

## POLICY BRIEF 2

# ENTREPRENEURSHIP IN SANITATION, INDONESIA

Policy Brief

# ENTERPRISE IN WASH

## Balancing support for demand creation with policy options that facilitate supply of affordable, durable latrines

Small-scale enterprises are playing an increasing role in the provision of water and sanitation products and services in Indonesia. However, sanitation enterprises face obstacles arising from a challenging private sector context, difficult access to finance, low profit margins and varied government policy and support.

The government's investment in rural sanitation has increased in recent years. Significant resources and activities have been dedicated to demand creation under the National Strategy for Community Based Total Sanitation (Sanitasi, Total Berbaris Masyarakat - STBM).

While the strong emphasis on demand creation within STBM assists to provide a customer base for sanitation enterprises and entrepreneurs, more is needed to support viable enterprise development (e.g. enabling environment, budgetary and technical support). Without this, it is not possible to ensure appropriate, affordable products are made widely available, particularly in remote locations. The government therefore needs to decide how and where to commit funds towards this outcome, and which policies will drive inclusive business responses.

### KEY MESSAGES

- Strengthened emphasis and capacity building support within STBM on sanitation entrepreneurship from national level.
- Local governments can play critical roles to link demand and supply and facilitate market development. At the same time, local government can provide monitoring, quality assurance and ensure equality of outcomes.
- Remote rural areas with high transport and transaction costs require specific attention and strategies to ensure no one is left behind.
- Support is needed to address the gender imbalances in sanitation enterprises and facilitate female entrepreneurs.
- Associations of sanitation entrepreneurs are of demonstrated value to business success and broader sanitation outcomes, and therefore should feature in strategies to advance the sector.
- Policies are needed that encourage local agencies mandated to support private sector development to include sanitation enterprises within their scope.



## POLICY RECOMMENDATION 1: Strengthened capacity building for local government on sanitation entrepreneurship from national level

Efforts are already underway to enable the contribution of sanitation entrepreneurs and associations, for instance through the nationwide Sanitasi Total Berbaris Masyarakat (STBM) institutionalised capacity building led by Ministry of Health (MoH). However, this research provides evidence of the need for additional emphasis, and strengthened capacity building, on sanitation enterprises and development of the supply-side of sanitation, specifically targeted to local government. The following research findings support this need.

Local government support to entrepreneurs and private sector engagement was found to be limited: Local government, including both local Health Services (Dinkes) and Small-Medium Enterprise Services (Dinas KUKM), were not proactively creating a supportive environment for enterprises to meet the demand created through other STBM activities. Local government officials were unclear about appropriate, defensible approaches to support enterprises.

Sanitation businesses, mostly not legally registered, had limited access to government support, and to loans and finance: Entrepreneurs typically may not have the necessary capital and financial management skills to register their business (89% of 56 sanitation enterprises and 63% of 24 sludge removal businesses were informal and not registered). Larger banks preferred to lend money to legally registered businesses, and although local banks were more flexible in their lending criteria, this was based on evidence of cash flows. Lack of familiarity of banks and micro-finance institutions with sanitation as a business, and a consequent lack of interest to lend created another obstacle for sanitation enterprises to access finance. This was a challenge to sanitation businesses given their low profit margins.

Sanitation enterprises displayed clear need for training in financial management, technical and business planning: The issue is not unique to the sanitation sector; it is common in the small-scale private sector. Training has typically been provided through international donor programs. Although most districts have vocational education institutions offering business and management courses, these require payment (which may render them out of reach for entrepreneurs) and usually focus on trades other than sanitation.

### METHODOLOGY

This research was undertaken in 2013–2016 and led by researchers at the Institute for Sustainable Futures, UTS in partnership with Plan International Indonesia and Research in Economics and Business (P2EB) at Gadjah Mada University (UGM).

A systematic literature review was followed by study of the incentives shaping enterprise engagement in water and sanitation in Indonesia. Two targeted studies on key gaps in the evidence base were then conducted: (i) a value-chain analysis of sanitation in low-density settings, in two districts in Nusa Tenggara Timur (NTT) Province covering 96 villages, and (ii) a mixed method study of motivators, drivers and barriers for 70 enterprises involving fieldwork in Java and NTT.

Over the three years of the research, over 600 interviews were conducted with multiple stakeholders from government (at national and subnational levels), civil society organisations, donors, private enterprises and community members. Research outputs were published in English and Indonesian. Three seminars presented the research to national and provincial audiences in Indonesia allowing for stakeholders to verify the findings and develop strategies looking forward.

## POLICY RECOMMENDATION 2: Local governments need to facilitate market development, to monitor and regulate enterprises, and to ensure equality of outcomes

There are three key roles for local governments in relation to sanitation enterprises and entrepreneurs: (i) Facilitate market development; (ii) Monitor and regulate enterprises and their quality of products and services, and; (iii) Ensure equality of outcomes. Health Services are particularly implicated; however, Dinas KUKM should also be engaged (see recommendation 6 below).

Local government has a role to facilitate market development, as in the absence of such support, it is likely that sanitation enterprises may not be established: The research showed that sanitation entrepreneurs exist mostly where they have been supported through external agencies and donors. Sanitation businesses typically had low profit margins from selling sanitation products and services, and hence whilst they offer an economic opportunity, it was demonstrated not to be an easy sector in which to achieve success. The research found that whilst the majority (77%) of 56 sanitation enterprises were successful and with stable income, for 55% of enterprises their monthly income was lower than IDR 5 million (USD 376). In addition, the large majority (82%) also had other jobs in addition to being a sanitation entrepreneur. Local governments implementing rural sanitation programs (i.e. triggering demand) also need to ensure businesses are supported and value chains exist so that demand for latrines can be met.

Support to market development could include training in financial management, business management and sales and marketing, user-centred product design, socialisation of business registration and formalisation processes and facilitation of access to low-interest loans.

Monitoring and quality assurance of the sanitation private sector are needed, as for any sector, to ensure quality and accountability: In East Java a sanitation association obtained accreditation from the MoH for a standardised product, supporting improved product quality through implementing minimum standards. Efforts to promote standardisation and accreditation of sanitation entrepreneurs and their products, are important roles for local governments.

In light of the Human Right to Water and Sanitation and the Sustainable Development Goals (SDGs), local governments have an important mandate to ensure that no one is excluded or left behind: Since affordability remains an issue in some locations, and the value-chain study showed increased costs in remote areas, local governments must monitor *who benefits* from enterprise development. Local governments must develop complementary strategies to market development, as and where needed (discussed further below under recommendation 3).

### **POLICY RECOMMENDATION 3:** Specific attention and strategies are needed for remote rural areas to overcome high costs

Employing a market-based strategy to improve sanitation outcomes runs the risk of excluding certain portions of the population. Research findings demonstrated the need for national and local governments to consider complementary strategies that can increase access to affordable products and services in certain locations.

In remote areas of high poverty, the costs of durable toilets were high: Costs for toilets were up to 185% higher in some remote areas as compared with district capitals due to transport costs and variable costs of local materials such as sand and gravel. Transport costs were highly variable depending on the location, and incidences of monopoly in the transport sector were found. This finding demonstrates the limits of purely market-based responses to facilitating access to sanitation products and services.

A variety of possible complementary strategies are possible. These include government support to poor households (delivered in line with other social protection measures); engaging sanitation entrepreneurs in any existing government subsidy programs, such that targeted discounts can be provided without distorting the market ('smart subsidies'); local level financing mechanisms for households such as rotating funds and development of low-cost durable latrine designs that use local materials.

There are also other options, for instance, mechanisms to support flexible payment arrangements for customers, which may include access to credit for sanitation enterprises to ensure sufficient cash-flow are also possible. Government could also investigate alternate finance mechanisms including the use of corporate social responsibility (CSR) funds, and; furthermore, associations of entrepreneurs could help to reduce costs through bulk purchasing, provision of subsidies to poor households.

### **POLICY RECOMMENDATION 4:** Targeted support is needed to address the gender imbalances amongst sanitation enterprises

In Indonesia, women are active in the micro-enterprise sector. However, women were notably absent amongst sanitation entrepreneurs, pointing to the need for targeted strategies that can enable women to avail of the economic opportunity that sanitation enterprises represent, and can facilitate female entrepreneurs to engage with women within households as an important pathway towards household decisions to invest.

Females were less represented as sanitation entrepreneurs as compared to males: Women were significantly under-represented in the research sample (13% female, 87% male for sanitation entrepreneurs and 4% female, 96% male sludge removal businesses) reflecting their unequal representation as sanitation entrepreneurs, and unique barriers for female entrepreneurs such as access to capital and lack of time for economic activity were observed.

Governments, civil society organisations and sanitation associations could all play a role in promoting the role of women as sanitation entrepreneurs, through quotas in training programs, and tailored support that addresses the specific challenges faced by female entrepreneurs.

## POLICY RECOMMENDATION 5: Associations of sanitation entrepreneurs should feature in strategies to advance the sector

Associations of sanitation entrepreneurs have shown demonstrated value to business success and broader sanitation outcomes, and therefore offer a valuable pathway to support sanitation enterprise development.

Associations of sanitation entrepreneurs improved quality of service and business success, and connected sanitation entrepreneurs with one another and local government: These associations, which included both a national association and a district-level association, were found to be membership-based and operated as a form of social enterprise to support sanitation entrepreneurs. Associations provided access to cheaper materials, financial management software, product accreditation, support to consumer loans, networking and cross-learning opportunities and training. Business success was increased for those entrepreneurs that were members of associations (64% of entrepreneurs who were members of an association were highly successful or successful). However, these associations were still refining their business models and scope of services, and their valuable role may require external support to ensure their sustainability. In addition, the most effective level at which to establish associations, district, provincial or national, needs further consideration.

## POLICY RECOMMENDATION 6: Policies should encourage local government private sector support agencies to include sanitation enterprises within their scope

Local government agencies dedicated to private sector development (for example, the Department of Small and Medium Enterprises (SMEs) and Cooperatives or the Department of Trade and Industry) rarely supported sanitation businesses, however, their involvement is critical.

The reasons for their lack of involvement included that sanitation was not generally considered a viable business opportunity, and that support was instead directed to promising local business activities that visibly supported socio-economic development. There was also a reported lack of transparency regarding decisions concerning which businesses received support. And finally, support was often contingent on legal recognition and since most sanitation enterprises were not registered, they were not eligible for support.

Leadership from the Bupati and Pokja sanitasi to engage relevant departments is one starting point to overcome these issues. However, clear incentives would need to be developed to ensure buy-in and engagement, and strong accountability sought by the head of the Pokja sanitasi, the Sekretaris Daerah to secure their involvement. Efforts to legalise sanitation enterprises could also increase their eligibility for support from the private sector development agencies.

**Research team:** Professor Juliet Willetts, Dr Nurul Indarti, Dr Akbar Susamto, Janina Murta, Anna Gero, Ryan Sanjaya, Rokhima Rostiani, Wahyu Triwahyudi, Dina Daulay and Naomi Carrard

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### Further reading

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