

FINANCING SWACHH BHARAT: FINDING THE MONEY FOR CLEAN INDIA

India's latest national sanitation programme, Swachh Bharat ('Clean India'), is Prime Minister Narendra Modi's striking initiative to re-energise the drive towards improved sanitation access and lower rates of open defecation. For an initiative of this scale to succeed, every level of government must be able to access the funds necessary to reach millions of households. This Finance Brief examines the current financial outlook for Swachh Bharat, and considers potential sanitation funding models. A key innovation is a 0.5% addition to the national Service Tax, ring-fenced for sanitation and expected to raise US \$150 million per annum.

'TOILET FIRST, TEMPLE LATER': THE SWACHH BHARAT MISSION

The Swachh Bharat Mission (SBM) was launched by Prime Minister Modi in October 2014 with the cry of 'toilet first, temple later': an acknowledgement of the need for improved sanitation and hygiene in India. SBM's main objectives are to eradicate open defecation and provide all Indians with access to sanitation facilities by 2019. The central government (GOI) is therefore subsidising construction on an enormous scale: 8.8 million rural toilets were built in the programme's first year, and in urban areas 25,000 community toilets and 26,000 public toilets are to be built in 2015/16 alone. Attention is also being paid to improving waste management and behaviour change.¹

SBM is an ambitious effort: 569 million Indians continue to practice open defecation.² SBM is sub-divided into two missions: Swachh Bharat Mission (Urban) for urban areas, and Swachh Bharat Mission (Gramin) for rural areas. The SBM has a five-tier implementation system, starting with the national Swachh Bharat Mission, down to the state, district, block and village levels.

SBM is attracting enormous international attention: can *top-level political commitment* combined with *massive government investment* resolve the immense sanitation challenges of a lower-middle-income country? Everybody hopes so! Nonetheless, the challenges are immense. Will SBM genuinely improve sanitation, or will it simply subsidise the construction of millions of low-quality latrines? And will the government find the money necessary to achieve genuinely functional urban sanitation systems?

THE COST OF SWACHH BHARAT

The costs of improving rural and urban sanitation have been estimated to be US \$15 billion and US \$9 billion respectively.³ The figures in Table 1 suggest that the government's current budget allocation is only 17% and 7% of the total required for rural and urban sanitation. Other sources of finance will therefore be essential.

Table 1: Recent financial projections for Swachh Bharat. 1 crore = 10,000,000. INR/US \$ exchange rates as of 6 June 2016. GOI = Government of India. Source: Reference 3.

Area	Projected total requirement	Project annual requirement	Funds allocated (2014-2016)	Average annual flow from GOI	Average annual flow from GOI as % of annual requirement
Rural sanitation	INR 100447 crore (US \$15.1 billion)	INR 20894 crore (US \$3.1 billion)	INR 6975 crore (US \$1.04 billion)	INR 3488 crore (US \$521 million)	17%
Urban sanitation	INR 62009 crore (US \$9.3 billion)	INR 12002 crore (US \$1.8 billion)	INR 1700 crore (US \$254 million)	INR 850 crore (US \$127 million)	7%
All	INR 162456 crore (US \$24.4 billion)	INR 32896 crore (US \$4.9 billion)	INR 8675 crore (US \$1.3 billion)	INR 4338 crore (US \$648 million)	13%

FUNDING SWACHH BHARAT

A recent analysis of funding for SBM indicates the following actual and potential revenue sources.³

- **Swachh Bharat Cess (SBC):** Introduced in late 2015, this is an additional 0.5% component on the Service Tax. The Service Tax is applied to a wide range of services including insurance, hotels and restaurants. The GOI hopes to raise almost US \$150 million annually through the SBC.
- **Swachh Bharat Kosh (Clean India Fund),** or Corporate Social Responsibility (CSR) contributions: companies with a certain net worth, profitability and rate of turnover must dedicate 2% of their profit to CSR programmes, including SBM. In 2014-15, the Swachh Bharat Kosh received about US \$50 million.
- **Municipal bonds:** Municipal bonds can be a strong source of capital for sanitation infrastructure projects including improved sewerage systems, faecal sludge management infrastructure (e.g. transfer stations) and wastewater and sludge treatment facilities.⁴ Note though that bonds are a financing mechanism, not a source of revenue: the loan must be repaid from tariffs and/or local taxes.
- **Special Purpose Vehicles:** The Ahmedabad Municipal Corporation created a fully municipally-owned SPV in order to improve the quality of water of the Sabarmati River.
- **Community resources:** Alandur sewage plant was financed from capital partly collected through pre-emptive connection charges from domestic and non-domestic users.
- **P-Budget:** An Indian public finance team referring to allocation of a defined proportion of an urban municipality's total budget to pro-poor investment and services. The Ministry of Housing and Urban Poverty Alleviation (MHUPA) recommends that around 25% of municipal budget should be P-Budget.⁵ The sources of these funds are transfers from central government and municipal own-revenues: so P-Budget is not a source of new revenue to the government. We can expect variation in the extent to which this budget is actually spent effectively on the poor.

BARRIERS TO ACHIEVING SBM

There is some concern about SBM's progress. In certain areas the level of spending is low, as local authorities were not able to plan for or implement sanitation projects. Progress is uneven across states and union territories: in early 2016, some states had thousands of open defecation free (ODF) villages, while others such as Goa and Puducherry had yet to declare one village ODF.

Some critics argue that SBM has been too focused on building toilets instead of creating demand for them in the first place, resulting in underused or abandoned facilities.⁶ The numbers of toilets built are not necessarily an accurate proxy for open defecation rates. The government is responsible for excreta treatment and disposal, but only 30% of urban excreta currently reaches a treatment plant. Lack of investment in the end stages of the excreta management chain (sewerage or tankered emptying) will not be alleviated by more toilets.

CONCLUSION

For India to reach its sanitation and hygiene targets by 2019, funding will need to match GOI's rhetoric. Funding vehicles do exist, but these are not enough to make up the shortfall between the funding needed for nationwide improved sanitation and the resources provided by central government. Even more importantly, SBM must spend money effectively: not just on toilet construction, but on sanitation systems.



© Atul Loke / Water & Sanitation for the Urban Poor / Panos Pictures

- 1 Mallapur C (2016) 70% of Urban India's Sewage is Untreated, The Wire India
- 2 JMP (2016) Regional Snapshot for SACOSAN VI conference
- 3 Pandey KK (2016) Financing sanitation: Indian Experience and Lessons for SAARC Region, presented at SACOSAN VI
- 4 Chakrabarti M (2014) The role of municipal bond market for financing urban infrastructure in India: an empirical assessment. abhinavjournal.com/journal/index.php/ISSN-2277-1166/.../pdf_42
- 5 Jawaharlal Nehru National Urban Renewal Mission (2011) Internal Earmarking of Funds for Services to Urban Poor - Mandatory Primer. http://jnurm.nic.in/wp-content/uploads/2011/01/Mandatory_rpimer_5-IEFSUP.pdf
- 6 Singh D (2016) India's toilet toppers: Rajasthan comes first in India's loo race, Daily Mail India
- 7 Chikeral A (2015) Only a change in government behaviour can clean up India, The Wire India

PUBLIC FINANCE for WASH

The Public Finance for WASH initiative is grounded on two principles: i) that sustainable universal provision of high-quality water and sanitation services is fundamentally dependent on progressive domestic taxation systems, and that consequently ii) WASH-sector donors, donor-funded NGOs and in-country actors need to pay greater attention to ensuring that ODA is delivered in ways which support the development of effective and equitable domestic public finance systems.

Credits: This is a copyright free document: you are free to use it as you see fit. Please cite as follows: 'Norman G & Renouf R (2016) Financing Swachh Bharat: Finding the money for Clean India. Finance Brief 12, Public Finance for WASH, www.publicfinanceforwash.org'. This Finance Brief is based on a presentation by Professor KK Pandey of the Indian Institute of Public Administration, New Delhi.