



water for people

## **Interim Learning Report: Catalyzing Sanitation as a Business**

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### **Executive Summary**

Catalyzing Sanitation as a Business (SAAB) — a Water For People project funded by the Bill and Melinda Gates Foundation — is halfway through its four-year implementation process. The underlying principles of the project are that:

- Sustainable sanitation is achievable and scalable by application of business and marketing disciplines
- It is more effective in the long run to take a business person and train them in the sanitation industry, than it is to take a sanitation person and make them into a business person

The need to innovate and be innovative has never been far away from any part of the process, whether it is over the development of a new pit emptying device, a new business model or a new way of assessing impact. The initial stages of the project have been characterized by:

- uncertainty over whether each market can support sanitation businesses independently,
- a willingness to ask hard questions,
- seizing opportunities as they become available,
- experimentation and a willingness to make (and learn from) mistakes,
- on-the-hoof learning,
- an unyielding commitment to make it work
- the strong belief that business as usual is simply not acceptable,
- and, fortunately, a growing number of examples showing SAAB can and is working.

One of the areas the project needs to improve is in communicating the progress it is making, building consistent evidence on the progress of the work, and demonstrating the learning and adaptation that is happening on the ground. This document is an attempt to bridge some of these gaps.

Over the past two years, Water For People has learned how to implement SAAB in different settings all over the world. Furthermore, we have developed a more cohesive framework to base our understanding and future decisions. This document will explain the best-practices framework for SAAB, and how to bring successful sanitation businesses to a wider scale.

### **Overview of Existing Players Working in the Sanitation Market**

Latrines do not build themselves — it usually takes the private sector. In one form or another, it is involved with latrine building in every country and within every context. Only in rural areas where households build latrine purely from local natural materials, such as trees, grasses and mud, is there no involvement from the private sector.

[PSI](#) and the [Monitor Group](#) undertook an analysis of private-sector players in Bihar, India to categorize the current actors in the sanitation market. Their categorization holds true for other sanitation markets in other developing countries.

1. **Sanitation Kingpins.** Larger sanitary hardware distributors or manufactures that trade in the components used in the construction of latrines. They include the national cement, ceramic and plastic manufacturers and the more local brick manufacturers. Kingpins usually have high business acumen within the niche of their operation but low business experience outside that area. The products they sell are not specifically aimed at poor households and they typically see expansion of their business in terms of product diversification for the richer sections of the society. Rich people build larger houses with nicer bathrooms and will therefore buy more of their products. They do not see the potential in opening up new markets serving the poorer members of society.

2. **Sanitation micro-merchants.** These are the local hardware shop owners who sell a wide range of building- and construction-related products — either directly to the householder or to tradesman undertaking work for the householder (*see example at right*). It would be unusual to find an area in a developing country without access to a hardware store, even if the product range is limited. NGOs undertaking latrine construction projects will buy materials from these outlets, who in-turn buy these materials from the Sanitation Kingpins. The scale of the business is restricted to the village level and they usually have strong connections to the community, but education levels tend to be low with minimal ambition for growth. Longer established micro-merchants become family-run operations with the father dominating the decision making processes and the children possibly becoming frustrated by their inability to venture into new avenues of work.

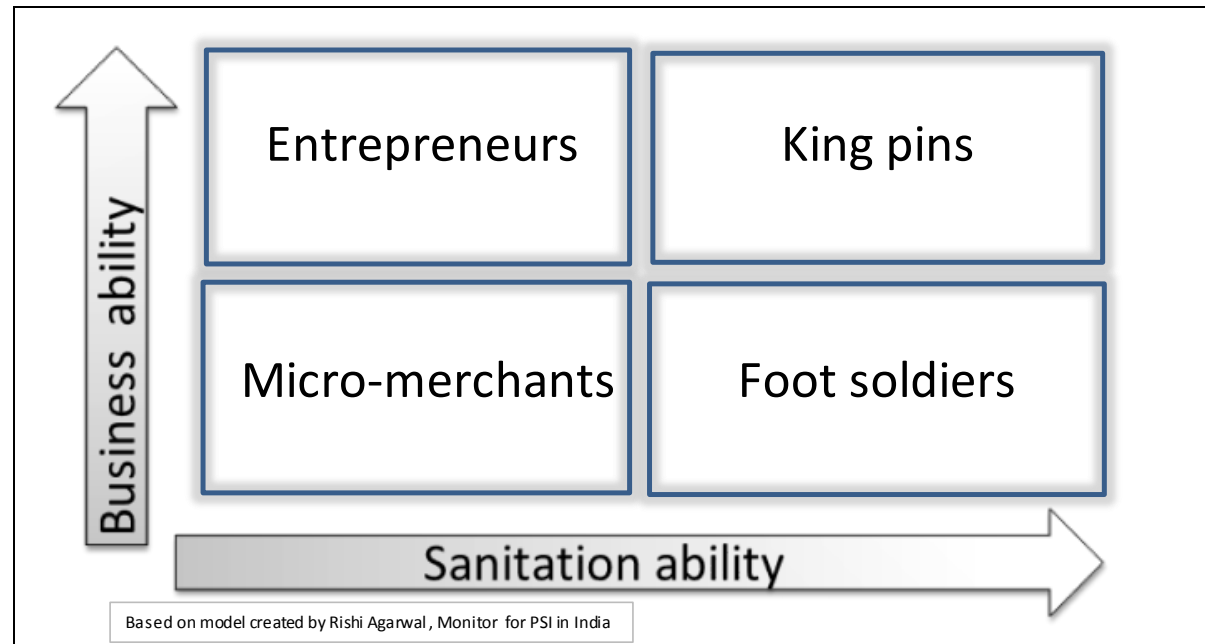
*An owner of hardware shop in Sheohar in India summed up the entrepreneurial attitude of the cohort when asked whether he would be interested in getting more involved in sanitation services; “I’m happy to sell you cement” was his response. They may form an essential part of the supply chain, but they are not going to lead the sanitation revolution.*

3. **Sanitation foot soldiers.** These are the local masons who provide building services to the households using material purchased from the micro-merchants (*see example at right*). They typically have a low education level and learn their trade ‘on the job’ through working with more experienced masons. The capital set up costs of operating as a mason are very low and involve the purchase of a trowel, string, a shovel and possibly a spirit level. Few own any form of transport. Latrine building is just one of the services masons provide. Masons do not like to actively promote their services within a community in fear of being seen as lacking work and therefore willing to work for lower price.

*The reputation of masons is often tainted before a brick has even been laid. Take the story of Isaac, a mild mannered, honest and highly skilled mason in Kampala, who recalled visiting a household the previous week. The owner was building a large and expensive sealed septic tank with the expectation that it would last many years. Isaac correctly identified flaws in the design, offered advice, and suggested building a smaller pit design which would be cheaper and last longer. She responded by saying “You masons are always trying to cheat us and always give us different advice to make money from us. I’m staying with my design.”*

Like the other actors in the sector, masons would prefer working for richer customers (or NGOs) where there will be larger contracts and fewer problems over payment. NGO's have tried to train masons to be more business-like, but generally they are not receptive to improving their business skills and are uncomfortable (or incapable) of changing their operations. Attempts to form masons into 'associations' leads to tensions and acrimony with individual masons opting for the short-term gain of working directly for the customer as oppose to the long-term gain of sharing profits within the association.

### Sanitation Players and Their Abilities



The number of households without access to a safe latrine is ever increasing and the market — as outlined above — is failing to address the problem for the poor. None of the three categories detailed above have the capacity, the drive, or the ambition to make the market work for the poor. Some form of intervention is necessary.

That is why sanitation is the market Water for People is catalyzing.

## The Water For People Approach: Building a More Effective Sanitation Market

Water For People's believes that the existing private-sector operators are simply not the right players to advance latrine building and pit-emptying services to the scale required. While there are several examples where micro-merchants and masons have made significant strides toward providing better quality sanitation services to specific populations, these are the exception.

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Mr. Clean — a charismatic tanker operator in Mzuzu, Malawi — is such an example. He is an entrepreneurial risk-taker who has expanded his pit-emptying business in areas where his service is most needed. When he has accrued sufficient profits, he has put some of that money back into hardware costs to grow his business — a new van here, a second-hand tanker there. Like many career-oriented, driven people, it has put a strain on his family relationships at times, but in his mind, it is worth it: both for his community and family, but also for the financial well-being of his business.

However, Mr. Clean is exceptional. His entrepreneurial attitude and willingness to take risk is very rare in Malawi, particularly in the sanitation sector. Because of this, it is extraordinarily difficult to replicate his work in other cities in Malawi. The bottom line: to achieve the scale required, SAAB needs to be systemic and easily replicable on the shoulders of people like Mr. Clean.

Over the last 20 years, NGOs have trained thousands of masons on a premise of hope, rather than sound strategy based on empirical evidence — that they will start to provide better products and better service to those in need. These masons — who are essentially sanitation foot soldiers — are still characterized by a lack of entrepreneurship, a resistance to change, a lack of standardized practice, a lack of finance, and individualism. They also do not consider latrine building to be mainstream to their business. One of the strides Water For People has taken is to accept that the fragmented and weak supply chain for masons is part of the problem, and not the basis for a solution.

Water For People's work in Uganda and Malawi is centered on pulling better quality business people into the sanitation sector. It's about finding good entrepreneurs and incentivizing them into the sanitation professional (as opposed to taking good sanitation foot soldiers and trying to change them into professional business people).

The matrix below outlines the business and sanitation abilities of the private sector operators in the sanitation sector. The task of Water For People is to tempt new entrepreneurs (top right quadrant) into the sanitation market and work with them to develop their ability to provide quality latrines and efficient emptying services. Their reasons for entering the sector are purely financial — and that's a good thing, because it leads to a sustainable sanitation infrastructure. Any social objectives connected to serving the poor and saving the world are secondary.

### **Making the Change Happen – Growing Businesses in Sanitation**

Realizing SAAB at Water For People has been a lengthy learning process. This section considers the pressures, challenges and changes the project has weathered in making change happen.

#### **Lesson #1: Changing Sanitation from a Service to a Product Through Innovation**

The existing sanitation foot soldiers provide construction services to households. They take everyday construction components and assemble them in such a way to make a desirable latrine.

The strategy of attracting new entrepreneurs into the market solves the problem of improving the level of professional and business acumen within the sector, but it does not resolve the restriction of having to rely on masons to actually build the latrine. If SAAB is going to operate at scale, it cannot be held hostage by the traditional attitudes and practices of masons. Technical solutions are needed to overcome this barrier.

Latrine building in the developing world has to change from being a service with products attached, to a product with attached services. Here is why:

- **Manufacturing** – Currently, Kingpins are manufacturing very few specialist products aimed specifically at poor households and latrine users.

- **Construction** – There are very few players focused on easing reliance on masons for construction (a major barrier to scaling up latrine construction and an area where Water For People is fostering innovation)
- **Market-Knowledge** – The modular-type models that are available, and which don't require masons to install or construct tend to be cheap versions of existing wealthy household technologies and have been developed without an understanding of the market or the customer. In fact, lack of market knowledge is a glaring gap.

*The size of the potential market is huge. However, since most customers are poor, profit margins for these businesses can only be increased by expanding the market of customers, not by increasing costs per customer.*

*“In my work with a multitude of affordable technologies over the past 30 years, one key feature has become abundantly clear: If you have met the challenge of designing a transformative, radically affordable technology, you’ve successfully solved no more than 10-20% of the problem. The critical other 80% of the solution lies in designing an effective marketing, distribution, and profitable business strategy that can be brought to scale. Of these, perhaps the most important is designing an effective scale strategy.”*

*– Paul Polak, formally of IDE, who is known for technical innovation in the developing world*

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The Bill and Melinda Gates Foundation has recognized the need to fill this gap and have instituted a ‘re-inventing the toilet’ strategy, however many of the inventions being developed by grantees seem to be ignoring two essential elements: the market and the customer.

Water For People has worked for several years now, primarily through the support of UN Habitat, on developing new technologies for pit emptying, waste disposal, latrine building, and latrine upgrading and in the process has learnt a number of lessons. Initially the process was ad-hoc. Individuals with a good idea for sanitation technology went ahead and developed a prototype in relative isolation from the market. The realities of making and selling the product to the right market were not always factored in. The problem soon came to light that having the idea and developing a prototype

was the easy part. The far-more difficult part was getting it to market.

As the entrepreneur or householder will be buying, maintaining and using any new sanitation technology, it is their choice to pick an option that best suits their needs, desires and pockets. The main question they ask is: “What value does the technology provide and is it really worth the additional dollars.” It’s the customer whose value judgment really counts. They decide what trade-offs to make. It is up to the product designer and the market makers to account for their needs when designing better, cheaper sanitation technologies.

New technologies are not the silver bullet solution, but they are vitally important in enabling entrepreneurs to enter the market. Successful businesses have been developed in Blantyre, Malawi by the introduction of the Gulper (a low cost pit emptying device), in Kapchorwa, Uganda by the introduction of an easy-to-move superstructure, and in Cambodia by the invention of the Easy Latrine. The brilliance of the pour-flush Easy Latrine lies in its simple design. A concrete box sits under a squatting slab, and it is easy to configure in a way that minimizes odor, thereby increasing usage of the latrine in the household — a key toward improving sanitation.

In India concrete rings for lining pits have been introduced to replace the traditional mason-built brick lining. The customers tap and examine each ring before they buy it and this gives them some assurance that they are buying a quality product and obtaining value for money.

*“Price is what you pay, value is what you get”*

*–Warren Buffet*

And herein lies the difference between sanitation as a service, and sanitation as a product. When purchasing a service, such examination is not possible. The only quality assurance the customer can obtain is if a friend or relative recommend a specific mason’s work. By its nature, purchasing a product with confidence empowers the user and increases adoption of that sanitation device.

The type of change required in latrine purchasing and building behavior can be likened to the way Ikea has changed European furniture purchasing behavior. It is estimated that one in ten babies born in Europe today have been conceived in a bed bought from Ikea. Sixty years ago, bed making was dominated by small, local furniture manufacturers (analogous here to the sanitation foot soldier or micro merchant). Although it may sound ambitious, such a change is possible within latrine building in developing



counties; Watershed has supported entrepreneurs that have delivered more than 42,000 Easy Latrines since 2011, and that is only to a relatively small part of Cambodia.

Water For People is currently working on a modular latrine-building process where all the components for a latrine are centrally manufactured and transported to the household where they can be assembled in two days by a lower-skilled technician. If this is successful and the households regard the final product as 'desirable,' the entrepreneurs currently working in pit emptying business will be able to start latrine building and new entrepreneurs will also be able to enter the market.

## **Lesson #2: The Art of Financing Start-Up Businesses**

One of the initial assumptions made by the SAAB team was that the local banks would be interested in financing sanitation businesses as long as they were presented with solid business plans from credit-worthy business people. Banks represent the best source of finance as they are not dependent on donors or the good will of social investors, both of whom can be unpredictable and ultimately unsustainable. We recognized that

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banks would be cautious about lending into a new sector, so the first business plans presented has to be from companies with a good credit history, who had borrowed and repaid banks loans before, who were already in the solid-waste sanitation business, and who were requesting money for a vacuum tanker (one of the better known and profitable aspects of the sanitation sector).

As a test case can be found in Kampala, Uganda, where a business-development service provider (BDS) Water For People hired groomed a bank about the sanitation sector. Additionally, great care was taken to write detailed business plans the worked both for the business and the bank. By increasing probability for the bank, we would encourage future loans for sanitation.

However, the bank made the initial entrepreneur jump through a series of additional hoops without giving any indication that they would be willing to lend. Eventually the bank turned down the request on the grounds that the truck identified was too old and they only lent for vehicles less than 14 years old. A new truck was identified and the entrepreneur had to take out a loan for greater than the amount originally anticipated, 10 months after a huge collateral commitment was made with the initial application. (Ironically, because of the limited mechanical capacities available in Africa, older trucks are a better investment as they are less complex and

easier to maintain than newer trucks.) Three other entrepreneurs who applied for a bank loan — and who had weaker business and credit histories — decided to pull out of the process when they saw the difficulties the first entrepreneur was having. They subsequently bought tankers using funds raised from other member of the family.

It may be unfair to judge banks on their performance in Kampala and the timing was poor as the whole global finance sector was in turmoil at the time. However, if they were having doubts about the entrepreneurs the BDS had selected, they would certainly refuse a second wave of loan applicant, especially those who had never taken out a bank loan or used a bank account.

For instance, take Sam Nangoli, a successful Kampala pit-emptier. He realized that if he owned his own transport, he could increase his profits and gain more work. When he added up the figures, he could afford to repay a \$5,000 loan over a year. Sam has no bank account, lives in a house for which he has no legal title, and has no annual accounts. Sam's best financing option would be through a local micro-finance institution that would need collateral amounting to \$5,000. If he had that collateral, he would not need a loan.

If the sector is to achieve the desired scale, an alternative source of funding is required. This is still a work in progress and the current strategies being pursued by Water For People are as follows:

- ***Introduce business models and develop low cost equipment with low set-up costs which can be self (or family) financed without the need to apply for a loan.*** An initial seven pit-emptying businesses in Blantyre have all been initiated on this basis and an entrepreneur can start a business for less than \$500. As these businesses grow, they need to start saving to purchase a pickup truck which increases their margin by removing the need to hire transport.
- ***Encourage entrepreneurs to rely on family money.*** This involves the entrepreneur convincing a richer member of his family to invest in his business.
- ***Development of Businesses in Sanitation (BIS) marketing materials.*** The concept involves producing leaflets, brochures and manuals that present a coherent and convincing argument about how to establish sanitation businesses and outline investment costs and expected revenues. Such material may help entrepreneurs also approach family, friends, and other informal sector investors.
- ***Develop new avenues in microfinancing.*** TEECs in Malawi is in discussion with Acumen Fund in the US to develop a micro-finance arm to their business and Captiva are planning to join up with Kiva — the crowd-sourcing specialists — to expand the rural sanitation work in northeast Uganda. These relationships are being driven by the BDSs and undertaken with encouragement, but not direct support from Water For People.

Water For People is also considering developing a form of crowd-source funding where money from the United States is used as collateral by local microfinancing institutions (MFIs) to invest in businesses supported by the BDS. The BDS would receive fees from the business person for helping them prepare their business plan, and these costs would be partly covered by the loan. If possible, the interest rate would be lower for businesses receiving mentoring support from the BDS as the risk of default is theoretically lower. Another possibility would be for the BDS to get equity in the businesses that they support and incubate to ultimately recoup costs for their services.

Overall, we continue to search for an ideal solution to financing both house latrine building and small-to-medium sanitation enterprise startups. The avenues being pursued are only piecemeal. A more robust and reliable solution has to be found. Establishing this solution will require working together with other partners in the sanitation field to focus on achieving greater impact.

### **Improved Business Promotion Techniques**

The SAAB strategy relies on attracting entrepreneurs to the sanitation market. Sanitation is not a particularly glamorous profession and nobody dreams of being a pit emptier in the same way they dream of being, say, a fire eater in a circus (the author’s career choice at the age of eight).

In India, a stigma pervades sanitation as it is the lowest class of society that has traditionally handled human waste. Regardless, the SAAB process is targeting the higher Vaishya class, who traditionally engage in commercial activity as businessmen. In any society, getting entrepreneurs into the sanitation market it is not an easy sell.

One way to attract entrepreneurial interest is to show them the value of the market.

- Market research in Blantyre on pit-emptying suggests that the annual value of the pit-emptying business in Blantyre is **US\$ 2.36 million**, excluding the

### **Entrepreneurial Opportunity: The Sanitation Industry by the Numbers**

**\$2.36 million\***

Estimated annual value of pit-emptying business in Blantyre, Malawi.

**\$6.1 million\***

Estimated annual value of pit-emptying business in Kampala, Uganda.

**\$100–150 million\***

Estimated annual value of pit-emptying business in the three Water For People districts in India served by SAAB.

*\*All figures in U.S. dollars*

cost of transport and tipping fees.

- The National Water and Sewerage Company estimates only 5% of Kampala city is served by the sewer network. It has been estimated that the 8.5 million residents in Kampala and the surrounding districts would generate the potential demand for septic clearance of 2300 m<sup>3</sup> per day — **which translates to US\$6.1 million worth of pit emptying business a year.**
- In India, where the population of states usually exceeds that of many Africa countries, the latrine coverage is still low, despite the availability of subsidies. In just three districts that are being targeted in the initial SAAB program, **the market is estimated to be worth between US\$100 - US\$150 million.**

These figures get people's attention, but the banks are still reluctant to lend. The SAAB project in Malawi and Uganda have started to focus on the smaller entrepreneurs who have their own money and assets (or access to family money) that enable them to start a sanitation business. In Uganda the BDS has employed three 'marketers' who actively seek and discuss sanitation as a business with potential entrepreneurs. When they have sufficient numbers, they invite these people to an entrepreneur forum, where the marketers discuss business options and give the entrepreneurs a model business plan. This process has established five pit-emptying business in the first four months of employing the marketers in Kampala. The project is currently developing a series of flyers, pamphlets, and documents called Business in Sanitation "BIS," These are designed to initially draw attention to potential entrepreneurs and investors of different sanitation businesses and then gradually provide more information regarding their operation. These will be distributed by the marketers and used to promote the SAAB process.

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## Business Development Support – New Type of Partner and a New Approach

Twenty years ago international NGOs (INGOs) generally controlled the latrine building process (some still do) and in doing so created dependency and inefficiency. This was gradually replaced with the concept of working through local NGO partners which was more efficient, but because of the use of subsidies, did little for the sustainability or for removing the dependency on the INGO. INGOs like Water For People supported local NGOs for years without ever really considering the sustainability of the process as a whole or how the supply chain would operate when Water For People funds were withdrawn.

The Business Development Support (BDS) approach aims at developing the sustainability of the whole system, which in itself is a bold, innovative, and risky strategy for Water for People to adopt. It would have been far easier, quicker and less risky for Water For People if we worked directly with entrepreneurs. But the sustainability of the

### Case Study: Project Management Culture and BDS Partnerships

The principle of pulling business people into sanitation rather than pushing sanitation people into business was applied to staff the project in Africa, where Frank Millsopp, an experienced business development specialist, a serial entrepreneur, a ‘doer’, and an innovative thinker, was employed. Frank brought a new level of ambition to the project based on his previous experience in business development. He was immediately talking about “scale” and “business growth.”

The key issues to ensure success for Frank were:

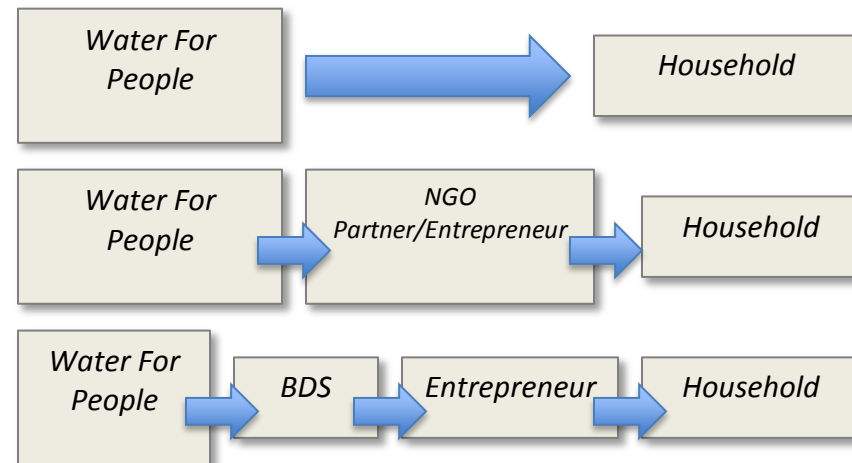
- Provide enough space and resources to put his ideas into action,
- And appreciate that he was new to the sanitation sector and would need support and time to get up to speed with the technical and social aspects of the subject.

Frank (and many entrepreneurs like him) doesn’t fit into the standard NGO way of doing things. NGOs represent a steady career path where caution, cultivating donor relations and good report-writing skills tend to be valued more than ability to innovate, take risks and challenge accepted norms. Entrepreneurs such as Frank thrive in uncertain environments. In order for SAAB to succeed, we need more people with these attributes.

Water For People is small and nimble in comparison to other NGOs. We are fortunate to have a CEO who is pushing the organization to be more innovative. Ned Breslin sends a clear message to each country’s program, urging them not to accept “business as usual,” and has been supportive of the way the SAAB project is trying to bring about change.

whole process be questionable, for Water For People would be at the center of the process. Any withdrawal of funds would automatically mean the process would collapse. The BDS approach represents going for gold.

One of the key aspects of making SAAB work, particularly in the initial stages, is to pick winners. This is equally applicable to Water For People selecting a BDS partner as it is to attracting the right entrepreneur — both have to be winners. The process can only be learned through experience. When Daniel Oporto, a BDS partner in Bolivia, was asked how he knew whether a person was a good entrepreneur he replied “You can just smell them.”



The BDS selection process undertaken in Rwanda, Uganda and Malawi consisted of placing an advert in a local paper and requesting potential BDS partners to present how they would tackle sanitation as a business. The result in Africa was three local BDS partners who, on paper at least, were similar. But in practice, they have turned out to be very different in their approach. With the benefit of hindsight, Water For People would change the way the BDS were selected as follows:

- Select multiple BDS partners
- Look for BDS partners with specialized skillsets, such as market building, or market-sparking
- Formalize hiring process with firmer metrics for partners to report on.

In general, the entrepreneurs seem to appreciate the quality of support and advice they gain from the BDS. “They have taught me the importance of keeping good accounts and now I know where I make my money” is a common quote. BDSs build better, more robust businesses which have a greater chance of longevity.

Most importantly, working through the BDS has help removed the

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“NGO effect” which plagues many sanitation projects. Aid is so widely given in all the countries where Water For People works that in some ways it has lost its value. People know that NGOs always give things away for free — a fact that is diametrically opposed to the ethos of SAAB. The project and the country programs have been careful not to associate Water For People’s name with any of the BDS support processes and this has had the positive effect of entrepreneurs operating on a strictly trade basis, a process which they well understand and are very familiar with. On a recent visit to Kapchorwa, Uganda the manager of the sanitation business said to Water For People staff,

“It’s nice to see you and we are happy to show you our work, but do not come too frequently because people will get to know that it is an NGO project and then we will be finished.”

It would be incorrect to say the project team at Water For People is completely happy with the performance or the current role of the BDS. However, the relationship with the BDSs is dynamic, flexible whilst both organizations are learning how to intervene within the sector. After 18 months of working with BDSs system wide, it is becoming clear that their role is not simply about supporting entrepreneurs to build sanitation businesses. Their role is also that of ‘market maker’ — an organization that can expand business opportunities in sanitation into new geographical areas, and support these businesses by helping them adapt to changes in the political, social, and economic environments.

## **BDS Partnership Reflections**

### **Partner or Contractor?**

As it relates to BDSs, we hear this question often. It indicates that perhaps their role is not clearly understood as a whole. This is understandable as they have only just entered the sanitation sector and are themselves trying to find their niche. The function of the BDS is critical to growth and sustainability of the whole process and the way SAAB is designed at the moment may be limiting growth.

*Water for People decides resource allocation, we write the donor reports, we develop the monitoring system and we feel the pressure to change something when it is not working.*

“If you want to know where the power lies – follow the money” is a good maxim to understand any of these relationships. Within the current model between the BDS and Water For People, the control of the money, and therefore the power, rests firmly with Water For People. Water for People decides resource allocation, we write the donor reports, we develop the monitoring system and we feel the pressure to change something when it is not working. The Bill and Melinda Gates Foundation requires Water For People to manage each BDS and encourage them to develop business plans. In other words, Water For People is the middle-man. In this respect the project is a traditional INGO funded project with the NGO protecting the partner from the realities of the aid world while being accountable for project efficiency. In turn, the BDSs have shown a strong sense of ownership and used their own initiative and resources to grow within the sector. Under their own initiative they are seeking funds from, or have, partnerships with International Finance Corporation (IFC), GIZ, CARE, Acumen, Kiva, and others. If the BDS were in the sector for the short-term gains of the SAAB contract, they would not be making longer term commitments to these organizations.

It is therefore safe to assume that the BDS are partners not contractors. This is an important distinction. To transform, the sanitation field greatly needs more partners not contractors.

### Evaluation of Current BDS Partners

- **TEECs** – The way the project’s business monitoring system works is an indicator of the weaknesses within the partnership. Monitoring is important as a method of assessing impact / effectiveness and allows for correcting and improving working practices. This is the case for TEECs who have a vested interest in gathering and collating information on business activity undertaken by their entrepreneurs as TEECs are part of the supply chain. They are also seeking to become an even bigger player in the supply chain by becoming a microfinance organization that gives loans to sanitation-related businesses—all reasons why they are keen to develop an evidence base and make a business case.
- **Captiva** – Captiva in Uganda, on the other hand, doesn’t see itself as part of the supply chain, but rather as market makers and market facilitators. As such they have no real vested interest in the supply chain and receive the same amount of money from Water For People should they develop five businesses or 50. It is a good relationship, but it is based on good will and not on objectively verifiable goals where payments are tied to outcomes. Captiva usually have to be pushed to report on progress and when the reports arrive, they usually have many anomalies. It is not that Captiva do not have the capacity to gather, analyze and act on the data. Rather, the relationship lacks consequences for them if they fail to report or produce sub-standard reports. They know the next contract from Water For People will be decided by Frank Millsopp, the Project



Operation Manager and the Country Director. They will place more importance on a subjective assessment of Captiva's performance, as opposed to one based on quality benchmarks of their monitoring or reporting system. To his credit, Frank is in the difficult position of having to encourage the BDS to act on their own initiative and to run with their own ideas, while at the same time having to act as a policeman and telling the BDS that their funding is being cut due to poor performance. The BDS may also feel that Water For People is in too deep to let them fail, allowing them to shirk accountability since the project's potential failure will reflect more on Water For People than them.

BDSs competencies and capabilities are in many ways greater than Water for Peoples', particularly in the areas of understanding business, finance, marketing, value chains, business law, and national practices. The partnership, in the truest sense of the word, should be one where the strengths of both organizations come together to create a synergy which is greater than the sum of the individual parts. However, this is not currently occurring as well as it should, partly because Water For People is too much in the drivers' seat and possibly because of differing organizational cultures.

### **Organizational Ethos: It's An Onion Thing**

Joe Gomme, an ex-WaterAid country representative, wrote an interesting reflection on partnerships in 1999 in a report entitled "Fostering Success."

He defined a model to explain the most important attributes of organizations. In his analysis, he compares the layers of an organization to the layers of an onion. At the center core lies the ethos of the organization, which includes its attitudes, values and philosophy. Radiating outward, next comes identity which includes governance, vision, objectives and strategy, as well as the articulation of the organizational values. Systems and structures are tools which the organization develops in order to fulfill the strategic development it proposes. Further out, we have skills and abilities, which are the key competencies of staff, board members, advisers and the other individuals involved. And finally, on the outer layer, we find resources, which refers to the NGO's ability to obtain its material and financial requirements.

*Like an onion, organizations have many layers. At the center core lies the ethos of the organization, which includes its attitudes, values and philosophy.*

The ethos of an organization is reflected in the type of people an organization employs and the partners it chooses. An organization's prevailing ethos, values, attitudes, and beliefs guide the way in which its employees think, feel, and act — quite often unconsciously. Its culture is considered to be the “glue” that holds an organization together.

NGOs in developing countries represent a steady, defined career path for their employees where caution, participation, cultivating donor relations and good report-writing skills tend to be valued more than the ability to innovate, take risks and challenge accepted norms.

People who work for the BDS's are naturally interested in business, and usually economics, and this influences the way they think and the discussions they have with the entrepreneurs. Such discussions tend to revolve around profit and loss and business potential, not around providing services to the disadvantaged as a social good. They are interested in new technologies from the angle of the business opportunities they will create, not from its performance regarding pathogen die-off, community empowerment potential, or conceptually closing ecological loops.

*People who work for the BDS's are naturally interested in business, and usually economics, and this influences the way they think and the discussions they have with the entrepreneurs ... The SAAB project has intentionally employed people from a business-based culture, rather than those having an NGO mindset.*

The SAAB project has intentionally employed people from a business-based culture, rather than those having an NGO mindset. They have, in turn, selected BDS partners with a similar business culture. The problem from a SAAB partnership perspective is that the dominant host partner does not have the same ethos, values or culture as the recipient BDS partner.

The differences in organizational cultures creates tension and this has surfaced during the SAAB program within Water For People. It has taken considerable effort to solve these 'misunderstandings' amicably and gradually there is an increasing mutual respect for the others 'differing' views. Performance indicators for growing businesses are different than benchmarks for public health and sanitation, and careful attention has to be paid to what is being measured to help build trust and understanding and to be able to adequately rate performance.

Within a small NGO, such as Water For People, it is possible to manage the tensions in these relationships, particularly as the critical mass of SAAB knowledge among employees grows. The larger question is whether NGOs with entrenched, traditional, social-

objective based beliefs are capable of adapting to the SAAB process. Some NGOs, such as WaterShed in Cambodia, WSUP in the UK, PATH and IDE in America, have managed to develop business cultures within their organizations, but these are few and far between and mostly operate independently of one another. For the vast majority of NGOs currently active in the sanitation sector, achieving such a paradigm shift in thinking may be very difficult in the short term. This remains an enormous obstacle toward taking SAAB to a country-wide, and global scale.

### **Business Support Organization or Market Maker?**

BDS's are businesses and need an income and a margin which then enables them to survive and grow. The simplistic view is that the BDSs should make money by charging entrepreneurs for their advice and services. To be cost-effective, this would require the BDS to be developing medium- or large-sized businesses.

In fact, this is how Captiva started the SAAB process in Kampala. They worked with seven entrepreneurs to purchase vacuum tankers through bank loans. But as discussed earlier, despite having solid business plans, the banks have been very slow and very cautious in lending money and most of the entrepreneurs have now abandoned the idea of bank financing. Because of this, most BDSs do not have a supply of fees to keep them viable.

Water For People continues to observe these BDSs as they explore ways to be financially viable. Let's look at two case studies:

- **TEECs** – In Blantyre, Malawi, the owner of TEECs has her roots in starting and growing her own fruit-juice business. She saw the opportunities for a pit-emptying business in Blantyre. Quickly, she attracted seven new entrepreneurs into the market and helped them develop their businesses. While each pays her fees, it is not enough to make her business-support service commercially viable.
- **Captiva** – Captiva has taken a relatively simple business model that focuses on the Uganda Cooperative Savings and Credit Union (SACCO), which has helped them create a latrine loan product that uses a low-cost design of latrine that can be delivered on the back of a pick-up truck to a householder. They are in the process of securing additional funds from KIVA to scale up the process to more SACCO branches.

In summary, TEECs is a market-maker in the informal setting of the small-scale operator, while Captiva is acting as market-maker within the more formally regulated setting of a credit union.

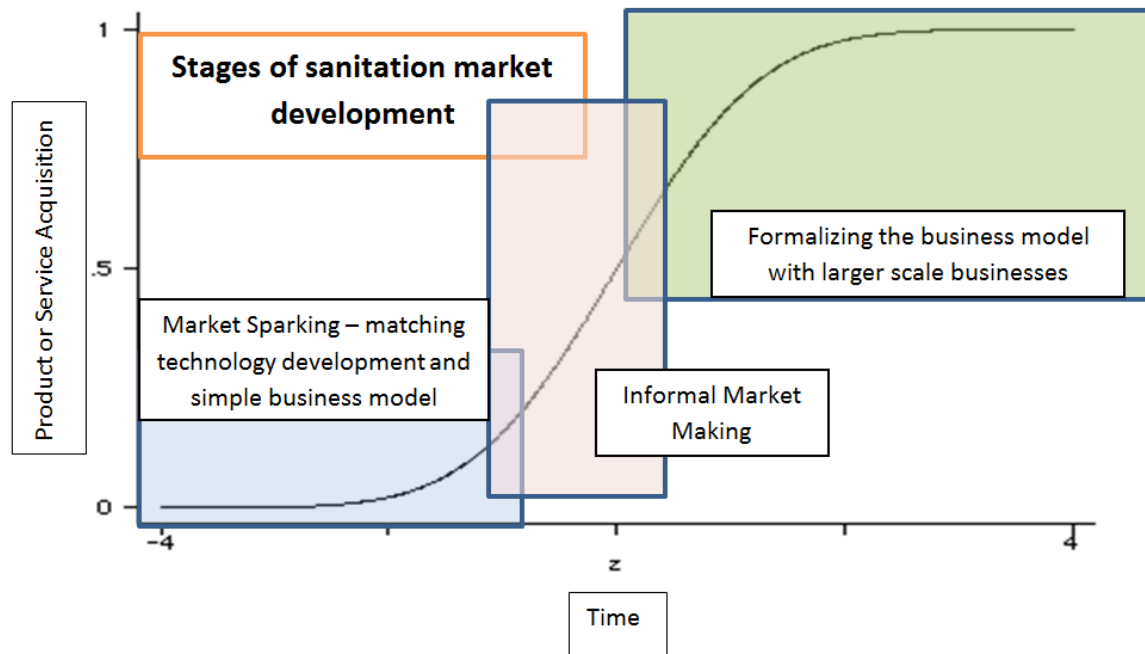
As the market matures in both settings, the opportunities for the BDSs to earn an income from building business capacities will increase. But this will not happen until the awareness and demand for services increase and the market becomes more competitive. At this stage there may be profitable opportunities in formalizing businesses and improving the efficiency of service delivery.

In retrospect, it may have been better for Water For People to work with two BDSs in each country: one based in the formal sector and the other in informal sector.

### Market Makers, Not Market Sparkers

The businesses that were established by each BDS were based on success stories and case studies of sanitation implementation within urban areas. In Kigali, the focus was on public latrines. In Kampala, an emphasis was placed on vacuum tankers, while in Blantyre, Gulper-emptying services were developed. In each case, an existing business in this area was copied, rather than developed from scratch.

This may be the result of a risk-averse approach, but subsequent experience has shown that our BDS partners are not particularly good at creating new business models or exploring new ways of providing a sanitation services. This process, known as “market sparking,” seems to require a capacity to innovate, move quickly, and to embrace failure as a necessary part of learning. Currently, “market sparking” not been found within the BDSs, which is not surprising, as it is a rare skill.



If the hypotheses, lessons and observations regarding BDS are correct, it is possible to speculate that SAAB needs to go through the following three sequential phases to take it to scale:

1. **Market Sparking** – Developing new technology and new, small-scale business models to test in the market place.
2. **Informal Market Making** – Whereby the simple business model from the market-sparking process is expanded into other areas and gradually optimized as knowledge, awareness and demand for the service increases.
3. **Formalizing the Business Model for Large-Scale Businesses** – To build on the demand created by the growth of the informal sector.

If sanitation service delivery can be built on the back of an established formal business, the market-making process may occur earlier within the adoption curve and there is no need to go through the informal sector stage. Similarly, it may not be possible to develop a formal business model which improves on the efficiency of the informal sector. Scale can only be achieved by encouraging crowding-in.

## What About the Poor?

The traditional NGO approach to latrine-building is based on the starting assumption that everyone is too poor to buy a latrine and the only way latrines can be built is if they are given away or heavily subsidized. Clearly this is a completely false assumption as the vast majority of latrines built in developing countries are completely financed by the householders with no NGO involvement in the process. NGO-supported latrines make a tiny, insignificant contribution to the total amount constructed. Furthermore, there is no evidence that the traditional NGO approach to latrine building is efficient at targeting subsidies at the poorest households. Generally it is the better connected and richer member of the community who benefit the most from any subsidies.

*The traditional NGO approach to latrine-building is based on the starting assumption that everyone is too poor to buy a latrine and the only way latrines can be built is if they are given away or heavily subsidized. Clearly this is a false assumption.*

SAAB does not ignore the poor or “cherry pick” the richest members of the community. Instead it recognizes that richer, better educated, members of society are the ones who are the most likely to change their defecation behavior first, probably driven by the

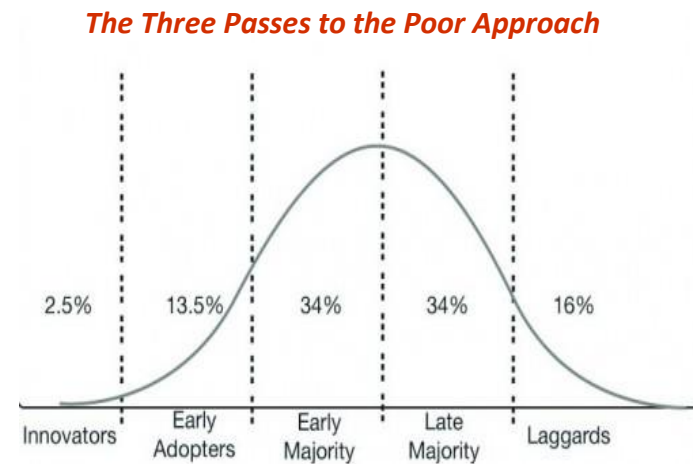
perceived higher status latrine ownership will bring. The poor members of the community will follow the richer members once they are certain that the latrine purchase is the correct social choice and when they have saved enough money to make the purchase. Price, ease of accessibility, and transaction costs, are critical to the purchase decision.

This can be best explained with the **Three Passes to the Poor Approach**, which assumes that the desire, the demand, and the ability to pay for a latrine is stratified within a community but changes over time. Subsidies are used as a last resort, not the first. The primary objective is to first establish commercially viable supply chains.

The Three Passes to the Poor approach mirrors the adoption of innovation theory first suggested by E M Rogers in 1962. The percentages may vary, but the uptake of latrines follows the same curve as many other household products, such as CDs, computers and mobile phones. There will always be people who enjoy open defecation and will not change, but it is wrong to confuse these with being the poor or the ill-informed.

For example, in the UK in 2009, there were 26.8 million private domestic households (approximately 97% of households) who owned televisions, of which, only 28,887 were black-and-white TV users. The first mass marketed television, the Televisor was sold in 1931, so 60 years after its introduction, 3% of households (80,000) still do not own a TV. These are the television laggards and it is doubtful that they are either unaware or cannot afford a television.

Our three passes to the poor approach is outlined on the following page.



### First Pass

*Develop a range of quality, desirable products and viable, non-subsidized supply chains. Market the products and establish demand to last **FOREVER**.*

*Monitor who has taken up the services of the sanitation provider, and search for households who have not. Interview them on their intention to use the services and the reasons preventing use. Design products or a promotional strategy which removes constraints and enables better access.*

### Second pass

*Introduce enhancements which remove the constraints into the existing supply chains. Promote to customers.*

*Monitor uptake of the new initiative. Interview households who still are not interested, not able, or have no intention to use the service. Establish constraints and re-design if possible. Monitor wealth ranking of those excluded and decide if poverty is a major limiting factor.*

### Third pass

*Introduce a smart subsidy approach which enables the poor to access latrines. This should use existing supply channel and not distort the market. Do not confuse people who do not want a latrine with people who want one, but cannot afford one. Eventually **EVERYONE** will have a latrine, although you may have to wait until the obstinate open defecators die before Everyone Forever can be considered to have become established.*

By following this approach, we believe we can stimulate growth and quality in the sanitation market in a long-term, lasting way.

## Conclusion

Catalyzing Sanitation as a Business has been on a steep learning curve with regard to both the integration of its ideas into Water for People programs, targeting technology, attracting entrepreneur interest in the sanitation market, creating effective working relationships with BDS, and establishing reliable financing. There is still much to do before the approach is ready to be rolled out on the ambitious scale Water For People requires. The project is constantly changing, and innovating better ways to work and the time has arrived to undertake the next major change which will involve redefining of the roles and balancing the power relationship between Water For People and their BDS partners.

These changes are currently being discussed internally and with partners and will be the subject of another report when a degree of consensus is achieved and the mechanism more thoroughly evaluated.