

USAID Transform WASH

Public-Private Collaboration in Sanitation Markets - Global Scan and Potential for Ethiopia



Learning Note, October 2017



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About USAID Transform WASH

USAID Transform WASH aims to improve water, sanitation and hygiene (WASH) outcomes in Ethiopia by increasing access to and sustained use of affordable, quality WASH products and services, with a substantial focus on sanitation.

It does so by transforming the market for WASH: stimulating demand at the community level, strengthening supply chains and building the enabling environment for a vibrant private market.

USAID Transform WASH is a USAID-funded project implemented by PSI in collaboration with SNV, Plan International, and IRC. The consortium is working closely with government agencies - including the Ministry of Health, the Ministry of Water, Irrigation and Electricity, the National WASH Coordination Office and sub-national governments.

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This learning note summarizes a study commissioned to map examples of public-private collaboration in consumer sanitation markets from around the world. The aim of the study was to identify lessons learned and provide a framework for understanding public-private collaboration, which can be used to consider potential strategies and activities that facilitate growth of sanitation markets.

The full document is available at www.ircwash.org

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What we mean by public-private collaboration

Public-private partnerships (PPP) can be defined (among other definitions) as “a long term contract between a private party and government entity, for providing a public asset or service, in which the private party bears significant risk and management responsibility, and remuneration is linked to performance”¹.

This learning note focuses on a broader model in which public and private sector actors directly or indirectly collaborate in establishing, strengthening or scaling up sanitation businesses to market sanitation goods and services to households.

Public-private collaboration in this context aims to promote sustainable development, production and distribution through commercially viable and accountable business models.



1. Sanitation and private sector engagement in Ethiopia?

Open defecation has decreased sharply in Ethiopia, but is still common (32 percent) in rural areas. While more than 60 percent of the rural population has access to a latrine, most latrines lack strong slab platforms, have foul odors, and are poorly maintained. Less than five percent of households have an improved latrineⁱⁱ.

Globally, private investors and business operators are increasingly able to manage sanitation market risks. In most countries, nearly all toilets are constructed by private providers. However, there are few examples in Ethiopia of public-private collaboration to accelerate uptake of sanitation-related consumer goods and services.

Public-private partnerships are not as developed in WASH as in other sectors. The public sector is still largely the financier, owner and operator, while the private sector is contracted for specific services. Informal artisans and small-scale operators play important roles, often outside of legal and regulatory mechanisms. Banks and MFIs channel funds, particularly for community-managed projects.

Private sector engagement in WASH is central to the National Sanitation Marketing Guideline, but the potential of collaboration for stimulating market growth is not sufficiently realized to meet sanitation-related SDG targets.

Private sector engagement in small towns and rural areas in Ethiopia

Water supply

Woreda water offices hire private contractors to build water supply facilities, but schemes are managed by community WASHCOs. In small towns the private sector designs and builds water systems and supplies materials but does not play a role in operating these schemes.

Sanitation and hygiene

A viable PPP model has been developed for solid waste management; the public sector operates dumping sites and the private sector undertakes collection. Primary collection from households is undertaken by micro and small enterprises. For secondary collection (transporting waste to the disposal site), the private sector focuses on households and the public sector on institutions.

No PPP arrangements exist for rural sanitation. The public sector raises awareness and stimulates demand while private entrepreneurs produce and sell products and local artisans build latrines. The market is limited by low demand, lack of household finance, a weak enabling environment and poorly established supply chains.

The Health Extension Program promotes household level water treatment. Supply is driven primarily by NGOs. Pharmacies sell water purification tablets in towns. The National WASH inventory (2011) found only 9percent of households using a household water treatment option.

2. What can we learn from other countries?

The global scan identified more than 50 examplesⁱⁱⁱ of public-private sanitation collaboration in 11 countries. They included the following:

Sanitation fairs promote products, Peru

Regional governments sponsored sanitation fairs for local entrepreneurs to exhibit sanitation products and services for low-income families. Related visits by promoters to families however, did not greatly increase household investments in water and sanitation. It was difficult for businesses that pay taxes and obey labor laws, to compete with the informal sector where households may purchase materials directly and hire local masons to construct toilets.

Public sector as client, Rwanda

The public Vision 2020 program in Rwanda is constructing toilets for very poor households, while trying to avoid disrupting markets. Those entitled to free toilets are identified by their own communities based on clear selection criteria. This increases legitimacy and limits the extent to which subsidized toilets distort the market. This supports the poorest families but allows the market to meet the needs of the population that has the capacity to purchase a toilet.

Business friendly costing, Malawi

Fees at the Blantyre centralized treatment plant were so high that private operators were unable to charge affordable prices to empty latrine pits and remain profitable. The Blantyre city authority cut the fee for dumping fecal waste by two thirds allowing businesses to cut their own prices. The move had a double benefit. It made the service affordable and decreased the appeal of unsafe dumping in the open.

Public-private dialogue, Bolivia/Malawi

In Bolivia, a private consultancy firm has created a sanitation platform that provides space for dialogue and joint activities by businesses, government representatives, universities, marketing agencies and clients. The platform allows parties to build common ground, detect problems early, establish partnerships, and share activities, increasing the likelihood of a sustainable sanitation market.

In Malawi, government representatives participate in quarterly review meetings with sanitation entrepreneurs to promote environmentally responsible practices, such as sludge dumping in designated areas, and to provide guidance and capacity strengthening for entrepreneurs

Public-private contract, India

Pune Municipal Corporation (PMC) made a PPP contract with Samagra Empowerment Foundation to manage community toilets. PMC is in charge of major repairs, water, electricity, garbage collection, and sewerage connection. Samagra is responsible for operation and maintenance and user fees. Samagra reported significant increases in toilet use.

Increase purchasing power, Nicaragua

In Nicaragua, local governments can provide households with a discount on local sanitation products paid directly to suppliers, rather than offering free latrines that households do not want. This increases household purchasing power by combining the discount with their own resources, and increases the sanitation business customer base. It allows the government to reallocate funds that would have been spent replacing broken latrines because of neglect by users who did not want them.

3. A framework to understand public-private collaboration

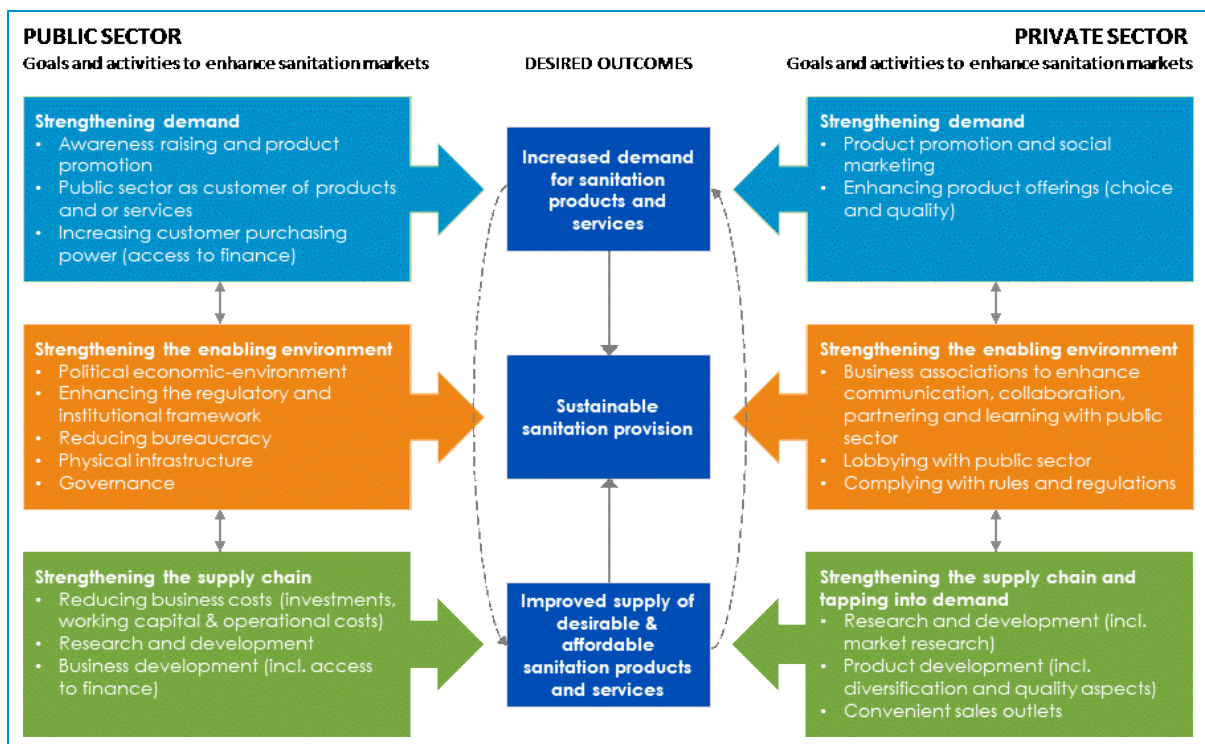
The framework for understanding public-private collaboration in sanitation markets is designed to focus on how both sectors can combine around three goals that can be found in Ethiopia's sanitation marketing guidelines: *strengthening demand, strengthening the enabling environment, and strengthening the supply chain.*

The framework shown in Figure 1 is adapted from a report by Water for People (2016), based on country experiences of how the public sector can influence sanitation markets. As the USAID Transform WASH project follows a similar theory of market change and seeks to encourage public and private sector

actors to interact and engage with each other, our adapted version of the framework includes both the public and private sector domains and illustrates where they can collaborate.

The framework can be used to identify current strengths and weaknesses as well as areas or opportunities for the public and private sectors to collaborate. It shows that in both sectors there are matching actions and approaches that will strengthen demand, the enabling environment and the supply chain so long as both sides of the equation take the action.

Figure 1: Framework for public-private collaboration

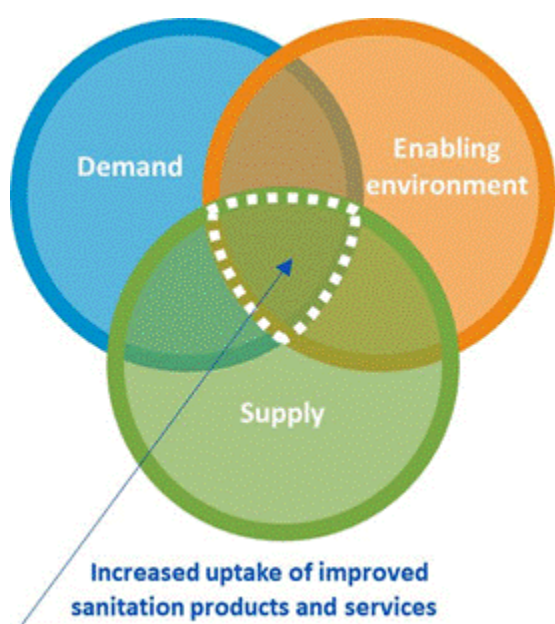


Adapted from Water for People: (2016)

Figure 2 illustrates that there can only be a significant increased uptake of improved sanitation products and services when demand, supply and enabling

environment are in alignment. To better understand the framework these elements are defined as follows:

Figure 2: Demand, supply chain elements, and enabling environment



Sanitation demand: The consumer's need or desire to own an (improved) sanitation product or experience a related service, at household or institutional WASH level (e.g. schools or health facilities).

Sanitation supply chain: Includes wholesale and retail sales of raw materials, design and manufacture of products, installation, operation and maintenance of latrines, desludging services, and associated financing arrangements.

Enabling environment: The role of the political economy, institutional and regulatory framework, bureaucracy, infrastructure, and governance in facilitating or hindering enterprises, to start up and run viable businesses.

Why people invest (or not) in sanitation?

Pride, dignity and self-worth, Kenya

A consumer study carried out by the Selling Sanitation initiative in rural Kenya asked people why they want to invest in sanitation facilities (shelters, slabs, pits). The main reasons for wanting to own a toilet included feelings of pride and a sense of dignity and self-worth. Not owning a latrine is something to be ashamed of. People said that it makes daily life easier and more convenient, and increases safety and privacy^{iv}.

Buying convenience and safety, Ghana

A study on behavioral indicators in Ghana revealed that the most common reasons for installing a household toilet were to provide safe sanitation for sick or older relatives at night, convenience and easier cleaning. The study underlined how important it is for businesses to understand their customers and adjust products and services to match what people want^v.

Mobile phones outsell toilets, Bangladesh

A study in Bangladesh revealed that many households spend far less on sanitation products than on consumer durables, such as mobile phones. 100 percent of poor families living on USD62-122 a month had at least one mobile phone, as did a third of extremely poor household living on less than USD62 a month. The study claims that aver annual outlay on phones amounted to nearly twice the cost of a standard improved latrine or toilet^{vi}.

4. What are the challenges and opportunities in Ethiopia?

Some key challenges and opportunities for public-private collaboration in Ethiopia are discussed below, occurring across the three areas of the framework - strengthening demand, strengthening the enabling environment, and strengthening the supply chain.

Strengthening demand

Three main intervention areas for the public sector are highlighted in the framework to strengthen demand:

- Raise awareness and promote products
- Act as a client for products and services, and
- Increase client purchasing power

At the same time, private sector actors can:

- Promote products through marketing, and
- Enhance product offerings

Public going public

Well-designed and executed awareness campaigns can motivate communities and individuals to change behavior. Health Extension Workers (HEW) and the Health Development Army are key players in raising awareness and delivering additional sanitation and hygiene messages at grassroots to communities, households and individuals.

The Ministry of Health with the support of the World Bank is expected to launch new awareness raising and behavior change communication materials soon. In local languages, and with a focus on improved sanitation, these will provide fresh impetus for public awareness-raising campaigns.

HEWs, however, lack clarity on their role in facilitating private sector development, and need specific guidance on how best to promote improved sanitation products and services and link interested households to local businesses.

Priming the market

The public sector can facilitate opportunities for the private sector by displaying their latest models and innovations at strategic locations such as schools and health facilities that also need improved sanitation. Through direct purchasing of products and services, the public sector can prime the market. However, it needs to be careful not to distort the local market through its actions.

Putting money in pockets

Public authorities sometimes organize neighborhood groups to help the poorest families build toilets but there is no financial support for other families.

Government schemes such as the Productive Safety Net Program put money in rural pockets through food for work activities. The government can increase spending power such as improving access to consumer finance in other ways.

Sanitation is often not the top priority for households with little disposable income. Easier access to finance and flexible payment schemes helps to spread the high upfront costs. Sanitation products that allow for incremental improvements to higher service levels over time also make sanitation more accessible to poorer households.

Although some products have been piloted, Ethiopian Micro-Finance Institutions (MFIs) (both public and private), generally lack sanitation loan products. Easy accessible and more flexible financing schemes could provide opportunities for households to move onto and up the sanitation ladder. MFIs should be encouraged by government and supported by development partners to develop specific sanitation related credit schemes or loan products. SACCOs, Village Savings and Loan Associations and

self-help groups are alternative sources of finance.

Meeting the demand

Large and heavy concrete slabs have been the product of choice to date for many new sanitation marketing businesses. However, these are difficult to transport and profit margins (often set by others) are generally too low to make it an attractive business proposition.

New products, from simple lids and handwashing devices, to plastic inserts with or without a water seal like the Sato-Pan, and lightweight plastic slabs could generate new markets and sales. There are also market opportunities for complementary products like sanitary pads for women and girls. Private sector driven product innovation is receiving interest from development partners and needs government support. However, large-scale free distribution of products during emergencies hinders development of markets for new products.

Selling the goods

Product promotion is primarily the responsibility of the private sector. Local sanitation entrepreneurs should actively market products and services as an integral part of their business marketing strategy, so that customers make the right purchasing decisions and invest in the installation, operation and maintenance of improved facilities. Village- and incentive-based sales agents can become an extension of sanitation businesses.

Strengthening the enabling environment

Two main intervention areas for the public sector are highlighted in the framework to strengthen the enabling environment:

- Regulate the sector, and
- Enhance organizations and minimise bureaucracy

Private sector actors can:

- Set up membership associations, and
- Collaborate and learn actively with local authorities

Guiding sanitation marketing initiatives

Partnerships are mentioned in many policy and development documents. The 2013 industrial development strategic plan states: "the private sector is the engine of the industrial development strategy". The Growth and Transformation Plan 2 of 2016 acknowledges the importance of the private sector for SDG implementation and states that private sector associations will be strengthened.

The 2017 National Sanitation and Hygiene Strategy focuses on behavioral change. It identifies a private sector role in solid and liquid waste management, sanitation product production, and in recycling industries. It says that the public sector can address bottlenecks that hinder the engagement of the private sector in the sanitation chain, create an enabling environment for the private sector and support businesses in accessing finance.

The OWNPN recognizes the role of the private sector in implementation and the role of the banks and MFIs in providing financial services. OWNPN has identified a need to increase private sector capacity in consultancy, construction and supply of goods and services.

National Sanitation Marketing Guidelines were launched in February 2014. The guidelines are being rolled out by the Ministry of Health with support from its development partners. A new latrine technology manual is forthcoming.

Organizing the system

Significant government support for sanitation comes from the Ministry of Health through the Health Extension Program and from the Federal Urban Job Creation and Food Security Agency, which includes in its brief the need to support and coordinate institutions

assisting micro enterprises and small enterprises. The MoH has a leading mandate to introduce and support sanitation marketing initiatives.

Private sector entrepreneurs voice concerns about excessive bureaucracy and delays^{vii}. More than a quarter of firms in Ethiopia identify corruption as a major constraint: more than half believe they need to give gifts to get construction permits. Poor infrastructure (roads, electricity, and telecommunications) causes enormous constraints on business interested to expand into rural areas.

As the National Sanitation Marketing Guidelines are rolled out, federal and regional staff of the MoH, supported by development partners, should play an active role in strengthening the capacity of public and private sector actors at regional and woreda levels to support local sanitation marketing initiatives.

Regulating supply and suppliers

Government should regulate and where necessary provide licenses to private businesses engaged in the sanitation supply chain. They should also provide reasonable construction standards, develop technical guidelines, and monitor compliance. It is the responsibility of businesses to obtain a business license and comply with (local) guidelines and standards.

Local authorities should actively support strategies and interventions that enable local businesses to produce and sell sanitation related products and services.

Together we stand stronger

Rural sanitation entrepreneurs are often too small to be able interact on an equal footing with local authorities. Programs that support local sanitation businesses should therefore consider bringing these businesses together by supporting the formation of formal or informal associations.

Such associations will greatly enhance opportunities to lobby and collaborate with local authorities and could become valid partners in local coordination and learning mechanisms. Associations can play a role in setting, enforcing and complying with quality standards.

Strengthening the supply chain

Two main intervention areas for the public sector are highlighted in the framework to strengthen the supply chain:

- Reduce business costs, including research and development, and
- Support business development, including access to finance

Private sector businesses can:

- Conduct market research to influence product development
- Increase availability and accessibility of products and services

Reducing costs to enhance sustainability

A lack of commercially viable business models poses a threat to long-term sustainable access to supply chains. Businesses must be able to control costs and generate sufficient income. Few enterprises specialize in sanitation products and services and many would benefit from training. The government should be extremely cautious and careful in setting up new businesses that lack product range and business skills.

The government can explore options to stimulate research undertaken by the private sector to develop innovative and affordable products and services with consumer appeal. This can be done for example through patents, contracts, grants or support for the collection and dissemination of market intelligence.

Supporting growth

The government should consider enhancing business support services, for example by integrating business advisory services into existing licensing processes or establishing and supporting business

incubation centers (BICs). Simplifying certification and accreditation processes would strengthen sanitation businesses operating in the formal sector and assure customers about the quality of products and services.

Limited access to finance is a major obstacle to sanitation businesses in rural areas of Ethiopia. Imports are highly taxed while banks demand collateral for loans. The Government should consider facilitating easier access to finance for sanitation businesses, by expanding the portfolio (scope) and capacities of (micro) finance institutions.

Diversifying to increase market share

As long as we continue to think that a crudely produced concrete slab with a hole in the middle is the preferred product every rural household desires to acquire, then we have a problem.

Product development should be based on a much better understanding of consumer preferences including ability and willingness to pay. Consumers should be seen as individuals with different preferences and purchasing powers.

Location, location, location

Sanitation products and services are often not available or relatively expensive in the rural areas. Most businesses are located in urban areas or larger rural towns where a certain amount of demand is guaranteed. The costs associated with transporting relatively bulky and heavy concrete products to their final destination makes it impossible for a majority of the rural households to acquire these products.

Unless businesses move out of their urban comfort zones and set up branches in areas that are more rural, demand for improved sanitation products and services cannot be expected to increase rapidly.

Abbreviations

BICs	Business Incubation Centers
HEW	Health Extension Worker
MFI	Microfinance institution
MoH	Ministry of Health
OWNP	One WASH National Program

PMC	Pune Municipal Corporation
PPC	Public-Private Collaboration
PPP	Public-Private Partnership
SDG	Sustainable Development Goals
WASH	Water Sanitation and Hygiene
WASH Cos	WASH Committees

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- i Public-Private Partnership in Infrastructure Resource Centre (PPPIRC). The definition for PPP can be found at <http://ppp.worldbank.org/public-private-partnership/overview/what-are-public-private-partnerships>
 - ii WHO and UNICEF (2017) *Progress on Drinking Water, Sanitation and Hygiene: 2017 Update and SDG Baselines*. Geneva
 - iii Water for People *Strengthening public sector enabling environments to support sanitation enterprises: based on Water for People's experience in nine countries*. Guidance Manual. United States: 2016
 - iv IFC, WSP and MOPHS. (2012). *Selling Sanitation: consumer insights*. IFC & WSP/World Bank.

- v Jenkins, M. W., & Scott, B. (2007). *Behavioral indicators of household decision-making and demand for sanitation and potential gains from social marketing in Ghana*. *Social Science & Medicine*, 64(12), 2427–2442. <http://doi.org/10.1016/j.socscimed.2007.03.010>
- vi Jemima, S., Warner, R., & Jamieson, J. (2014). *Tapping the Markets: Opportunities for Domestic Investments in Water and Sanitation for the Poor*. Directions in Development. Washington DC: World Bank. <http://doi.org/10.1596/978-1-4648-0134-1>
- vii Defere, E. (2015). *Private Sector Landscape for WASH in Ethiopia: Bottlenecks and opportunities*. *OneWASH Plus Programme Report*. The Hague: IRC