WSUP
Water & Sanitation for the Urban Poor

PRACTICE NOTE

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Achieving sustainability: guiding entrepreneurs to independence

water for people

Supporting entrepreneurs to start up viable sanitation businesses can be relatively straightforward. However, challenges typically arise in the transition from donor-supported start-up to true independence. This note looks at the obstacles that need to be overcome in growing start-up businesses to become fully self-sustaining, and discusses how progress can be made.

Context

A transformation is underway in the provision of water and sanitation services - away from unsustainable donor-led approaches and towards business-driven models. Water For People's Sanitation as a Business (SAAB) programme in Malawi, Rwanda and Uganda has been working through local Business Development Service (BDS) companies, helping entrepreneurs to take advantage of existing sanitation opportunities. WSUP's work in this area includes technical assistance to small private water network operators in Kenya, and to household pit-emptiers in Mozambique. The sustainability challenge is to support these small businesses to a point where they become donor-independent, expanding through their own investment and enabling external agencies to withdraw.

Paulinho Uaiene expanded his business into pit-emptying

What are the barriers to expansion?

Start-up entrepreneurs face diverse practical and financial barriers to expanding their business. Taking pit-emptying as an example: an entrepreneur may identify a large market of potential customers, but then find it difficult to hire a truck to transport waste to the dumping site, while at the same time truck purchase is too costly. If the work is seen as dirty and low-paid, they may struggle to engage staff. They are liable to face supply chain problems when buying equipment or materials in bulk, and accessing bank finance for expansion can be very challenging when banks consider the business case unproven. Faced with multiple frustrations, the entrepreneur 'loses heart' and either drops out of the sanitation business altogether, or goes back to less desirable ways of working – for example, by pursuing higher margins and keeping costs low by dumping waste illegally. The result is increased cost to low-income customers and unacceptable health impacts.

Breaking through the barrier: stimulating FSM services in Maputo

Until recently, no safe emptying and transport services for faecal sludge were available to the low-income communities of Maputo. To address this issue, WSUP worked closely with Paulino Uaiene, an entrepreneur providing solid waste collection services through his small enterprise UGSM. With the aid of a Professional Services Agreement (PSA) with WSUP, the enterprise has successfully expanded into household pit-emptying, and established a strong relationship with the Municipal Council. A transfer station for sludge disposal is under construction, set to reduce UGSM's transport costs and therefore the price of the service for its low-income customer base. In assessing the potential of UGSM's business model for replication, it is critical that accurate records of revenues and costs are maintained - to this end WSUP is providing training for a Junior Manager to help with UGSM's accounting.

How can we help small businesses expand?

Solutions: mobilising finance to entrepreneurs

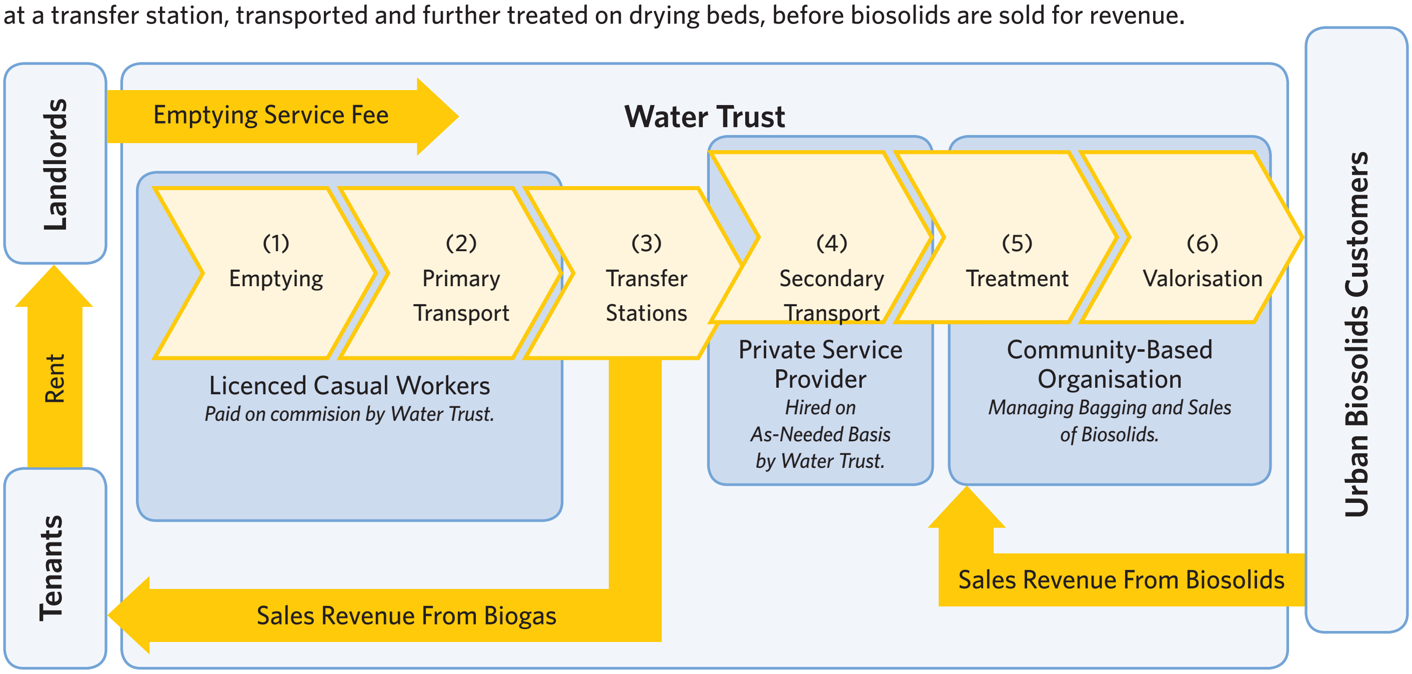
WSUP's support to UGSM began with a one-off no interest loan for equipment and training. But where the main barrier to expansion is financial, it is essential to identify sustainable sources of local loan financing, so that entrepreneurs can move away from reliance on donor funding. This may involve setting up micro-finance options such as micro-credit or micro-insurance schemes. TEECS, a BDS in Malawi, is investing its own money as leverage for further private sector investment in a microfinance scheme, so that it can provide loan financing to households to build aspirational latrines.

Solutions: getting statutory providers on board

To further reduce costs for growing businesses, it is vital to seek local government or utility buy-in. In the case of private water provision for example, this can be done by demonstrating to the utility that licensing private operators will reduce non-revenue water. In Naivasha (Kenya) and Maputo (Mozambique), WSUP and its partners have introduced systems of delegated management for local water services: contractual agreements between the public water utility and private operators ensure sufficient profitability for sustainable asset maintenance, as well as better quality services for consumers.

Solutions: building new markets

Innovative business models can provide opportunities for entrepreneurs to partner with community organisations and utilities, helping them to diversify their services. In Lusaka (Zambia), 10 community-based Water Trusts are delegated by the Lusaka Water and Sewerage Corporation (LWSC) to manage water services. In a WSUP-supported pilot (see schematic below), this responsibility has been extended to FSM. Faecal sludge is collected from household pit latrines, anaerobically treated at a transfer station, transported and further treated on drying beds, before biosolids are sold for revenue.



Solutions: achieving strength in numbers

A final instrument in strengthening both individual entrepreneurs and the wider market is the principle of collectivity. A formal association of entrepreneurs working in the same sector can help stabilise and grow new businesses without recourse to external intervention. In West Bengal, Water For People has established and trained an agile network of handpump mechanics called Jalabandhus ('friends of water'): private entrepreneurs who are contracted and paid directly by the community for repairs. An association improves the perceived status of that business sector, increases negotiating power, promotes shared capacity building, and improves access to finance, by reassuring external lenders and acting as a repository for revolving loan funds.

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