

## LEARNING BRIEF 5

PRIVATE AND SOCIAL  
ENTERPRISE BUSINESS MODELS

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 enterprises 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 will also be useful for a wide range of WASH practitioners.

This document is the fifth 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

- Understanding the nature and dynamics of business models is critical to assessing and supporting financially viable water and sanitation enterprises.
- Social enterprises have an explicit social mission. Therefore, they should be considered as one of the possible organisational types for a water or sanitation enterprise. Thinking about social enterprises may open up new ways to configure a business model and to draw on different sources of revenue.
- CSOs can use business model concepts such as value propositions, revenue streams, partnerships, channels and cost structures to work with existing and potential entrepreneurs, identifying strategies to achieve both commercial and social impacts.
- Entrepreneurial and pro-social traits are important determinants of enterprise success, and can be used to assist in selecting potential entrepreneurs.
- Appropriate legal structures that best support the enterprise business model need to be understood and chosen by governments and CSOs when supporting enterprises.

## Why do business models matter for CSOs?

Enterprises of any kind must generate enough revenue to cover their expenses to be sustainable. Not all enterprises are for-profit and privately owned. Enterprises can be private, government-owned or community-owned, and they can also be for-profit or not-for-profit, as well as combinations (hybrids) of these. Business models describe how (no matter what form they take) enterprises create, capture and deliver value and remain financially viable.

For CSOs working directly with enterprises, or for CSOs strengthening the enabling environment for enterprise roles in water and sanitation, it is therefore essential to understand the range of possible business models.

This understanding can help CSOs to be thoughtful and innovative when considering what enterprise model(s) might be most suitable for enterprises providing water and sanitation services. This understanding can also help CSOs to be realistic and to identify situations where business financial viability might be difficult to achieve. This is particularly important, because 'Enterprise in WASH' research showed that for small-scale water and sanitation enterprises, achieving financial viability is a key challenge.

## Types of enterprises

'Enterprise in WASH' research observed many different types of small-scale enterprises providing water and sanitation products and services. These included organisations that were **private, government-owned or community-owned**, as well as enterprises that were **for-profit or not-for-profit or hybrids** of these operating as forms of social enterprise. The following diagram shows some examples of the types of enterprises found across this spectrum of organisational forms (see Figure 1).

**FIGURE 1: EXAMPLES OF SMALL-SCALE WATER AND SANITATION ENTERPRISES OF DIFFERENT TYPES**

### NOT-FOR-PROFIT

#### COMMUNITY OWNED, CITIZEN- OR MEMBER-BASED

- Formalised community-based organisations (CBOs) legalised as cooperatives or foundations (Indonesia)
- Membership-based formalised associations of CBOs operating rural water supply systems or community-scale sanitation systems. These provided the member CBOs with technical and financial support services (Indonesia and emerging in Timor-Leste)
- Membership-based formalised associations of sanitation entrepreneurs providing their members with support services such as training, networking and access to cheaper materials (Indonesia)

### HYBRID

#### COMMUNITY OWNED, CITIZEN- OR MEMBER-BASED

- Membership-based formalised associations of CBOs that include a fee-for-service revenue stream in addition to other forms of revenue (such as membership fees or support from local government), and may use profit from this revenue stream to cross-subsidise other activities or expand their services (Indonesia).

#### PRIVATELY OWNED

- Local WASH NGOs engaged in business activities, including selling water supply or sanitation products, or providing contracting or consultancy services through a separately established private enterprise(s) with the aim of supplementing its income and reduce dependency on donor funding (Timor-Leste).

### FOR-PROFIT

#### PRIVATELY OWNED

- Sole trader and small-scale sanitation enterprises, informal or formally registered, providing sanitation products and services (Indonesia, Viet Nam, and Timor-Leste)
- Small-scale private enterprises providing water supply services (Viet Nam)

#### GOVERNMENT OWNED

- Local or village government-owned enterprises providing water supply services (Indonesia and Viet Nam)

## Why do social enterprise business models in particular matter for CSOs?

CSOs need to understand how social enterprise business models work and where and how these could be applicable because:

- Providing water and sanitation services contributes to the realisation of human rights and 'Enterprise in WASH' research shows that businesses active in these sectors may be motivated by social outcomes, not just profit
- CSOs often focus on addressing the needs of communities, whom the market and/or the state fail to serve (see Learning brief 4: Driving equality) and where there may be a niche market for social enterprises.

Box 1 provides background on different definitions for social enterprise, and how they are defined in this learning brief.

### BOX 1

#### DEFINING SOCIAL ENTERPRISE – THERE ARE MANY DEFINITIONS

The term social enterprise has many different definitions.

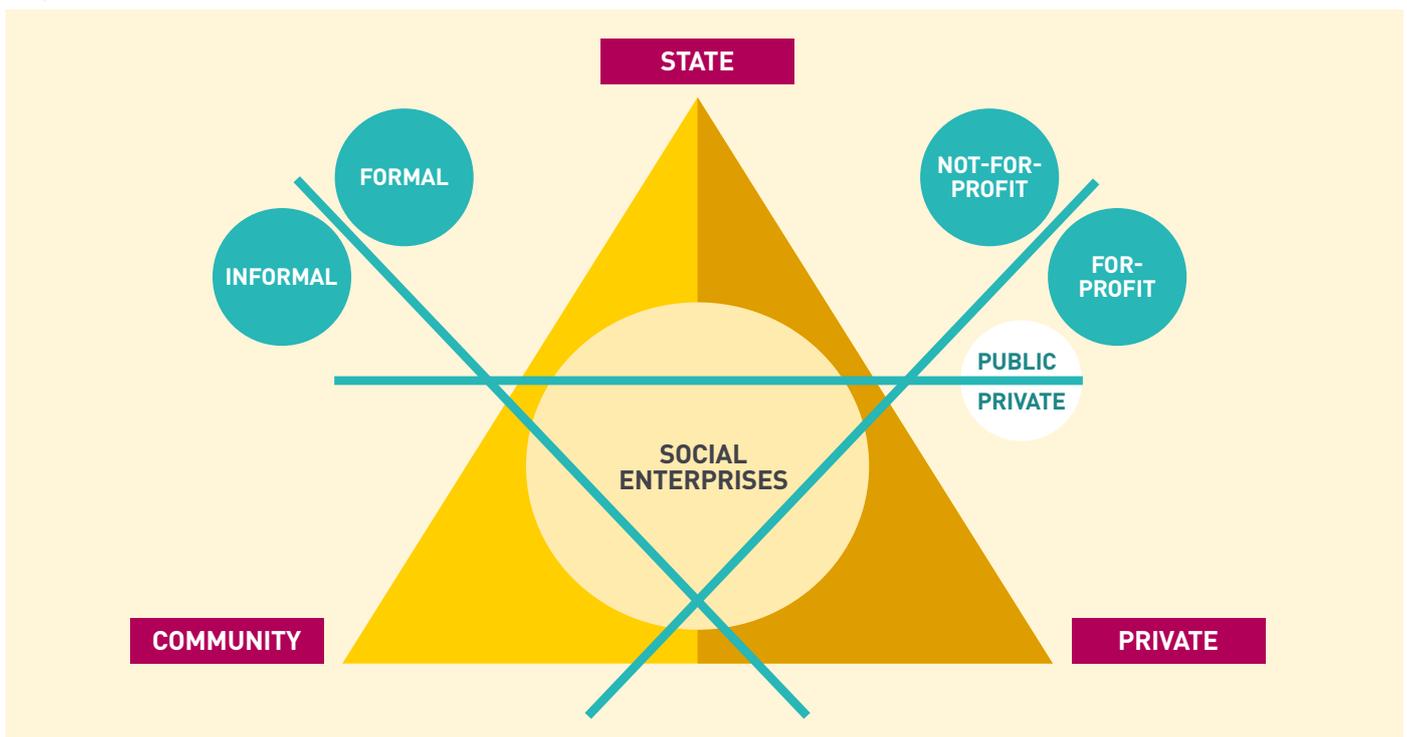
Social enterprise can be defined in relation to enterprise governance or to individual entrepreneur characteristics. In Europe social enterprises are characterised by a focus on their governance aspects and organisational forms. In the United States, characterisations of social enterprises place a greater emphasis on the profile of the individual entrepreneur and their capacity for social innovation.<sup>1</sup>

There are also two broad understandings of *how social enterprises contribute to social outcomes*. One is based on the idea of "providing a product and/or service with a specific social goal", whereas the other is based on the idea of the enterprise being "owned by the poor or other underprivileged parts of the society, who can gain through receiving direct dividends or by indirect benefits".<sup>2</sup>

Social enterprises can be understood to operate 'in-between' the community, private sector and public sectors, taking on a combination of characteristics from any of these, and blurring the lines between them (see diagram below).

A key common idea across different definitions is that for social entrepreneurs and for social enterprises, a *social mission is explicit* and is core to how they perceive and assess business opportunities. For example, the Enterprise 2014 Law in Viet Nam requires social enterprises to operate "for the purpose of solving social and environmental issues in the interest of the community". Further, these must "reinvest 51% of their annual profit into achieving the registered social and environmental objectives."<sup>5</sup>

In these learning briefs, we **define social enterprise** as **enterprises that use entrepreneurial behaviour, business practices and the market as tools to meet explicit social goals**, such as serving the general interest and common good for the benefit of the community.<sup>6</sup> This definition sees social enterprise as a response to complex social needs and limits in available public funding, resulting in the use of business practices and innovation to support the delivery of community services.<sup>7</sup>



Source: adapted from Defourny and Nyssens, 20124

Social enterprises can take different organisational forms. For example, they can be not-for-profit organisations using commercial activities to support their mission or for-profit organisations with a mission-driven approach. Like traditional businesses, they also operate at a variety of scales – from micro-enterprises to larger intermediate-level organisations, including membership-based associations aimed at providing support services to other water and sanitation enterprises (see Box 2).

### SOCIAL ENTERPRISES IN THE FORM OF 'ASSOCIATIONS OF CBOs', INDONESIA<sup>8</sup>

#### BOX 2

In Lamongan Indonesia, associations of water supply community based organisations (CBOs) operate as social enterprises. These enterprises arose from a need to provide on-demand support services and functions to CBOs after the CBOs had been set up through donor-funded projects, and to ensure the CBOs' long-term sustainability. The expectation is that these associations offer technical assistance to CBOs, monitor their status, and form 'a bridge' between CBOs and local government.

## Key business model concepts and building blocks

When supporting enterprises, it is useful to understand the building blocks which the functioning of a business is based upon. This can help one to visualise, test and develop a shared understanding of the financial viability of the enterprise and opportunities to extend its impact. The Business Model Canvas<sup>9</sup> is a common approach. It uses the following nine building blocks to characterise an enterprise:

- **Value proposition:** What value is the enterprise delivering? What problems is it helping solve?
- **Revenue streams:** How does the enterprise generate revenue?
- **Cost structure:** What are the costs inherent in operating the enterprise?
- **Key partnerships:** What is the network of partners that will make the enterprise work?
- **Channels:** How does the enterprise reach its customers?
- **Customer segments:** What are the different groups of people or organisations the enterprise aims to reach and serve?
- **Customer relationships:** What types of relationships does the enterprise maintain with its customers in order to acquire and retain them, and increase sales or services?
- **Key resources:** What physical, intellectual, human and financial resources does the enterprise need to operate?
- **Key activities:** What are key activities that the enterprise needs to perform to deliver value to its customer segments?

This model will be familiar to those already working in sanitation marketing since it is often used.

## Building blocks in practice – examples for water and sanitation enterprises

In this section we present considerations and examples of business characteristics across five key building blocks: value proposition, revenue streams, cost structure, partnerships and channels. Rather than being prescriptive, the examples are provided for inspiration for CSOs.

### 1. Value propositions

An enterprise can create value to its customers through a combination of elements. Not all CSOs currently explicitly consider the idea of a 'value proposition' when working with enterprises, and often only support enterprises to focus on one value proposition. CSOs can think about the **range of possible value propositions** the enterprise can offer to **one or more customer segments**, and this may help enterprises to be more resilient.

Creating value means knowing the target customers well. CSOs can **conduct formative research** to better understand what customers value, and they can use this understanding to inform how they work with new or existing enterprises. User-centred design principles may be helpful.

For social enterprises, value propositions may be strongly focused on achieving a social purpose. For instance their objective may be to create value through serving the poor and disadvantaged. More detail for CSOs who are considering supporting social enterprise models is provided on page 10.

#### EXAMPLES OF VALUE PROPOSITIONS FOCUSED ON WATER AND SANITATION INCLUDE:

- **Getting the job done** – helping customers reduce costs or time taken – for example, by fixing a water tap or buying and transporting the materials to build a toilet, and installing the toilet for the customer.
- **Accessibility** – making products and services available to customers who previously lacked access to them. For example, in Indonesia Enterprise in WASH research found water enterprises operating as formalised community based organisations (CBOs) who provided access to reliable water supplies to communities that were previously not served, and to those inadequately served by government-owned utilities (PDAMs).
- **Price** – offering similar value at a lower price. For example, some sanitation enterprises in Indonesia offered locally produced toilet pans of a similar value to imported materials at a lower price, and in Viet Nam low-cost sub-structures have also been designed by CSOs and enterprises working together.
- **Convenience or usability** – making products and services more convenient or easier to use. For example, some sanitation enterprises market twin-pit toilets. When one trench/pit is full and needs emptying, the other can be used. Another example is combining bathroom and toilet facilities. One-stop shops are also an example of increasing convenience for customers. For water enterprises, making payments for service easy and convenient is another example.
- **Design** – improving designs compared with existing products and services within a certain context. For example: low-cost designs that use local materials; lightweight toilet pans that are easy to transport; and designs suitable for flood-prone areas.
- **Risk reduction** – reducing the risk of post-purchase problems for the customer. This can be done through for example, a service guarantee included in the cost of installing a water tap or toilet, or offering certified water or sanitation products and/or installation services by accredited professionals.
- **Customisation** – offering products and services customised to the needs of an individual, or to the needs of certain customer segments, such as people living with a disability, elderly or female customers who have menstrual hygiene needs, customers with specific cultural habits, children, or schools.
- **Brand or status** – customers may find value in using or displaying a specific brand, particularly if a product is certified to a certain quality.

## 2. Revenue streams

There are many different ways an enterprise can generate revenue. By relying on more than one revenue stream, enterprises can strengthen their financial viability and become more resilient.

Social enterprises in particular, are likely to benefit from having multiple revenue streams, and hybrid organisational types (e.g. a combination of not-for-profit and for-profit elements) may have access to a diverse range of possible revenue sources (see Box 3 and Box 4).

CSOs can consider **how they can encourage enterprises to be creative in combining different revenue sources**. Where appropriate, **CSOs can also encourage local governments to support enterprises (or associations of enterprises)** through grants, or through service contracts, as attaining financial viability based only on serving low-income customers may not be possible.

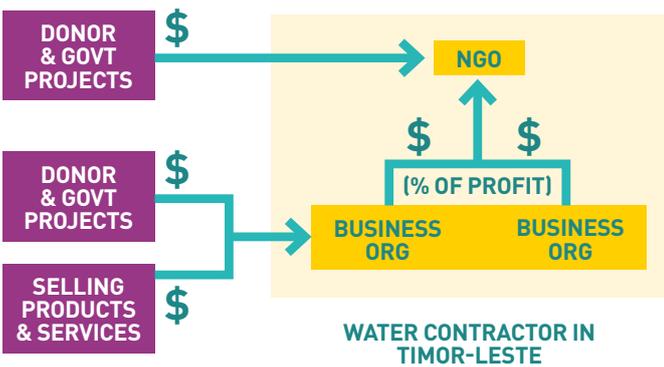
### EXAMPLES OF WAYS WATER AND SANITATION ENTERPRISES COULD GENERATE REVENUE INCLUDE:

- **Sale of products or a usage fee** – a common way to generate revenue is through the sale of assets or charging a usage fee for services offered. Small-scale water and sanitation enterprises observed in 'Enterprise in WASH' research typically relied on these sources of revenue from households – through sales of latrine products, and tariffs for water usage. This type of revenue stream can also be considered in relation to other actors beyond households. For example, water or sanitation enterprises may have certain customer information and data that is of value to other water or sanitation enterprises, or to local governments. In addition, enterprises can also offer certain services on a fee-for-service basis – for instance to provide on-call technical repairs, paid for either by households, or by local governments.
- **Lending, renting or leasing fees** – the enterprise provides access to some of its assets for a certain period of time at a certain cost. For example, a well-established sanitation enterprise can target a different customer segment by renting its tools (e.g. toilet pan molds) to help other sanitation entrepreneurs who prefer not to invest in these assets right at the beginning of their businesses, or prefer to wait until they accumulate enough revenue to buy their own tools.
- **Contract for services** – the enterprise provides services on the basis of a contract with the client. This includes a situation where, for example, a local government contracts a water or sanitation enterprise to provide certain services for a specific period of time. These could be repair or maintenance services, or desludging services. The contracted services could also be the implementation of particular programs, for instance to target the poor, or training programs for other enterprises.
- **Non-trade revenue** – the enterprise receives funds from other actors (not just the customers) through grants, philanthropic funding, or fundraising. This type of revenue source may be particularly relevant in the context of social enterprises (see Box 4).
- **Subscription fees** – the customer must pay a subscription price to have access to a product or service on a periodic basis. The advantage of this model is that it provides a predictable and constant source of income. This type of revenue stream was used by the membership-based associations of sanitation entrepreneurs and water CBOs found Indonesia (see Box 2 and Box 5).
- **Licensing** – the customer pays for the use of a protected property owned by the enterprise, through a contractual relationship. Intellectual property can be, for example, business management systems, processes and tools, manufacturing techniques, or the design or technology of a product developed by a water or sanitation enterprise, which may be of value to other water or sanitation enterprises. However, this type of revenue model can be challenging in contexts where systems for intellectual property regulation and contract enforcement are weak.
- **Brokerage fees** – the enterprise provides an intermediate service that facilitates the transaction between the seller and the buyer for a fee or commission. For example, in Indonesia, village heads or staff working in community health centres such as sanitarians acted as sales agents for sanitation enterprises.
- **Advertising** – the enterprise generates revenue by charging fees for advertising a product or service. For example, a water or sanitation enterprise can use their vehicles to display advertisements of other businesses (e.g. a local construction materials supply shop or supermarket, water supply spare parts manufacturer).

**BOX 3**

**SOCIAL ENTERPRISE COMBINING REVENUE STREAMS<sup>10</sup>**

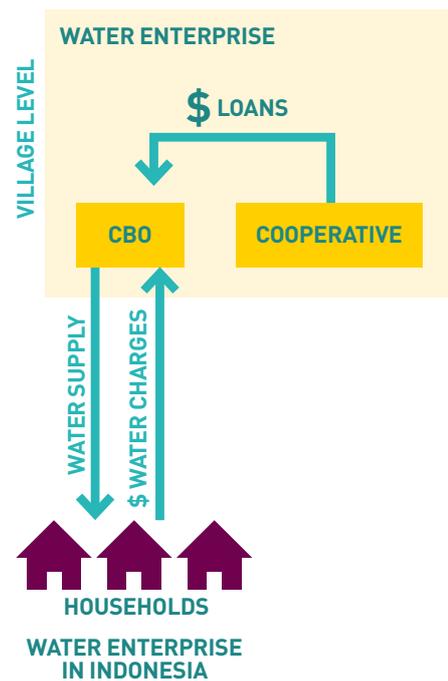
One water enterprise in Timor-Leste provides an example of an innovative business model with diversified revenue streams that supported its social impact mission of providing improved WASH services in rural areas. It was a local WASH NGO with a long history of implementing donor-funded projects and it established two for-profit companies. One company provided contracting services to government projects and consultancy services to other organisations (*contract for services*). The other company sold water supply system construction products (*asset sales*). Percentages of the profits from these companies were channelled to an NGO to ensure its financial viability and ability to continue its social mission, and to provide increased flexibility by reducing its reliance on grant funding. This model is not without its risks, given its complexity, and also in some regulatory environments it may not be feasible. However, the emerging field of social enterprises is demonstrating that it is possible to innovate and move away from exclusively for-profit, or not-for profit, models.



**BOX 4**

**ACCESSING FINANCE THROUGH GOVERNMENT SUBSIDIES<sup>11</sup>**

Community based water enterprises in Indonesia sourced *non-trade revenue* and *financial resources* by registering a separate legal entity as a cooperative business in order to access loans and subsidies from government (only available to cooperatives) for upgrading and expanding their water supply systems. The community based organisations were then able to access loans from their linked cooperatives as well as from district-level cooperatives and banks.



### 3. Key partnerships

Enterprises may form partnerships with a wide range of other actors in order to increase sales, reduce costs, gain access to specific resources, reduce risks or uncertainty, and/or to develop new businesses through joint ventures.

Partnerships can be made with:

- Competitors: *coopetion* or collaboration between business competitors, in the hope of mutually beneficial results) (see Box 5)
- Non-competitors, for example with suppliers, government and financial institutions (see Box 6).

### 4. Channels

Enterprises can reach their customers through different types of channels, including through their own channels (e.g. in-house sales forces; enterprise-owned stores), or indirectly through partner channels (e.g. partner-owned stores) (see Box 7).

#### BOX 5 PARTNERSHIPS BETWEEN COMPETITORS THROUGH AN ASSOCIATION<sup>12</sup>

Strategic partnerships between competing sanitation enterprises were evident in Indonesia. Entrepreneurs joined associations established to build business management skills and secure access to: cheaper materials, business management training tools and advocacy.



Association of sanitation entrepreneurs in Indonesia

#### BOX 7 CHANNELS THROUGH PARTNERS<sup>14</sup>

In Indonesia, many sanitation entrepreneurs used sales agents to reach their customers, with agents receiving a commission for each toilet sold. High-volume sanitation entrepreneurs tended to have partnerships with village heads or staff working in community health centres such as sanitarians who acted as sales agents (*partner channels*).

In Timor-Leste, development agencies were exploring the possibility of establishing partnerships between sanitation entrepreneurs and retailers of construction materials (*buyer-supplier partnerships*). The intention was to use existing construction material shops as channels (*partner channels*), to sell toilet pans produced locally by the sanitation entrepreneurs, and to promote installation services.

Thinking about potential partnerships the enterprise can form with different types of actors (e.g. competitors, non-competitors, government and financial institutions) should go hand in hand with thinking about the business model channels to reach the enterprise customer segments, as partnerships may serve more than one purpose. For example, a partnership with a financial institution may provide access to financial resources as well as a channel for the enterprise to reach the financial institution's customers.

#### BOX 6 STRATEGIC PARTNERSHIP WITH A FINANCIAL INSTITUTION<sup>13</sup>

In Indonesia 'Enterprise in WASH' research found an association of sanitation entrepreneurs that had formed a strategic partnership with a bank. This partnership enabled customers to access finance, reducing the need for sanitation entrepreneurs to offer payment-by-installment, and enabling them to better manage their cash flows. Once a household orders a toilet from an association member, the association informs the bank which then provides a loan to the customer to be repaid according to agreed terms.

## 5. Cost Structures

A key finding from 'Enterprise in WASH' research, for small-scale water enterprises and for small-scale sanitation enterprises, was that their operational costs were often high. High operational costs, combined with a need to 'keep prices down' in the context of providing a social service, particularly when low-income communities are involved, is a challenge for business success and viability.

For water enterprises, a key consideration is the life-cycle costs of water supply services and how these costs can be recovered through affordable tariffs and connection fees. These include operation and maintenance costs as well capital investment for major repairs, upgrading or expanding systems. Contexts where tariffs are regulated without taking into account the full life-cycle costs, combined with low demand, may pose challenges for enterprises to recover these costs whilst ensuring affordability, without third-party financial support (see Box 8). In such cases, there is a role for CSOs to work with local government to ensure there is support for capital investments for major repairs, and for upgrading or expanding of infrastructure.

Similarly, understanding the costs along the supply chain for sanitation products is critical for assessing the viability of sanitation enterprises. For example, the costs involved in delivering sanitation products or services to remote, low-density areas may make it challenging for enterprises to offer affordable prices if they only rely on such a customer base. In these situations, there is a role for CSOs to assist enterprises with strategies for improving affordability and for increasing the likelihood of product sales in such areas.

**Overall, CSOs can assist new and existing enterprises remain viable by:**

- Helping them make realistic estimates of their costs
- Identifying opportunities to reduce costs along the supply chain (see Box 9) and forming business-supplier partnerships may provide opportunities to access certain materials at a reduced price
- Assessing opportunities to reduce costs through economies of scale by expanding the business and/or economies of scope by expanding the business's scope of operations to include additional products and/or services
- Assessing opportunities for customer base diversification and cross-subsidisation across different customer segments
- Improving access to finance for customers through partnerships with financial institutions and/or working with government to provide smart targeted subsidies to such customers
- Seeking non-trade sources of revenue from government or philanthropic/donor organisations (see section 'Key considerations for water and sanitation social enterprises')
- Brokering relationships with local government where support is needed to help meet costs and remain viable, and there is a clear argument for a government role to ensure equality
- Organising communities for collective purchasing of products/services.

### BOX 8

#### HOW CSOS CAN HELP WATER ENTERPRISES UNDERSTAND THEIR COST STRUCTURES AND LIFE-CYCLE COSTS<sup>16</sup>

'Enterprise in WASH' research in Viet Nam found that some water enterprises were struggling to remain viable when their schemes had reached an age where capital maintenance or upgrading was required, but revenue was insufficient to meet this need. In some cases, the provincial government set floors and caps on tariffs, but these were often calculated to cover operating and minor maintenance expenses only, and did not cover larger scale maintenance, capital works or re-investment. CSOs can work with water enterprises to build capacity to track and to predict costs (of all types), towards informing how these costs could be shared between users and government.

### BOX 9

#### WHY CSOS NEED TO UNDERSTAND SANITATION SUPPLY CHAIN COSTS: THE CASE OF REMOTE RURAL LOCATIONS IN INDONESIA

'Enterprise in WASH' research found that in Indonesia, areas of high poverty and hence low levels of affordability were usually in the more remote locations that therefore experienced high costs. This means where there is the lowest ability to pay, latrines are the most expensive.

However, there was little opportunity to optimise the costs of externally sourced items (cement, toilet pans, reinforcing iron and zinc sheets) since these were commonly used construction materials with low profit margins. Hence, although cement comprised 21–28% of the cost of a durable toilet, it offered little profit margin to actors in the supply chain and therefore it would be difficult to reduce its cost, even with economies of scale. There were also major price variations in locally sourced items (sand, gravel, rock, bricks etc.) and this was found to significantly affect the cost of a latrine in remote areas. In some locations, for instance, sand was accessible and cheap, and in others, it was many times the price and expensive to transport.

CSOs working with enterprises in remote rural locations therefore need to undertake good financial analysis of costs, including transport costs, to understand which business propositions are realistic in such areas.

## Key considerations for water and sanitation *social* enterprises

### Balancing the social and commercial imperatives

Regardless of the organisational and legal forms they take, social enterprises must balance their social impact mission with commercial value drivers. The social impact mission is the social value the enterprise seeks to deliver (see Box 10) and the commercial value drivers are the goods and services the enterprise offers.<sup>17</sup>



The balance between the social mission and commercial imperative varies between social enterprises. This is important as it has implications for sources of revenue. In cases where the social mission is the overriding priority but the costs of addressing it exceed revenue from customers, alternative sources of revenue will need to be secured to ensure the enterprise is sustained. For example, the enterprise can engage in other commercial activities beyond water or sanitation provision, or it can seek funding from government or philanthropic organisations, or it can seek corporate social responsibility funding (see Box 11). In particular, seeking financial support from these sources for expansion or fixed assets investment (e.g. extending infrastructure, tools, and machinery) may be a viable option.

### Being explicit about value-propositions to funders looking for social impact

Actors such as local government, donor organisations or private companies providing corporate social responsibility (CSR) funds can offer non-trade sources of revenue. They can be thought of as 'social mission impact customers'.

The advantage of considering these actors as customers is that it helps us understand their role in relation to the business model. In particular, it enables us to be specific about the value proposition(s) the enterprise offers to them, as well as the channels and partnerships required to reach them.

For example, an enterprise whose social mission is to provide non-farming jobs in rural areas may be able to offer value to government agencies beyond WASH. To reach those actors to seek non-trade sources of revenue, enterprises (or the CSOs that support them) may need to form partnerships with other types of CSOs, or develop channels to engage with, for instance, relevant government agencies.

### Forming partnerships to support the social mission imperative

Partnerships that aim to support the social mission imperative can include partnerships with non-competing actors such as government agencies and CSOs, but also competing enterprises. For example, water or sanitation enterprises with similar values can form social enterprise alliances to share access to certain resources (e.g. information, assets) or channels with the aim of supporting each other in achieving their collective social mission.

#### BOX 10

### SOCIAL VALUE PROPOSITIONS FOR WATER AND SANITATION SOCIAL ENTERPRISES

Potential social impact value propositions include:

- Targeting the sales and distribution of subsidised/affordable sanitation products to poorer households
- Providing water services to locations outside current government (or other) service areas
- Providing employment opportunities for disadvantaged groups or non-farming jobs in rural areas.

It is important to note that poorer households are not necessarily concentrated in a single geographic area and they often rely on seasonal cash flows. Hence, a water or sanitation enterprise may not be financially viable if it targets only these groups as customers. A more realistic option would be to serve a wider the range of customer segments and reduce the enterprise dependency on low-income customers. The revenue generated from other customer segments can be used to cross-subsidise services to poorer households.

There is a risk that government may avoid its responsibility to invest in public services in disadvantaged areas. CSOs can support enterprises by ensuring that governments integrate their funding for major repairs and for upgrading water supply infrastructure with the operations of water enterprises.

Social impact propositions can include providing employment opportunities for women. The 'Enterprise in WASH' research found that preconceptions based on social norms around gender roles, as well as other barriers, limited the opportunities for women to engage in entrepreneurial roles in water and sanitation (see Learning brief 4: Driving equality).

#### BOX 11

### CSR FUNDS AS POTENTIAL NON-TRADE SOURCES OF REVENUE FOR SOCIAL ENTERPRISES IN INDONESIA<sup>18</sup>

Research in Indonesia found that corporate social responsibility (CSR) funds were one possible avenue for social enterprises to improve their financial viability. Several organisations were examining the potential of such private sector partnerships. In several cases, water CBOs and associations of water CBOs were partially reliant on donor support through funded positions or project activities that they implemented. There were also examples of local government paying for certain services from these organisations, particularly where good relationships with key political or administrative leaders had been nurtured.

## Additional considerations for CSOs: entrepreneurship, legal forms and scale

This section identifies three final important considerations for CSOs in relation to the business models of water and sanitation enterprises:

- Identifying potential entrepreneurs
- Thinking through appropriate legal structures for enterprises
- Business size and scale.

The context, the policy environment, the status of private sector activity and the availability of finance also affect the choice of business model. These are discussed in more detail in Learning brief 2: Know your private sector, and Learning brief 3: Working with governments, and are therefore not covered here.

## Selecting potential entrepreneurs – the importance of entrepreneurial traits

Often, it will make most sense to support the expansion of existing enterprises or support existing entrepreneurs, however CSOs may also be faced with questions as to which existing or potential entrepreneurs to support.

The way entrepreneurs behave is influenced by their personality traits and their motivations. Individuals who are entrepreneurial are more likely to have five traits: a proactive approach, a need for independence, a need for achievement, innovativeness, and a propensity to take risks.<sup>19</sup> Similarly, social entrepreneurs tend to have a 'pro-social personality', which is linked to empathic behaviour and a sense of social responsibility (see Box 12).<sup>20</sup>

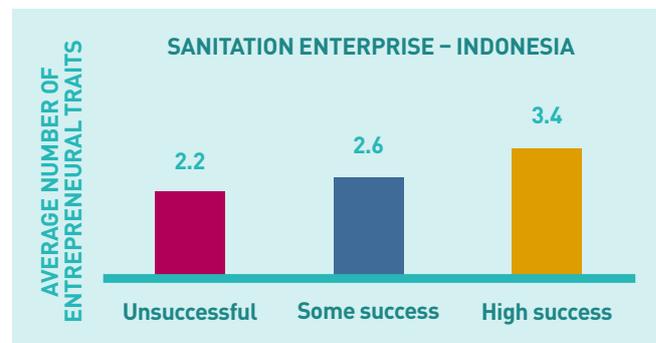
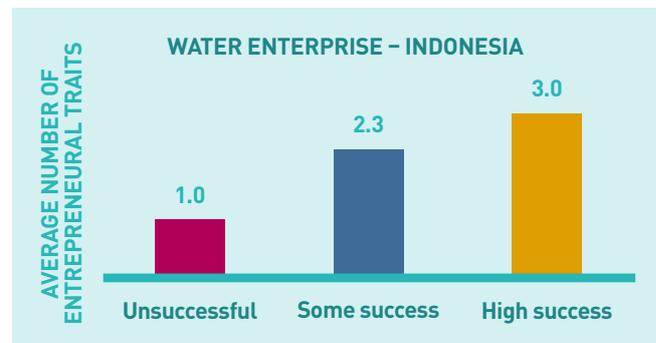
There are different types of motivations that influence individuals' behaviours. These may be material but can also be non-material. For example, they can be driven by a desire for status, solidary or purposive benefits<sup>21</sup> [see Learning brief 6: Working with motivations and incentives]. Looking for the presence of these traits and motivations can help in identifying:

- Those potential entrepreneurs who are the ones most likely to be successful
- Strategies to attract potential entrepreneurs to the water or sanitation sector
- Whether opportunities exist to capitalise on pro-social motivations and foster enterprises that prioritise social outcomes.

### BOX 12

## EVIDENCE OF ENTREPRENEURIAL AND PRO-SOCIAL TRAITS AMONGST WATER AND SANITATION ENTERPRISES<sup>22</sup>

'Enterprise in WASH' research found that amongst almost 141 entrepreneurs in Indonesia and Viet Nam, successful entrepreneurs tended to have a higher number of entrepreneurial traits than less successful ones. It was also found that most water and sanitation entrepreneurs (67%, n=141) demonstrated medium to strong pro-social traits. For example, in Indonesia some sanitation entrepreneurs demonstrated pro-social traits by being flexible about late repayments from their poorer customers.



## Selecting appropriate legal forms

The way a water or sanitation enterprise operates is partly determined by its legal framework. Aspects of the legal framework that will have an influence include:

- The range of legal structures an enterprise can choose from
- The types of regulatory and financial incentives or support for which different legal entities are eligible.

Many small-scale water and sanitation enterprises in developing countries are informal and not registered as businesses. However, there may be a range of triggers to formalise an enterprise, including reaching a threshold size, access to finance, or seeking support from government. It is important to note that certain types of legal entities may be excluded from some tendering or grant processes. And sometimes legal arrangements are unclear, allowing for different interpretations of what is allowable for different types of enterprises (see Box 13 and Box 14).

CSOs can work with enterprises and government to identify appropriate legal structures for water and sanitation enterprises. They can also help identify barriers related to the legal status of water and sanitation enterprises, and potential ways to facilitate appropriate formalisation and access to support mechanisms. This is an area in which careful consideration is needed, as the chosen legal structure must support both organisational sustainability and equitable service outcomes. Finally, as mentioned earlier in this brief, social enterprises may sometimes involve hybrids of different legal forms, and in some countries, for instance Viet Nam, they are deemed an accepted legal form (see Box 13).

### BOX 13

#### LEGAL MODELS FOR SOCIAL ENTERPRISES IN INDONESIA AND VIET NAM<sup>23</sup>

In Indonesia, 'Enterprise in WASH' research found a lack of clarity about which legal entity was the most suitable one for social enterprises such as water CBOs responsible for community-scale water systems. They could be formalised as cooperatives, as not-for-profit foundations or as village-owned enterprises. Each of these had benefits and constraints relating to:

- Ability to access loans and subsidies from government
- Time constraints for loan repayment
- Arrangements for profit sharing between members, or re-reinvestment of profits into the water scheme
- Risks of political interference.

In contrast, in Viet Nam it is possible to register officially as a social enterprise (under the 2014 Law on Enterprises) and receive benefits from doing so. Such enterprises are required to return a proportion of their earnings into the ongoing development of the business.

### BOX 14

#### LEGAL STATUS AFFECTING ACCESS TO FINANCE

In Indonesia it is not easy for enterprises to access loan services from banks. In order to access loans, individuals or organisations need legal status, and to fulfil eligibility and administrative requirements including character, credit history, cash flow history and projections. They need collateral to secure the loan. In most cases, micro and small entrepreneurs will find it difficult to access these loan services. In this context, the legal status of the enterprise is a critical factor in its potential viability.

## Business size and scale

Business size and the size of the geographic area covered are important choices within the business model. 'Enterprise in WASH' research showed that many enterprises remain relatively small and only cover a small geographical area (see Box 15). Some key questions for a CSO to ask are:

- What scale do similar enterprises operate at?
- Are enterprises likely to grow (or not grow) beyond operating within their immediate localities?
- What are the implications for the likely customer base?
- What are the additional costs and benefits of wider-scale operations?
- How many enterprises would be needed to cover a larger locality?

### BOX 15

#### SANITATION AS A SIDE-JOB FOR ENTREPRENEURS MAY LIMIT THEIR ABILITY TO GROW THEIR BUSINESS<sup>24</sup>

The 'Enterprise in WASH' research found that sanitation enterprises in Indonesia were predominantly micro-sized and that most sanitation entrepreneurs (82%) had a side job (e.g. farming, carpentry, government official), and sanitation was a secondary source of income for them. Another study<sup>25</sup> found that on average, members of the association of sanitation entrepreneurs APPSANI spent 37% of their time on their sanitation enterprises. This suggests that entrepreneurs may have been responding to limited, uncertain or irregular demand by diversifying their endeavours. On the other hand, working part-time may limit an entrepreneur's ability to expand into new geographic markets, and diversify their operations to include other products or services.

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