

LEARNING BRIEF 2

KNOW YOUR PRIVATE SECTOR

Guidance for Civil Society Organisations

ENTERPRISE IN WASH

What is this learning brief and who is it for?

This learning brief is for civil society organisations (CSOs) active in supporting small-scale local enterprise roles that provide water and sanitation services for the community including the poor and disadvantaged. Its purpose is to inform CSO approaches, strategies and their program designs. Therefore, the primary target audience is CSO *program planners and designers*, but these briefs will also be useful for a wide range of WASH practitioners.

This document is the second of a series of six learning briefs developed on the basis of the 'Enterprise in WASH' research initiative. These include:

- Learning brief 1: CSO roles
- **Learning brief 2: Know your private sector**
- Learning brief 3: Working with governments
- Learning brief 4: Driving equality
- Learning brief 5: Private and social enterprise business models
- Learning brief 6: Working with motivations and incentives

KEY POINTS FOR CSOs

- The status of the private sector in your context strongly impacts how easy or hard it is for water and sanitation enterprises to develop and survive. Asking some key questions will help you explore the situation and make better decisions about the contribution you can make.
- Enterprises active in water and sanitation services span a wide range of organisational types including both for-profit and not-for-profit models, so it is important to consider the breadth of different models that may be applicable in your context.
- CSOs need to be get to know the typical characteristics of water and sanitation enterprises and use this information to play to strengths, identify opportunities and be realistic about what might be possible.
- The political environment, business culture and community perceptions shape how enterprises function and their chances of success in different contexts. Getting to know these dynamics is a critical step towards developing an effective approach.



Why focus on the private sector context?

This learning brief focuses on private sector development contexts, the types of roles small-scale water and sanitation enterprises play, their typical characteristics and why getting to know the political and regulatory environment is important. It also flags important questions about organisational philosophies and what you might want to consider when planning to work with enterprises.

Understanding the country or local context for private sector development – as well as the particular features of water and sanitation enterprises – is critical. Some countries or contexts have strong private sector activity, a wide range of support functions for micro and small-scale enterprises, and an enabling 'business infrastructure' (e.g. roads, communications, financing mechanisms) that encourages enterprises to start and to grow. Others do not. Identifying the best approaches requires firstly getting to know the business context.

Types of small-scale water and sanitation enterprises

Enterprises active in water and sanitation broadly fit within what we think of as the 'private sector', but they actually span a wide range of organisational types that include both for-profit and not-for-profit models. They can also include both formal and informal enterprises, and both private and social enterprises (see Box 1 and Learning brief 5: Private and social enterprise business models).

These learning briefs use the term 'enterprise' to refer to the full range of organisational types. The focus is on micro and small to medium enterprises. Hence, whilst large-scale companies participate in water and sanitation services in various ways, they are beyond the scope of these learning briefs.

BOX 1

DEFINITIONS:

- **Private enterprise:** A private enterprise is a business or industry that is owned and/or managed by independent companies or private individuals rather than the state. They range from self-employed individuals to large multi-national businesses. They are generally motivated by profit.¹
- **Social enterprise:** Social enterprises are enterprises that use entrepreneurial behaviour, business practices and the market as tools to meet explicit social goals.
- **Small-scale enterprise:** Micro and small enterprises are defined here as those with 1-19 employees. Medium enterprises are those with 20-99 employees.

What roles do small-scale enterprises play? In what kinds of markets?

Small-scale enterprises play a variety of roles and functions in water and sanitation service delivery. These can be grouped into roles focused on **products** (such as the design, development or supply of water or sanitation equipment) and roles relating to **services** such as water supply, sanitation installation, sanitation service delivery (for example for community-scale sanitation) or desludging.

Table 1 identifies enterprise roles across water and sanitation products and services, based on primary research with 172 small-scale enterprises across Indonesia, Viet Nam and Timor-Leste. Activities listed here are illustrative rather than comprehensive, as there is potential for enterprises to play an even wider set of roles.

It is important to distinguish between the different types of market environments that exist for small-scale water and sanitation enterprises, as this affects both opportunities for enterprise development and the relative importance of government roles.

For example:

- Piped water services are generally a monopoly, and as a result there is a critical need for appropriate governance and oversight in both tendering and in ongoing regulation and monitoring roles, since users do not have choice about their service provider
- Sanitation products and supply chains generally operate in open, competitive market conditions, such that any entrepreneur can develop a product or service, and government intervention is needed to support public interests related to product and service quality and to ensure equitable outcomes.

TABLE 1: ILLUSTRATIVE EXAMPLES OF SMALL-SCALE ENTERPRISE ROLES FROM ENTERPRISE INWASH PRIMARY RESEARCH.

| | Water | Sanitation |
|----------|---|---|
| Products | <ul style="list-style-type: none"> - Bottled water production - Water supply system spare parts - Water filter production - Pipes, plumbing equipment and pumps, including solar pumps. | <ul style="list-style-type: none"> - Production and sales of sanitation products or related construction materials including toilet pans (of various types – cement, ceramic, plastic etc.), concrete rings for latrine substructure, plastic septic tanks etc. |
| Services | <ul style="list-style-type: none"> - Piped water supply service provision in rural areas - Other water sales (including from kiosks, carts, taps, wells or rivers) - Distribution of household water treatment products - Consultancy or other short-term support to service providers such as taking on O&M functions (or other outsourced roles) - Retailing water spare parts in addition to other small household products - Water treatment plant operation. | <ul style="list-style-type: none"> - Latrine installation services - Community-scale sanitation service delivery - Associations of sanitation entrepreneurs providing loans and technical support - Desludging services (including vacuum truck operation). |

Assessing the private sector context

The following questions may assist CSOs to target their interventions by making an assessment of the current private sector context and status and the WASH market environment, as well as the implications of these factors for water and sanitation enterprises (see Box 2).

BOX 2

WHAT'S THE STATUS OF PRIVATE SECTOR IN YOUR CONTEXT?

Questions and resources that can help CSOs consider the context and the current status of the private sector include the following:

1. Your country or locality's business context

- What is the overall business environment and status of market for your country or area? What principles does the private sector operate under? What is the balance between formal and informal businesses? The figure below provides a framework for understanding the conditions in place to support businesses to grow.² The categories shown will probably not be fully discrete (for instance innovation is likely to be important across all economies, and in fact may be particularly important for entrepreneurs in least-developed economies). However, they provide a useful overarching guide.

- Is private sector development a priority for the national government? Is private sector development a priority for the local government? Does this present opportunities or barriers for your work?
 - What is the overriding business culture? How does this play out in contexts where you work (e.g. urban or rural areas)?
- ##### 2. Key constraints to private sector development
- What are the key constraints for businesses in your country or local context? Possible constraints include political instability, labour regulations, access to finance, tax rates, practices of the informal sector, level of education of the workforce, access to electricity and other infrastructure (e.g. roads), crime and theft, customs and trade, and corruption. Data is available on the trends in these areas.

BASIC REQUIREMENTS

Institutions and governance

Infrastructure

Macro-economic environment

Basic education and health

Access to finance



Key for **least-developed** economies

EFFICIENCY ENHANCERS

Market size/trade

Technological readiness

Financial market development

Labour market efficiency

Goods market efficiency

Higher education and training

Gender equality



Key for **developed** economies

INNOVATION AND SOPHISTICATION FACTORS

Innovation

Business sophistication



Key for **most-developed** economies

Source: AusAID (2012) Sustainable economic development – Private sector development

BOX 2 Continued

3. Attitudes towards the private sector

- How do communities view private and other enterprises? How do government staff view private and other enterprises? Are they likely to be well-received and supported? Or are there potential issues of mistrust that may need to be managed?

4. Key elements specific to the WASH market environment

Analysis of the WASH markets provide some more basic criteria for assessing the market context:

- **Infrastructure (particularly for rural areas):** What is the status of road and other transportation infrastructure and what is their impact on businesses?
- **Technological inclusiveness:** How widely available are different technological solutions?
- **Access to information:** How widely available is information about market opportunities?
- **Market environment:** Are subsidies or the centralised provision of water and sanitation goods and services distorting the market? What are the demand-side market conditions? What are the supply-side market conditions? For instance, are key inputs readily available and do transportation services exist?

- Institutional environment:

To what extent is the government giving priority to WASH market development? Is it encouraging small-scale enterprises to participate? To what extent is the enabling and regulatory environment conducive to effective enterprise roles? What services are currently provided by the state, by state-owned enterprises, by the community, and by private or social enterprises?

5. Key resources on the status and constraints of the private sector in your country

- World Bank Enterprise Surveys provide data on the status of private sector activity and constraints in the business environment⁴
- World Bank Business Environment Snapshots⁵
- Undertake meetings with business associations or industry peak bodies
- Undertake meetings with businesses who provide advisory or consulting services to a large number of other businesses
- World Bank – Ease of Doing Business⁶ (see table below which provides an example of data extracted from this source for six countries in South-East Asia).

| | Myanmar | Cambodia | Vietnam | Indonesia | Laos | Timor-Leste | 6 country average | East Asia & Pacific |
|-----------------------------------|------------|------------|-----------|------------|------------|-------------|-------------------|---------------------|
| Ease of Doing Business | 167 | 127 | 90 | 109 | 134 | 173 | 133 | 96 |
| Starting a Business | 160 | 180 | 119 | 173 | 153 | 104 | 148 | 103 |
| Dealing with Construction Permits | 74 | 181 | 12 | 107 | 42 | 154 | 95 | 78 |
| Getting Electricity | 148 | 145 | 108 | 46 | 158 | 95 | 117 | 82 |
| Registering Property | 145 | 121 | 58 | 131 | 66 | 189 | 118 | 98 |
| Getting Credit | 174 | 15 | 28 | 174 | 70 | 162 | 87 | 80 |
| Protecting Minority Investors | 184 | 111 | 122 | 88 | 178 | 81 | 127 | 102 |
| Paying Taxes | 84 | 95 | 168 | 148 | 127 | 57 | 113 | 84 |
| Trading Across Borders | 140 | 98 | 99 | 105 | 108 | 92 | 107 | 97 |
| Enforcing Contracts | 187 | 174 | 74 | 170 | 92 | 189 | 148 | 104 |
| Resolving Insolvency | 162 | 82 | 123 | 77 | 189 | 189 | 137 | 106 |

Source: World Bank – Ease of doing business (ranking of 189 countries) in 2016

Typical characteristics of water and sanitation enterprises

Understanding the typical characteristics of small-scale water and sanitation enterprises can provide CSOs a point of reference for their experience with such enterprises. Typical characteristics of a selection of water and sanitation enterprises are summarised below in Table 2. This data is illustrative. It is drawn from 172 enterprises involved in the research across three countries: Viet Nam, Indonesia and Timor-Leste.

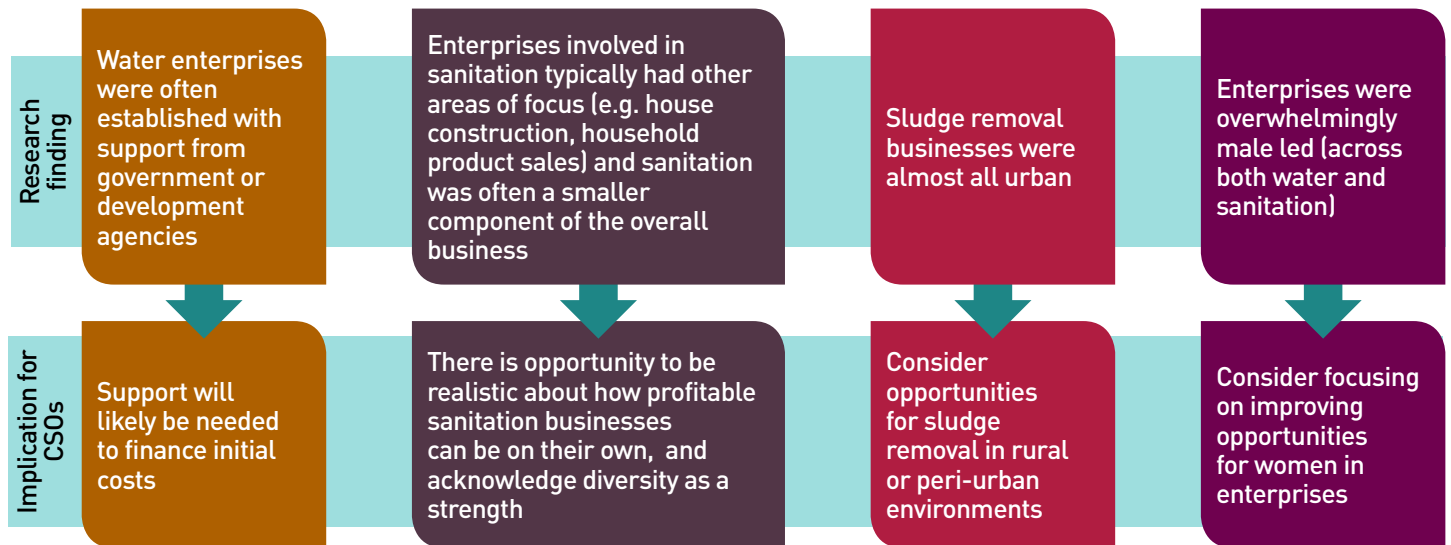
The enterprises included: water enterprises providing small to medium piped services; sanitation businesses including those involved in production, sales and installation of sanitation equipment; sanitation construction enterprises including masons; re tailers selling sanitation-related construction equipment; and sludge removal businesses.⁷

TABLE 2: TYPICAL CHARACTERISTICS OF SMALL-SCALE ENTERPRISES, BASED ON 172 ENTERPRISES DOCUMENTED THROUGH ENTERPRISE IN WASH RESEARCH IN VIET NAM, INDONESIA AND TIMOR-LESTE⁸

| | Water enterprises (small-scale piped service provision) | Sanitation enterprises (sanitation entrepreneurs and sludge removal) businesses |
|--|---|--|
| Size of enterprise | Usually 10 or fewer people | Usually 10 or fewer people, with masons often working alone or in very small teams |
| Scale of service | Range in size from those serving about 150 households to more than 10,000 households, with most serving < 1000 households | Enterprises and retailers serving individual households/customers, often within a limited geographic area Sludge removal businesses serving households and institutions |
| Urban or rural | Almost all rural | Sanitation enterprises mixed (half in rural areas, half in urban), sludge removers almost all urban |
| Status | Mostly formal registered businesses Typically established with support from government or development agencies | Sanitation entrepreneurs, masons and sludge removers mostly informal Retailers were typically formally registered |
| Time since establishment | Typically operating for 10 years or more | Mixed levels of experience, often less than 10 years |
| Gender | Mostly male led (~80% or more in each country) | Mostly male led (~60% or more in each country) |
| Age of business leader | Mostly middle-aged | Mostly middle aged, with a younger profile in Viet Nam |
| Education level | Typically educated to secondary school level or higher, with around half university educated | More than half secondary school level or higher |
| Previous and concurrent work experience | Mixed levels and types of previous experience, strong representation of people with public sector experience | Mixed levels and types of previous experience, the vast majority (~80% or more) working in other jobs concurrently |
| Association membership | Data from Indonesia indicates strong levels of membership (~75%) | Data from Indonesia indicates strong levels of membership for sanitation entrepreneurs (~75%), lower levels for sludge removers (~25%) |

What does this mean for CSO programs?

Understand the typical characteristics of small-scale water and sanitation enterprises and use this information to **play to strengths, identify opportunities** and **be realistic** about what might be possible. *For example:*



Political, business and community dynamics are critical

The political environment, business culture and community perceptions shape how enterprises function and their likelihood of success in different contexts. Getting to know these dynamics is a critical step when planning your approach to enterprise engagement.

The **political context** determines the nature and status of enterprise development and how businesses are regulated. Government may be enthusiastic about private sector development and keen to provide support, or it may be less of a priority. Regulatory arrangements, and the capacity governments have to manage and ensure compliance, are highly variable. In particular, governments vary widely in their ability to ensure enterprises provide quality products and services and facilitate equitable access.

There is wide variation in **business cultures** in different locations, and related to this, the motivations of entrepreneurs also vary widely. Local business cultures differ from place to place and may differ from 'textbook' notions of business drivers and incentives. This is particularly true in rural areas, where enterprises are usually informal and tightly woven into existing social contracts and community relationships (see Box 3).

Community perceptions are also important. 'Enterprise in WASH' research found many instances of community mistrust of enterprises across all three countries, particularly in Timor-Leste. This mistrust was due to assumed narrow motives of profit and self-interest, which may not always be the case. Regardless, to develop productive relationships between enterprises and communities, there may be a need for enterprises to demonstrate their integrity such that they can earn community trust. This, coupled with active government roles in monitoring and regulating enterprise activities can support a shift towards greater community trust of enterprise involvement in water and sanitation services.

BOX 3

RELATIONSHIPS AS KEY TO LOCAL BUSINESS CULTURE AND INTERACTIONS

In Muong Ang province in Viet Nam, research found that relationships between suppliers and customers were important determinants of how the supply chain operated, with transport providers demonstrating a high level of discretion about their profit margin, and negotiating different rates for different clients.

"It costs over 1M VND to get there but depends on negotiation with the customer. This means how well you know the person. It is a bargaining process. (transport provider)"

A shop owner also commented on the nature of relationships with her regular transport provider: *"If you get the service from others [transport providers], its higher price. It depends on the relationship."*

What is your organisational philosophy in relation to working with enterprises?

A final important consideration relates to how your organisational values align with approaches that support enterprise involvement in water and sanitation service delivery.

- What is your organisational approach to WASH? Do you take an explicit rights-based approach? How does this align with supporting private or other types of enterprises? Have you considered the role that social enterprises could play and how various hybrid forms of organisation (across the spectrum of for-profit to not-for-profit) could play roles?
- How do you view your engagement with enterprises with reference to your relationships with government and communities? Do you work with each group equally? Is working with enterprises central to your approach, or only a minor part? What does this mean for your potential to be effective in working with enterprises? Is there a minimum level at which you must work to ensure sufficient engagement and resultant impact?
- What are your ultimate objectives – improved service delivery, enterprise development, livelihoods or something else?

These are important questions to consider when planning your approach. Depending on your objectives, different choices for engaging with enterprises will be more or less relevant.

Citation: ISF-UTS (2016) Learning Brief 2: Know Your Private Sector, Enterprise in WASH, Prepared by the Institute for Sustainable Futures, University of Technology Sydney.
URL: www.enterpriseinwash.info



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- 2 AusAid (2012), Sustainable economic development: Private sector development thematic strategy, August 2012 ; adapted from World Economic Forum (2011), *The Global Competitiveness Report 2011–2012*.
- 3 Source: <http://www.enterprisesurveys.org/>
- 4 See: <http://www.enterprisesurveys.org/>
- 5 See: <http://rru.worldbank.org/BESnapshots/>
- 6 See: <http://www.doingbusiness.org/rankings>
- 7 Willetts, J., Murta, J., Gero, A. (2016), 'Water and sanitation entrepreneurs in Indonesia, Vietnam and Timor-Leste: Traits, drivers and challenges', Enterprise in WASH – Working Paper 4, Institute for Sustainable Futures, University of Technology Sydney. Available at: www.enterpriseinwash.info
- 8 Willetts, J., Murta, J., Gero, A. (2016), 'Water and sanitation entrepreneurs in Indonesia, Vietnam and Timor-Leste: Traits, drivers and challenges', Enterprise in WASH – Working Paper 4, Institute for Sustainable Futures, University of Technology Sydney. Available at: www.enterpriseinwash.info