhatnagar	Wash for India
22	Om Prakash Mathur	National Institute of Urban Affairs (NIUA)
23	Pavan Kumar	IDFC Foundation
24	Prakhar Jain	Centre for Policy Research, New Delhi
25	Preeti Singh	Dy. General Manager (Projects) - HUDCO
26	R Seetharaman	Centre for Policy Research, New Delhi
27	Rahul Bhargava	Head - Project Finance & Technical Services, New Delhi - HDFC
28	Rahul Joshi	Powertec Engg. Pvt. Ltd.
29	Ratna Viswanathan	Deputy CEO- Microfinance Institutions Network (MFIN)
30	Regina Dubey	GIZ, India
31	Satyam Sundaram	Vice President - Ernst & Young LLP
32	Saugata Dasgupta	Urban Specialist, Asian Development Bank (ADB), India
33	Sayali M. Wagh	SPA
34	Shilpa Rao	Associate Operations Officer - International Finance Corporation
35	ShubhagatoDasgupta	Centre for Policy Research, New Delhi
36	Sneha Palnitkar	RCUES, AIILSG, Mumbai
37	Sourav Majumder	Associate Project Officer , Asian Development Bank (ADB), India
38	Sriniwas C.	CPR
39	Udayan Chatterjee	Consultant
40	Warren Ang	Project Leader - Dalberg Global Development Advisors

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.