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Supporting private entrepreneurs to deliver public goods: Engaging sanitation entrepreneurs

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Despite the inclusion of sanitation in 2002 as part of the MDGs, the global backlog still grows. Current investment is heavily biased in favour of sewerage over non-network forms of sanitation, yet the vast majority of urban dwellers in developing countries actually live with what is (often euphemistically) known as “on-site sanitation”. On-site sanitation is typically seen as a household responsibility; if people want a toilet built or emptied, it is for them to find someone to do it; public agencies working on on-site sanitation are often few and far between. Small-scale providers and sanitation entrepreneurs typically fill this service gap and are very prevalent across the globe. This article reviews how the 'on-site sanitation market' functions and discusses existing roles of sanitation entrepreneurs. It identifies four areas that need exploring in order for the sanitation aspects of the MDGs to become relevant to the urban poor.

On-site sanitation: crucial to households, fundamental to the Millennium Development Goals, but marginalised within the sector

The 2006 UN Human Development Report highlighted that “*much of Sub-Saharan Africa has low coverage by sewerage networks, with less than 10% of the urban population connected*” and cited similar situations in Asia and Latin America. Yet existing sanitation investment is heavily biased in favour of sewerage over non-network forms of sanitation, despite many more people relying on the latter. Recent analysis of the World Bank’s operations confirmed the structural imbalance – less than half of the World Bank water and sanitation budget is spent on sanitation, and 71% of this is spent on sewers and wastewater treatment (Tremolet, 2008). Moreover, the imbalance is as much organisational as financial, with most utilities having sewerage, rather than sanitation, in their titles and mandates.

A frequent impression is that the long-term goal remains sewerage for all. Yet given the existing sanitation backlog, as well as logistical, practical, environmental and financial challenges, many people are starting to question whether waterborne sewerage for all is in fact a feasible goal. Arguably on-site sanitation is and will long remain the de facto ‘solution’ for over 1 billion urban dwellers.

Most ‘sanitation transactions’ take place outside the public sphere...

Perhaps due to its association with rural settings (and the fact that policymakers often enjoy sewer connections), in the majority of developing countries on-site sanitation is seen as a household responsibility. It is typically up to the individual to address their sanitation needs (or if they are renting accommodation - often the case - to persuade their landlord to). Yet in most countries, unlike for those who want and can afford sewerage, there is often no public agency that will assist urban residents with on-site sanitation. If people want a toilet built, it is for them to find someone to do it. If they need it emptied, again, the onus is on them to do it themselves or find someone who can assist. Where public agencies offer these services - or in their stead, NGOs and CBOs - they can rarely keep up with the full demand (or are restricted from serving the whole population, for instance those on land whose ownership is disputed). Consequently there is a veritable army of private, often small and informal, providers that deal with households whose sanitation is on-site. Together they are involved in a diverse range of ‘sanitation transactions’ - paying for a toilet to be

built, buying a sanplat, emptying a full pit toilet - usually with limited involvement and oversight of government (whatever the actual legislation suggests).

... and sanitation entrepreneurs are very prevalent

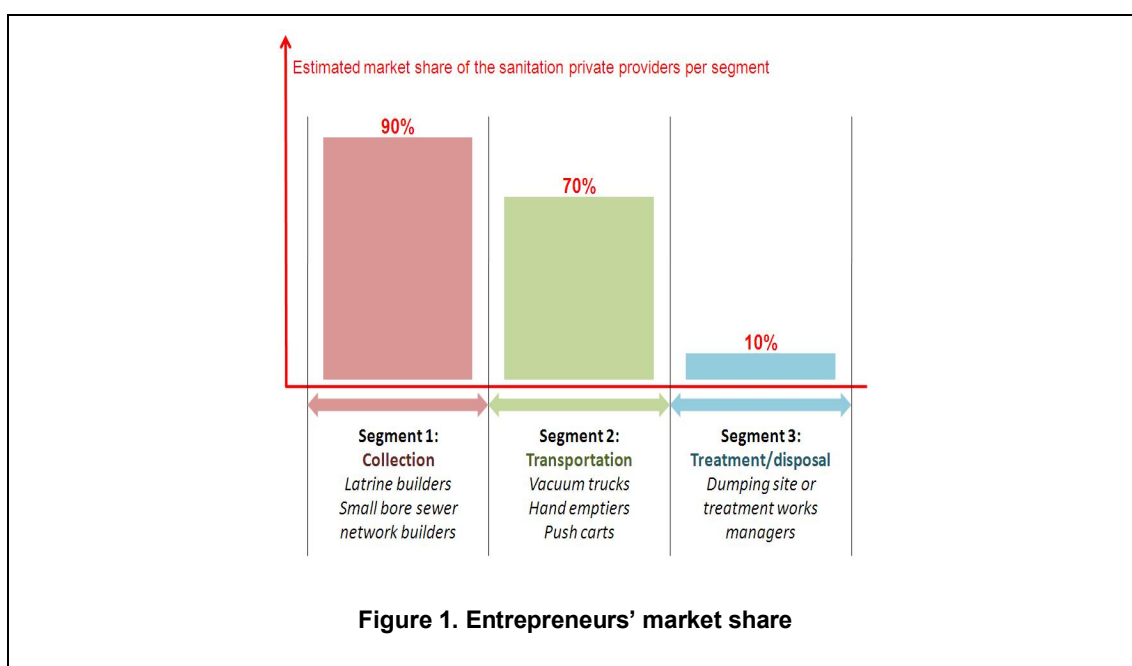
Since the late 1990s there has been a fair degree of discussion of small-scale providers of water. Yet the truth of the matter is that there are many more sanitation entrepreneurs active in the sanitation sector than in the water sector. However, the relatively lower profile of sanitation, and the preponderance of sewerage-focussed utilities, has meant that very little data exists on the individuals, informal business and formal companies who can be considered sanitation entrepreneurs.

BPD and Hydroconseil, in an attempt to deal with this information vacuum, undertook a wide-ranging literature review early in 2008. This confirmed the prevalence of sanitation entrepreneurs worldwide and the tendency, despite their diversity, to lump them all together when it comes to policy debate. The review highlighted that a crucial distinction is between those entrepreneurs that provide sanitation *services* (e.g. build latrines, empty pits) and those that make sanitation *products* (e.g. manufacture plastic toilets, make soap). We focus here on those that provide sanitation *services*.

More than the water market, the market for sanitation services is segmented into sub-markets, each with quite different characteristics, different types of entrepreneurial presence and different relationships to the public sector. Major arenas for sanitation entrepreneurs are in:

1. Toilet and pit construction
2. Sludge removal and transportation (mainly vacuum trucks or manual emptying)
3. Management of treatment works and / or sludge dumping facilities
4. Management of public toilets (usually in urban or peri-urban areas)

The first three of these can be considered separate segments of the 'sanitation chain'. The review, by disaggregating them, reinforced the observation that these markets are quite different from each other, and allowed estimates to be made of market shares across the sanitation chain of the private sector (including informal activity) and public entities. The box below elaborates (note: the management of public toilets is not included).



Given the variety of urban circumstances, combined with the different sanitation sub-markets that exist, the diversity of relationships (and sanitation transactions) is impressive. Providers of services range from the masons that build household latrines to the entrepreneurs that build and run toilet blocks, from manual pit-emptiers to privately-run vacuum trucks. Customers for these services are perhaps even more diverse, from

pay-and-go users of toilet blocks to landlords letting out accommodation, from homemakers making home improvements to tenants emptying a shared latrine. Most sanitation transactions taking place in this context have little direct involvement of public authorities (as seen in Figure 1). Yet when on-site sanitation as a system works well these providers are far from working in isolation. (*Valfrey-Visser and Schaub-Jones, BPD, 2009*)

The challenge for policymakers, at any point along the chain, is knowing where to draw the line between public provision, private initiative and regulation. On one hand the public sector wants to avoid its own service provision crowding out or dissuading useful private initiatives. On the other it wants to encourage the adoption of improved sanitation, regulate unsanitary behaviour that threatens public health and the environment and ensure that a basic human right is actually delivered. A tricky balance needs to be struck and currently the information vacuum surrounding on-site sanitation provision makes this very hard to achieve. For even if we have a reasonable understanding of the providers themselves and how they conduct their business, we do not always have a clear vision of the sanitation market within which they operate. The next section suggests what can be done about this.

Towards a better understanding of how urban sanitation is currently provided

The work to date conducted by BPD and Hydroconseil has highlighted a potentially worrying imbalance. Sanitation entrepreneurs are very prevalent, arguably key actors in ensuring the right to sanitation is achieved, yet there are large gaps in available information. Based on previous experience with sanitation entrepreneurs and cross-sector partnerships, BPD and Hydroconseil have identified the following four areas that need exploring in order for the sanitation aspects of the MDGs to become relevant to the urban poor.

Understanding the true market for urban sanitation – what really happens outside the sewer network? Although literature coverage is scanty, the nature of the sanitation business appears to be reasonably well understood. We know in which niches sanitation entrepreneurs are active and in which they are not. But of the overall urban sanitation market we know surprisingly little. Practitioners can count on a single hand the cities for which we have a reasonable idea of how public and private providers deliver on-site sanitation citywide. Quantitative data in particular is badly needed – research in selected settings (likely to include household surveys and provider interviews) would greatly boost our understanding. Such work would also permit greater understanding of the financial flows involved in urban sanitation, and how the three forces shaping sanitation (the private, public and providers good – see www.bpdws.org for details) truly play out in the urban sanitation market. Sanitation marketing, although a fairly recent development, does contribute in this direction. Unfortunately more attention has been paid to sanitation demand than to sanitation supply (and where supply has been an issue it has arguably been too focussed on developing ‘new’ sanitation solutions, rather than improving existing practices – those that have demonstrated sustainability and already have scale).

Expanding the sanitation market so that the poor actually have access. Advocating for an increased role for entrepreneurs in delivering public services can be contentious. The question of ability to pay comes up, as does the responsibility of the public sector to provide a safety net for those who cannot help themselves. Yet unlike for the water sector, sanitation entrepreneurs are rarely in ‘competition’ with public service providers, given public bodies’ focus on sewerage. Indeed, one of the main challenges for urban sanitation is that a large, and often unknown, proportion of the population are outside the sanitation market entirely (using flying toilets, defecating in the open, or using rainwater to flush their pit toilets into nearby ditches). Such individuals are not even on the bottom rung of the sanitation ladder. A key goal should be to enable these individuals to benefit, as do others, from sanitation transactions that address their needs.

In practice, given the situation depicted in Figure 1 and the emphasis on household responsibility, this means increasing the market share of sanitation entrepreneurs – not at the top end of the income scale, but at the bottom. As it stands, we know very little about the coverage of sanitation entrepreneurs by income bands. The assumption is that sanitation operators do not provide the same level of service to all customers, but tailor their service (with respect to its quality, cost and environmental impact) according to their customers’ capacity-to-pay. Data is practically non-existent, but experience suggests that sanitation entrepreneurs may offer a reasonable service to top three urban quintiles, fare less well with the fourth quintile and very badly on the poorest quintile. Yet very few, if any, studies have actually looked at this.

If getting households onto the sanitation ladder is a priority for the public sector and donors (as arguably it must be), should we be asking how we can encourage sanitation entrepreneurs to expand their activities down the income curve, moving gradually towards a form of “universal service”? Financial assistance from

outside may well be needed, and while such engagement is likely to be far from straightforward, it is perhaps the best way of building on existing assets and proven delivery mechanisms.

Turning narrower private goods into broader public goods – how can the public sector harness sanitation entrepreneurs? Left to their own devices, households and providers will tend to focus on their own needs and much of the public good – environmental protection and health promotion - will likely go unattained. Above we suggest that the public sector should be harnessing existing, private, sanitation transactions - and encouraging new ones - in order to deliver these otherwise elusive public goods. Yet we have little idea of how this can be done in practice and at meaningful scale. For on-site sanitation, what role can the public sector and others play in piggybacking public health objectives onto entrepreneurial activities (for instance, getting latrine builders to also offer rudimentary health education)? What role can the public sector play in channeling demand to private entrepreneurs and otherwise strengthening their business model? If support to sanitation entrepreneurs is to become a reality, it would be of enormous value to know more about how this has been done elsewhere within the sanitation sector, as well as in other sectors, such as the solid waste, health or telecommunications sectors, all of which have deeper experience in turning private initiative into public benefits.

If dialogue is helpful, who will be doing the talking? No-one is claiming that engaging sanitation entrepreneurs will be easy. There are a lot of them, they are active at many different parts of the sanitation chain, they have diverse goals and respond to different incentives. Many are not a ‘formal business’ per se. Existing legislative and regulatory frameworks too often assume sanitation means sewerage, or are silent on the matter. A crucial part of any engagement are those that act as interlocutors – quasi-spokespeople – for their sector. For on-site sanitation we must ask who can bring on board the informal private sector, or for that matter who will act as a gateway to households and the public sector on the issue?

The role of professional associations in the sanitation sector could do with a second glance, separate from the water sector (as in Collignon & Vezina, 2000). How do such institutions function, what is their impact (negative or positive) on the prices and the quality of service? How do they see the development of their market and to what extent are they keen on engaging in a constructive relationship with public authorities? Yet engagement requires dialogue, not monologue – who are we realistically talking about as interlocutors on the public sector and community sides? How can others best identify, work with and support them?

To conclude

More than in the water sector, entrepreneurs are active in the sanitation sector, providing a valuable service to many millions of households worldwide. This relationship is largely in the private sphere, and justifiably so. Yet with the public health and environmental consequences of both good and bad sanitation, there is also a strong argument for the public sector to play a more strategic role than it does currently. Given the prevalence of sanitation entrepreneurs and their vital importance, particularly to medium- and lower-income communities, if the sanitation MDG is to be met, arguably it can only be done through intelligent engagement with them and with their customers.

We therefore argue for more enlightened engagement of these entrepreneurs and their customers from the public sector, donors and NGOs. Yet the field is extremely diverse, with different types of providers active (with different types of customers) throughout the sanitation chain. To be relevant, engagement strategies must not only account for this, but also be aware of how the different segments in the on-site sanitation chain link up – on-site sanitation works best (and delivers on public goods) when the system as a whole links together well.

Yet the knowledge base badly needs updating and expanding. We have a reasonable understanding of the niches in which sanitation entrepreneurs work. Sanitation professionals need to build upon this to generate wider knowledge of how the sanitation market works city-wide. We also have a responsibility to learn from how other sectors have dealt with similar challenges. This will allow more informed discussion of tangible steps that can be taken to support entrepreneurs, improve their services and expand it amongst poorer households.

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