

POLICY BRIEF 4

FACILITATING SANITATION SUPPLY
IN VIETNAM

Policy Brief

ENTERPRISE IN
WASHBalancing 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 Vietnam. However, masons and 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 national government acknowledges that private sector has a role to play in sanitation; however, action to date on the socialisation policy that promotes private sector roles in water and sanitation has mostly been focused on the water sector.

While the government's emphasis on demand creation 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 difficult 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 on sanitation entrepreneurship from national level is needed.
- Local governments can play critical roles to link demand and supply and facilitate market development.
- At the same time, local government has roles to 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.

POLICY RECOMMENDATION 1: Strengthened capacity building for provincial and district governments on sanitation entrepreneurship from national level

Budgets for water and sanitation are determined at sub-national level and sanitation is often given lower priority. Furthermore, decentralisation of decision making can lead to inconsistencies in how national policy (including in relation to private sector) is implemented. Thus, the institutional environment for sanitation businesses depends on local level interpretations of national policy, and provincial and district level governments may not be convinced of a need to support the supply of sanitation products and services. National efforts are therefore needed to socialise ideas about sanitation entrepreneurship and how private sector actors can play roles to expand sanitation access to durable, hygienic latrines and help to meet sanitation targets.

Local government support to entrepreneurs, masons and private sector engagement was found to be limited and variable. Provincial and district levels of subnational government were not proactively creating a supportive environment for enterprises to meet the demand created through other activities. Local government officials in Centre for Preventive Medicine (CPM) were often unclear about how to work with private sector, and what constituted appropriate, defensible approaches to support enterprises and supply of products and services. The exception was locations in which external development agencies or non-governmental agencies had engaged with government to socialise market-based approaches.

An improved policy environment is needed for enterprises to succeed. It was found that small-scale sanitation businesses and masons, 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 (14 out of 20 masons 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. Banks and micro-finance institutions were unfamiliar with sanitation as a business. These institutions also exhibited a lack of interest to lend for sanitation purposes, which 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. District-based technical and vocational education institutions offering business and management courses were reported to struggle for enrolments, and may not be accessible to entrepreneurs due to their fees. In addition, they 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 SNV Netherlands Development Organisation and Centre for Natural Resources and Environmental Studies at the Vietnam National University. A systematic literature review was followed by study of the incentives shaping enterprise engagement in water and sanitation in Vietnam. Three 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 (Mai Chau in Hoa Binh Province and Muong Ang in Dien Bien Province), (ii) a mixed method study of motivators, drivers and barriers for 40 enterprises involving fieldwork in southern Vietnam (focused on water enterprises) and north-western Vietnam (focused on sanitation enterprises) and (iii) analysis of equity outcomes in water service provision in Vietnam (discussed in a separate policy brief).

Over the three years of the research, over 140 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 Vietnamese and have been presented at national level to allow verification of the findings and strategies looking forward.

POLICY RECOMMENDATION 2: Local governments can facilitate market development and availability of products and services

A key role for local governments in relation to sanitation enterprises and entrepreneurs is to facilitate market development. The Ministry of Health (MoH) and its subnational counterparts are particularly implicated given their roles and responsibilities for sanitation; however, government ministries overseeing enterprise engagement could also be further engaged.

Local government has a role to facilitate market development. In the absence of such support, it is likely that sanitation enterprises may not be established. The research showed that masons focused on sanitation or businesses specialising in sanitation 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 90% of masons had a side-job, (indicating the limited available work), and of the time spent on their mason business, only three out of 20 masons spent 100% of their time building toilets. Local governments implementing rural sanitation programs (i.e. triggering demand) need to match this effort with initiatives to ensure supply 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.

POLICY RECOMMENDATION 3: **Local governments also have roles to monitor and regulate enterprises, and to ensure equality of outcomes**

Monitoring and quality assurance of the sanitation private sector are needed, as for any sector, to ensure quality and accountability. Efforts to promote standardisation and accreditation of sanitation entrepreneurs and their products are important roles for local governments. In areas where the research took place, this role was not yet being implemented. Building from experiences in output-based aid, payment to masons upon verified completion of toilets can improve accountability and provide opportunity for monitoring the quality of construction provided by private suppliers.

Local governments have an important mandate to ensure that no one is excluded or left behind, as stipulated in the Human Right to Water and Sanitation and the Sustainable Development Goals (SDGs). 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 4).

Local governments could play roles to improve access to loans for poor households. Uptake of Vietnam Bank for Social Policy (VBSP) loans for the poor to access sanitation was low in the provinces covered in this research. VBSP at the national level demonstrated strong commitment to provide targeted loans for sanitation. However, amongst participants in our research, customer access to VBSP loans was reportedly difficult. Interest rates for sanitation loans were reportedly higher than for loans for productive purposes. Most poor people were too afraid to take out a loan for sanitation purposes, fearing they will be unable to meet repayments. Improving access to low interest loans for sanitation for the poor is needed.

POLICY RECOMMENDATION 4: **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, sanitation coverage was low and the costs of durable toilets were high. Costs for toilets in remote locations were up to 3.5 times MoH estimates. High costs were due to transport costs and variable costs of materials such as bricks and sand. Transport costs were highly variable depending on the location and ability to access households. Some households were only accessible by motor bike, others only on foot, presenting logistical challenges as well as financial challenges. This finding demonstrates the limits of purely market-based responses to facilitating access to sanitation products and services.

Revisions to include low-cost options within toilet models approved by MoH would be beneficial, as would an outcomes-based regulatory approach to toilet design. At the time of the research, the MoH's seven approved toilet models were not low cost and required the use of significant quantities of heavy materials that are difficult to transport. Furthermore, there is potential to shift the regulatory approach to focus on the outcomes sought, rather than specific design options. Such an approach would allow for a greater breadth of toilet designs and options and would encourage entrepreneurs to innovate.

Complementary strategies to reach poor and disadvantaged households in remote rural areas are needed. 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 are also possibilities. 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 and provision of subsidies to poor, remote households.

POLICY RECOMMENDATION 5: Targeted support is needed to address the gender imbalances amongst sanitation enterprises

In Vietnam, women are active in the micro-enterprise sector. However, women were found in fewer numbers than men amongst masons providing toilets. This points to the need for targeted strategies that can enable women to avail of the economic opportunity that sanitation enterprises represent. Female entrepreneurs have the added advantage that they are able to easily engage with women within households towards household decisions to invest.

Females were less represented as sanitation entrepreneurs as compared to males. Unique barriers for female entrepreneurs, such as access to capital, lack of time for economic activity and social stigma associated with women working as masons were reported amongst research participants. Female masons initially faced public ridicule when first working as masons, and needed to build strong self-confidence to overcome these social and cultural perceptions.

Women's Union have demonstrated capacity to support both demand and supply of latrines, and could also support female entrepreneurs. The Women's Union already play an important role in demand creation, awareness raising, and connecting Vietnam Bank for Social Policy (VBSP) with poor customers. Women's Union, as well as other actors including government agencies and civil society organisations, could all support the promotion and socialisation of women as sanitation entrepreneurs. For example, quotas in training programs, targeted vocational training for women and girls on private sector roles in sanitation, and tailored support that addresses the specific challenges faced by female entrepreneurs. Such approaches have potential to both support women's economic empowerment as well as facilitate sales of toilets between female entrepreneurs and women within households.

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Further reading

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