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Strengthening Municipal Finance for Sustainable Sanitation Service Delivery in Small Towns of South Asia

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Bangladesh, India and Nepal have significantly extended access to basic sanitation, but the safe management of faecal waste is still at a nascent stage. Particularly in small towns, introducing and sustaining sanitation services is challenging due to weak planning and budgeting capacities, a lack of capital investments, and limited avenues to raise revenue for operational expenses (because of small revenue base and limited municipal capacity to collect taxes and fees).

Given these challenges, WaterAid commissioned the study "Strengthening Municipal Finances for Sustainable Sanitation Service Delivery". The study documented good practices in financing urban sanitation, using six small towns as case studies: Jhenaidah and Sakhipur in Bangladesh; Dhenkanal and Sircilla in India; and Mahalaxmi and Birtamod in Nepal. Their experiences offer lessons on how other towns can improve the sustainability of sanitation services. This policy brief captures those lessons and provides recommendations for:

Municipal governments to:

- Explore multiple revenue streams
- Identify opportunities to cluster services with neighbouring localities
- Generate demand via public engagement

National and sub-national governments to:

- Dedicate sufficient annual budget for municipal sanitation service provision
- Ensure predictability, transparency and flexibility of intergovernmental transfers
- Provide technical assistance to municipalities on financing strategies and service delivery

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Recommendations for municipal governments

1 Explore multiple revenue streams to achieve operational sustainability

User fees for desludging or solid waste collection are the most widely adopted financing mechanisms in the towns studied. User fees based on the location, size and type of building appear to be acceptable to residents, who typically had been paying a similar fee to unregulated service providers before any municipal interventions. Additional financing mechanisms in some municipalities include: an annual "registration fee" that households pay to the municipality in addition to the desludging fee; a sanitation tax (akin to the municipal property tax); leasing of public toilets; and sales of fertilizer produced from co-composting of organic waste and faecal waste.

The table below provides a snapshot of different sanitation-related revenue streams implemented across the six towns (FSM = faecal sludge management, SWM = solid waste management):

Country	Municipality	Sanitation-Related Revenue Streams
Bangladesh	Jhenaidah	User fees (FSM); annual registration fee (FSM); sanitation tax
	Sakhipur	User fees (FSM and SWM)[1] ; compost sales; treatment plant visitor fees
India	Dhenkanal	User fees (FSM, residents and neighbouring villages; SWM, residents only); public toilet leasing; compost sales
	Sircilla	User fees (FSM and SWM); licensing fees; compost sales
Nepal	Mahalaxmi	Not yet adopted
	Birtamod	User fees (FSM); sanitation fee/tax[2]

In addition to covering operational costs, two municipalities (Jhenaidah and Dhenkanal) are generating a surplus, which they are setting aside and using mainly to ensure sustainability. Adopting a variety of revenue streams can better position municipal governments to sustainably finance sanitation service delivery, as well as attract private sector participation.

2 Identify opportunities to cluster services with neighbouring localities

The faecal sludge treatment plant (FSTP) for Dhenkanal accepts faecal sludge from 17 nearby villages, providing the municipality with additional revenues. Birtamod is participating in two clusters of municipalities, one for sharing the capital and opera-

1 Across the six towns, user fees for FSM are collected per trip at the time of service, while the user fees for SWM are collected from households monthly.
2 Birtamod's sanitation fee is collected from all residents and is calculated based on building size and type using methods similar to the property tax. Although the municipality refers to it as a fee, the design is similar to Jhenaidah's sanitation tax.

tional costs of an FSTP, and another for jointly contributing to the operational costs of a solid waste treatment facility under a public-private partnership.

Clustering can help municipal governments reduce costs via economies of scale and sharing resources and treatment sites. However, the governance of these arrangements presents challenges in the absence of clear frameworks and technical assistance to structure the collaboration (cost sharing and responsibilities for operations, maintenance and monitoring). Support from regional governments is crucial to create governance structures and facilitate collaboration among municipalities.

3 Generate demand via public engagement

Additional sanitation taxes and fees are unpopular and difficult to implement unless citizens are aware of the need for safely managed sanitation, and unless they feel that the service they will receive matches their financial effort. In Jhenaidah, public outreach was essential to get residents to demand emptying services and accept the sanitation tax and desludging fees. Public engagement was also assessed as a critical requirement in Mahalaxmi and Sakhipur to resolve challenges in securing FSTP sites. A strong public engagement initiative can help municipalities generate demand.

Recommendations for central and regional governments

1 Dedicate sufficient annual budget for municipal sanitation service provision, including by leveraging existing programmes in other sectors

Intergovernmental transfers – via the Municipal Water Supply and Sanitation Project in Bangladesh, the Swachh Bharat Mission and the Finance Commission[3] in India, and the Small Towns Water Supply and Sanitation Project in Nepal – were instrumental in enabling the financing of sanitation services in the towns studied, supporting capital expenditure, operations and maintenance, and facilitating institutional strengthening. Development partners also contributed some financial resources.

This suggests that central and regional governments should dedicate substantial budgets in their annual fiscal transfers to the municipal level, taking into account the demand and plans from the municipal governments.

Central and regional governments can also leverage resources from departments and ministries in other sectors, such as agriculture and forestry (building a market for the sale of compost) and livelihoods (employment opportunities in sanitation).

3 In the funding recommended by the 15th Finance Commission (2021–26) for municipalities with population less than one million, 30% is allocated for drinking water, and 30% for sanitation.

Dhenkanal benefited from an order by the State Government of Odisha requiring the State Forest Department to purchase organic fertilizer produced from treated solid and liquid waste, and use it to fertilize non-food bearing trees. Sakhipur worked closely with the Department of Agricultural Extension to market the compost to farmers that the Department works with, succeeding in selling all the compost produced at their co-composting plant.

2 Ensure predictability, transparency and flexibility of intergovernmental transfers

A common problem cited across the studied towns and by national experts was the unpredictability of intergovernmental transfers. Without clarity on the timing, rules and amount of funds, municipal governments cannot develop medium- to long-term budgets or investment plans.

In Sircilla, monthly intergovernmental transfers of untied funds helped the municipal government implement a series of interventions under the medium-term City Sanitation Plan. The State's Pattana Pragathi (City Development) programme created a predictable flow of funding from both state funds and the central government's Finance Commission.

Moreover, a majority of transfers to municipalities across the three countries are "tied": in other words, earmarked for specific activities. In Bangladesh, 80–85% of 2019–20 Local Government Division transfers to municipal governments were tied; in India, 60% of the 15th Finance Commission funds for smaller cities are tied; and in Nepal, 61% of the funds for local governments in the 2020–21 federal budget are tied. As a consequence, the types of activities supported by central and regional governments play a major role in shaping the sanitation interventions that municipalities pursue.

This study suggests that intergovernmental transfers should not only be more predictable and transparent, but also flexible enough to align with the needs of municipalities and support a variety of sanitation interventions.

3 Provide technical assistance to municipalities on financing strategies and service delivery

All of the municipal governments studied received significant technical assistance from development partners: piloting new technologies or business models, strengthening financing strategies, etc. After the initial "role modelling" phase, it is important that regional and central governments step in and provide technical assistance at scale, providing guidance and building the capacity of the municipalities to access intergovernmental transfers, manage the funds effectively, develop business plans, and sustainably deliver safe sanitation services.