

# Incompatible philosophies or complementary roles? Civil society and business engagement in the water, sanitation and hygiene sector

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## Introduction

Partnership with the private sector is emerging as a new pathway to address poverty. This is the result of recognition that external support through aid is small relative to other sources of finance and the scale of development challenge at hand. This concept is well recognised and was raised in the Australian Government's Independent Review of Aid Effectiveness, noting the need to harness the power of business and innovation (see Callan 2012). Other organisations have recently emerged which hold this as their core focus, for example Business for Millennium Development. In addition, evolving notions of social enterprise and entrepreneurship are blurring the boundaries between private sector and civil society, and opening up new possibilities for cooperation and partnership as exemplified by the water, sanitation and hygiene sector (WASH).

Over the past decade, poor functionality of water and sanitation services has called into question the effectiveness and sustainability of past and current approaches. In response, civil society organisations (CSOs) are exploring new approaches in water, sanitation and hygiene including engaging with small scale private and social enterprise (hereafter referred to collectively as 'enterprise') organisations to strengthen supply chains and build capacity for professionalised service provision. Engaging with and assisting in establishment of businesses reflects a shift in approach for CSOs, many of whom have historically been cautious of business interests in the development sphere, viewing for-profit models as potentially at odds with core civil society priorities of meeting basic needs and realising human rights for all.

Researchers at the Institute for Sustainable Futures are investigating this shift, working in partnership with four CSOs (Plan, WaterAid, SNV Development Organisation and East Meets West Foundation) actively seeking to engage with private and social enterprise to deliver sustainable and equitable water and sanitation services in Indonesia, Vietnam and Timor-Leste. Drawing on a systematic literature review and primary research in Indonesia, this paper explores these emerging partnership models, reflecting on if and how social and business objectives can align to achieve equitable service delivery, and the implications for development approaches for the future that involve business engagement.

## Methods

Two methods were used to inform this paper.

First, we undertook a systematic review of literature, following the methodology of others in the international development sector (Hagen-Zanker et al. 2012; Hagen-Zanker and Mallett 2013; Gasteen 2010; DFID 2013). These methodologies acknowledge the difference to traditional systematic reviews, including a more flexible, sensitive and adaptable approach, the use of the 'snowball approach', inclusion of grey literature; while also maintaining a transparent approach with the use of a research protocol, inclusion and exclusion criteria and robust assessment of the evidence. The systematic review focused on papers published in the period 2008-2013 examining small scale enterprise involvement in water and sanitation services in developing country contexts. Of 4211 papers identified from first-round searching, 164 relevant documents were mapped against WASH categories and degrees of research rigour. From this, 82 documents were deemed highly relevant to the topic and were analysed in more detail.

This review examined five areas: types of enterprises providing WASH services; the strength of the evidence (relating to enterprise engagement); the success factors affecting enterprises; outcomes for the poor; and the engagement of CSOs to support such enterprises. This paper reports primarily on the first and the last of these areas – others are reported elsewhere (see Gero et al. 2013).

Second, we undertook field research in Java, Indonesia over two weeks in September 2013, which aimed to understand the role businesses were playing in the sector, the incentives that support or undermine their role, and how and why CSOs choose to engage to support enterprises. This included semi-structured interviews with 29 stakeholders representing private and social enterprises, national and international CSOs, donor organisations, and different levels of government from various relevant sectors to private sector development in the WASH sector. A political economy framework was used to frame the interview questions and analyse the data collected.

## Types of private and social enterprises: What roles do enterprises play?

WASH services are supported by many different types of enterprises ranging from informal private sector providers to 'one-stop-shops' selling sanitation products, to user associations providing supporting roles to entrepreneurs (see Table 1). The breadth and diversity of types of organisations and their roles highlights the significant opportunities available to support and expand such roles.

Table 1: Private and social enterprise business models for WASH

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| <p><b>Formal private operators working under licence:</b> Includes water treatment plant operators and truck companies delivering water and collecting waste. Formal operators have also been described as providers of water and sanitation services.</p> <p>(Sima et al. 2013; Lockwood and Smits 2011)</p>  |
| <p><b>Franchises and network models:</b> These models aim to encourage existing or new entrepreneurs to sell sanitation products from existing shops.</p> <p>(Cole 2013)</p>   |
| <p><b>Informal private sector providers:</b> In the water sector: water kiosk operators, water cart vendors, street vendors selling bottled water, small water bag vendors; direct water vendors selling water from taps, wells or rivers, 'middle-man' water distributors selling water to homes; pushcart water deliverers and small piped network providers. In the sanitation sector: vacuum truck owners, pump operators and masons, ranging from skilled masons, to simple masons to labourers.</p> <p>(Sima et al. 2013; Mahe and Wild 2010; Bereziat 2009)</p>     |
| <p><b>Importers, Retailers, and Wholesalers:</b> Building and construction materials stores sold sanitation related items such as cement, ceramic pans, PVC tubing and tiles. Wholesalers sold on to retailers and the public with examples from Cambodia where latrine components were a minor part of the range of products.</p> <p>(Salter 2008)</p>  |
| <p><b>'One stop shop':</b> Also called 'Rural Sanitation Marts', this type of sanitation business is discussed by several authors as a means to overcome fragmented supply chains. 'Sani-centres' are a similar concept whereby sanitation related marketing and products are made available through a local entrepreneur at a retail shop.</p>  |
| <p><b>Prefabricated concrete producers:</b> Prefabricated concrete producers sell concrete rings for well, water tanks, latrines and slabs. An example in the literature highlights that 40 per cent of rural sales and 65 per cent in urban areas were latrine related.</p> <p>(Salter 2008)</p>  |
| <p><b>Micro-entrepreneurs:</b> This group reportedly respond to demand and local opportunity. Services include some already listed under informal private sector providers. Some micro-entrepreneurs are family managed and financed, with business growth drawing on family for employees.</p> <p>(Mahe and Wild 2010; Kleemeier 2010)</p>  |
| <p><b>NGOs and CBOs:</b> There is some evidence of NGOs and community based organisations (CBOs) undertaking roles of service provision and being actors in supply chains in the water sector (see Section below on CSO engagement with enterprise). CBOs are also becoming more formalised in their provision of water supply services, with the need to be 'bankable' (ie, gain access for formal credit through banks). Literature also provides a comparison of CBO and private operator models, noting the weaknesses and risks of each.</p> <p>(Tiberghien 2013)</p> |
| <p><b>User associations:</b> User associations sometimes participate in private sector-type operations, for example in Senegal, user associations hold operating leases and engage entrepreneurs to operate services, much like a management contract. Water user associations in Niger, Senegal, Burkina Faso, and Paraguay are participants in the private operator model.</p> <p>(Kleemeier 2010)</p>   |
| <p><b>Public-Private Partnerships (PPPs), with private sector operators to maintain and manage larger systems under contract:</b> Most examples of PPPs come from Africa and consist of rural communities, small scale operators and other private firms being awarded contracts to work with utilities and government departments in the delivery of water supply services.</p> <p>(Annis and Razafinjato 2011)</p>   |
| <p><b>Large companies and international / multi-national corporations:</b> Examples from Burkina Faso Gabon, Senegal, Côte d'Ivoire, Ecuador, Paraguay and India highlight that large companies are active in WASH service provision in developing countries.</p>  |

Note: full reference details can be found in Gero et al. (2013).

### CSO engagement with enterprise: What does the literature say?

Evidence about engagement between enterprise and CSOs in academic and grey literature was limited, likely because it is a new phenomenon. However a breadth of roles and examples were available and are described here. Most engagement was found to consist of CSOs offering capacity building support to businesses or to informal operators. For example, capacity building came in the form of training for businesses, through financial and technical assistance (Kleemeier 2010; Mahe and Wild 2010) and through provision of materials and tools (Singh 2012).

Top down, supply side assistance was offered in the water sector through technical support in designing contracting arrangements (Mahe and Wild 2010), while the Water and Sanitation Management Organisation (WASMO) programme in India provides an example of a

CSO engaging with government to ensure sustainability of services.

Many CSOs are turning to sanitation marketing as an approach to engage with enterprises. However, many CSOs were found to have limited skills and experience in engaging with business. Approaches to CSO engagement in sanitation marketing can occur through technical support as governments lead implementation, or CSOs lead implementation themselves, with close support from government and community (Pedi and Jenkins n.d).

A final example of a role CSOs play in regard to enterprises is that of active engagement in the supply chain. Examples from Africa include NGOs providing maintenance and spare parts and producing and distributing chlorine products (Hystra 2011). An example from India highlights the blurring of private enterprise with CSOs through a 'social sector organisation' in water treatment (Kleemeier 2010).

## Outcomes for the poor

If CSOs are to partner with enterprise, one of their expected key concerns could be how enterprise can act as a vehicle to reach the poor rather than those who are better off. Findings from Indonesia describe current evidence on if and how enterprises are reaching the poor in their contributions to the WASH sector. Overall there was not strong evidence that the poor are being reached, which calls into question the alignment between CSO pursuits compared with the role of enterprise.

In both water and sanitation literature, serving the poor was not raised as a specific priority for businesses. To ensure business viability through maintaining profits, sanitation businesses preferred to service non-poor customers (Berezziat 2009; Desalegn et al. 2012; Tiberghien 2013) and expand to new areas once 'early adopters' have been serviced (Pedi et al. 2012; Baker et al. 2011). Sanitation marketing literature acknowledges that serving the 'bottom of the pyramid' is not the primary aim of the approach, rather it aims to capture least poor customers first to drive aspirational motivation amongst the poor (Narracott and Norman 2011). There was mention of the role of social business models, with some authors arguing this approach will lead to lower costs and correspondingly allow poor to participate in the sanitation market (ibid).

Some evidence of water sector businesses offering flexibility in pricing structures was found in the literature, allowing poor households and communities to access the market. For example, entrepreneurs in the informal private sector have demonstrated flexibility in pricing to allow for poor households and communities to access services. One study noted that:

Price seems to be the highest in areas where consumers can afford to pay larger fees...This finding contradicts conventional opinion that private providers take advantage of poor urban resident (Sima et al. 2013:141–142).

Another study provided evidence of flexible pricing depending on economic need (Annis and Razafinjato 2011), while another highlights the need to align design and delivery of products with the needs of the poor (see Ramani et al. 2012 for a checklist for successful diffusion of pro-poor innovation).

Given this lack of evidence that the poor are reached by enterprises, it is useful to examine the actual experience of CSOs and enterprise to better understand the alignment, or not, of their goals. Examples from Java, Indonesia are provided below.

## Elements shaping engagement with small private sector: Findings from Indonesia

Research in Indonesia revealed a growing trend for both CSOs and other development partners to engage with small scale enterprise within the last five years. Prior to this time, only large scale private sector or construction contractors were reported to have been involved, but more recently a breadth of opportunities were emerging and

being filled by individuals and new organisations. These included sanitation entrepreneurs selling and installing household toilet facilities, small scale businesses offering desludging services and distributors of water purification products, as well as collective organisations operating as a form of social enterprise. Examples of the latter were 'professionalised' water committees who had formed cooperatives to allow them to access loans and expand services, as well as associations of sanitation entrepreneurs, who were playing roles to support private entrepreneurs.

Where CSOs were engaging to support enterprise, the key motives behind their engagement appeared to be a focus on sustainability: '*NGOs are funded on a project basis. But if [it] can transfer a project into a business opportunity then it can continue.*' CSOs were also being prompted to act as intermediaries to allow support to be provided to enterprise from donors or from government, as there was a perception that donors and government could not directly support for-profit organisations. As one stakeholder said: '*Donors can't directly provide private sector because of regulations*'. Equally, a government representative noted there was a need for more local NGOs (whom government can fund directly) who could act as intermediaries to support development of sanitation enterprises.

In terms of differences in philosophies and aims, diverse perspectives were heard. On the one hand there were CSOs who didn't see a big difference in their objectives versus those of enterprise: '*There are differences but not serious ... it's in line*'. This was particularly the case where the enterprise involved in fact had strong social motives anyway, which aligned to those of the CSO. For instance one sanitation entrepreneur described his lenient approach to seeking repayments due to a social mission:

Repayments – I didn't make any terms – one week, one month, one year-1.5 years – we're not only about business, it is a social purpos'.

On the other hand, there was an example of a CSO whose approach was rooted in concepts of community self-sufficiency and sharing, and viewed market based solutions as running contrary to this and as a result resisted working to engage with enterprise:

The least you're dependent on the market, the more you're independent...when they have knowledge they have to share it, not keeping it for yourself...[it's the] spirit of sharing.

CSOs were also being tested in terms of defining the limits to the kind of support they were best placed to give as civil society actors. For instance, questions arose about whether financial support to enterprise was appropriate, with one CSO noting that they avoided this as: '*Real entrepreneurs should sacrifice their own money to start a business.*' Equally, concerning tensions arose from CSO's perceived need to avoid promoting specific enterprises or companies. For instance one CSO involved in supporting distribution of water purification products spoke of how

they wanted to promote access to supply, but not a specific brand, and therefore developed information communication materials that were non-brand specific. Similarly, concerning sanitation suppliers, one CSO described their role as follows:

When people have been triggered [to want a toilet], and supply is needed, our role is to pass on information [about potential suppliers].’

CSOs also met with other challenges in engaging with enterprises. Where they were based in locations with very little business activity, finding individuals with the outlook and capacity to act as entrepreneurs was challenging. Equally, donor reporting requirements were suggested to focus on short-term targets (e.g., number of people with access to improved sanitation) rather than development of sustainable markets that might grow beyond the time-frame of a funded ‘project’. Finally, CSOs working closely with government experienced a lack of knowledge and interest by government in building enterprise capacity, since this area is very new, and will take time for the public sector to find its place and role.

## Conclusion – what next?

This paper provides examples from literature and the field of the various roles and relationships between enterprise and CSOs in the WASH sector to explore whether CSOs and businesses have ‘incompatible philosophies’ or ‘complementary roles’. The link to ‘Development Futures’ is seen in the rise of private and social enterprise as an emerging trend and potential pathway to address poverty. We have provided an account of how social entrepreneurs and socially-minded businesses blur the boundary between private sector and civil society, and represent an important area of focus in poverty reduction strategies.

Evidence highlights examples of both incompatible philosophies *and* complementary roles, which comes from the diversity of types of engagement across a variety of contexts. Evidence also shows that the skill set required by both small scale WASH operators and CSOs needs further development, and hence drawing on the skills and expertise of other sectors, businesses and academic expertise is likely to be important going forward. In addition, developing an enabling environment for businesses to grow may require more proactive support than has been provided to date, particularly with respect to ensuring socially inclusive approaches from which the poor might feasibly benefit. A key point raised in this paper is that the possibility of businesses that are driven by social objectives as well as CSOs that have their eye on sustainability, are important drivers for existing and future CSO enterprise engagement.

Lastly, this paper demonstrates both the opportunity and complexity of this newly emerging pathway of engaging with small scale enterprise to support services for the poor, and may offer useful lessons to other sectors for how enterprise engagement is taken forward.

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