



Photo credit: WaterAid/Jerry Galea

WASH Market Facilitation

Learning Brief from research into effectiveness of WASH approaches and innovations in the Civil Society WASH Fund

The Civil Society Water, Sanitation, and Hygiene (CS WASH) Fund is a five-year programme supported by the Australian government with the objective of enhancing the health and quality of life of the poor and vulnerable by improving sustainable access to safe water, sanitation and hygiene. Between 2013 and mid-2018, the Fund will have supported 13 Australian and international Civil Society Organisations (CSOs) to deliver 29 WASH projects with an investment of AUD103 million across 19 countries. The Fund is expected to provide direct benefits to 3.5 million people and indirect benefits to over 10 million.

Toward the end of 2017 the CS WASH Fund commissioned a team from Aguaconsult UK to conduct in-depth research of CSO interventions in four cross-cutting areas: i. WASH policy influencing; ii. Gender and social inclusion (GESI); iii. WASH market facilitation; and iv. Innovation integration and uptake. The researchers worked with Fund managers to prioritise the CSO interventions by focusing on those which have displayed promising approaches in these themes. Working together, they prioritised 23 CSO interventions, with 43 different unique interventions across the four themes. This Learning Brief presents the key findings from the research in the area of WASH market facilitation.¹

1. The full research report can be downloaded at www.cswashfund.org/shared-resources/tools

HIGHLIGHTS

WASH MARKET FACILITATION

- CSOs included in the study developed WASH markets in Bangladesh, Cambodia, Vanuatu, Pakistan, Indonesia, Vietnam, Laos, Timor Leste, and Zimbabwe representing a wide range of market maturity, size and priorities.
- Supportive government leadership combined with existing and interested entrepreneurs are essential elements of effective market-based approaches.
- Few market-based projects were guided from the outset by professional market analyses, yet most encountered common barriers that market analyses would detect: reaching those most in need, limited availability of capital, and lack of product suppliers.
- Market formation can be initiated by reaching those in need, but not in the lowest socio-economic quintile who generally require some form of 'smart subsidy'.
- By acquiring in-house business development skills, CSOs can play central roles in responsive product design, comprehensive business planning and entrepreneurial support.



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Establishing the Market Opportunity



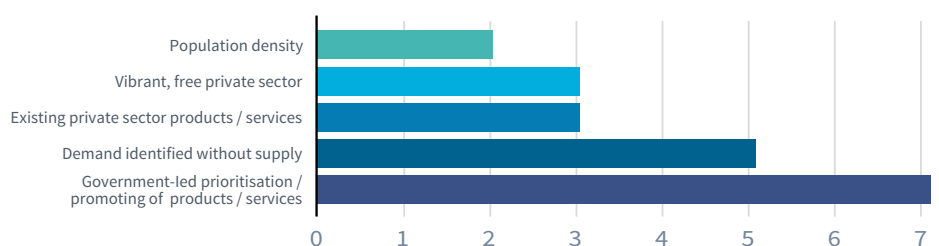
provision of a specific product or service. Market entry sometimes included analytical activities. At other times, CSOs developed market understanding from experience and observation. As illustrated in Figure 1, the most cited condition conducive to application of a market-based approach was the existence of a government-led initiative that created opportunities for markets and involvement of the private sector. These most commonly took the form of a national strategy or policy, a national program that mandated a Community-led Total Sanitation (CLTS) approach, or a time bound goal of achieving Open-defecation Free (ODF) status across the country. Consistent with this was the second highest cited positive condition where a national environment and/or local initiatives supportive of improved sanitation stimulated a demand for household purchase of facilities, products or services before supply chains were fully in place for private sector provision. This stimulation of demand created incentives for entrepreneurs to enter and develop the market.

This research also identified the three most frequently cited barriers to market creation: (1) difficulty reaching those most in need of services, (2) limited availability of capital for purchase or market entry, and (3) the absence of existing suppliers of products and services. Two CSOs, Habitat for Humanity Bangladesh and iDE Cambodia, went some way to overcome these barriers by initiating purchase uptake in the well-off and less well-off population segments thereby stimulating demand and the engagement of suppliers. These common barriers reinforce the importance of characterising gaps in market operation.

The 11 CSO projects studied as part of this research were implemented in widely varying contexts and worked to facilitate WASH markets focused on sanitation products and services. The most important condition conducive to market creation was the existence of a government-led national program that prioritised community sanitation and private sector engagement. The three most frequently cited barriers to market creation were reaching those most in need of services, limited availability of capital for purchase or market entry, and the absence of existing suppliers of products and services.

In the projects studied, market opportunities were analysed and understood in a variety of ways. Some CSOs began by systematically diagnosing operations across the whole market; others by identifying a particular challenge that could be met through private sector

Figure 1: Conditions identified as conducive to market creation



Identifying gaps in market operations

Despite the need for a comprehensive and upfront analysis of any potential market, less than one third of CSOs conducted rigorous market analysis in advance of market interventions. Most CSOs did no market analysis to guide interventions. Although communication technologies, social media and technology penetration are increasingly prevalent, there was little indication that the CSOs invested in analysing or optimising channels by which customers obtain market information.

Figure 2: Conventional communication for product promotion



Credit: Plan Indonesia

Although most CSOs did no market analysis to guide interventions, the few that did gained a useful understanding of market operations. Rigorous analysis was a feature of Plan's work in both Indonesia and Vietnam where professionals experienced in market analysis were engaged. The work of iDE Cambodia should also be noted in that although they did not report conducting a rigorous market analysis at a single point in time, their organisational focus and duration of in-country operations provided them with a deep understanding of local market operations.

The research found that CSOs generally had not clearly articulated potential customers for their market-based initiatives or the optimal ways to reach them with marketing materials or channels. It is unclear if this indicates a casual approach to beneficiaries and structuring a market response targeting them, or if the CSOs had an implicit understanding of the intended market customers. In either case, it highlights a gap in CSO interventions in examining market actors and operations. Further, there was little indication that CSOs invested in analysing or optimising channels by which customers obtain information on products and services that may be available through a marketplace. Most CSOs accessed conventional communication channels (e.g. posters, calendars, flyers or billboards, community meetings, newspaper and radio) without analysis of their reach to target customers. Only one example of web-based communication was identified as a marketing tool for toilet bowl entrepreneurs supported by Plan in Indonesia (see Figure 3).

Figure 3: Size doesn't matter: small sanitation markets in Indonesia



Plan International worked with Tyas Wotan, a local government sanitarian in Kupang, East Nusa Tenggara Province, Indonesia, to help him establish a business as a toilet bowl entrepreneur. His market is small but profitable. With a 115% margin and sales of 600 bowls in 2017, he generated US\$1,700 in profit. He advertises on Facebook!

Photo credit: Christopher McGahey

In the market-based programs studied, there was a heavy emphasis on products (e.g. toilet bowls, latrine structures) over services (e.g. latrine emptying, sludge management). This emphasis is logical given the pressing numeric targets for access (left over from measuring progress against the Millennium Development Goals) but will need to change as the Sustainable Development Goals drive programs to address issues of system service delivery and safe management.

Creating a Bankable Business Plan

Basic business planning – either for the CSO or for its market partners – is fundamental to identifying the assistance required to become profit-making WASH enterprises. Typically, this information was not available to the researchers from the CSOs. Only three could provide commercial details of market operations; a similarly limited number developed branding or marketing approaches in support of their operations. CSOs recognise the need for external resources to support market operations.

Learning questions used in the research related to cost structures and revenue streams of market actors and illuminated a significant flaw in market-based programming, in that most CSO projects lacked documentation of fundamental aspects of business operations. Only iDE Cambodia was able to provide a detailed and realistic cost structures for its business operations, reflecting its sophisticated in-house skills in financial planning for profit-making entities. Three CSOs (iDE Cambodia, Australian Red Cross Bangladesh and Live & Learn Vanuatu) provided specific descriptions of sources and values of revenue for commercial operations. Other respondents provided only anecdotal references to profitability. Others emphasised the importance of social motivations as opposed to profitability. Irrespective of the details behind the responses, it is clear that the majority of market-based programmes in the CS WASH Fund portfolio did not have a way to quantify success or failure of market actors.

Consistent with the observed general weakness in business planning is the finding that only a limited number of CSOs developed branding and/or marketing plans under the Fund. The only CSO that generated branding for a product under the CS WASH Funding cycle was Live & Learn in Vanuatu (Fig. 4). iDE Cambodia had established branding for a variety of WASH products before the Funding cycle began. Plan Pakistan developed a marketing plan for affiliated latrine construction businesses to ensure their viability after each household owned a latrine. They supported business' provision of an expanded line of products and services for personal and household hygiene. Plan Indonesia accomplished the same goal by facilitating the formation of sanitation entrepreneur associations that provide broader reach for market actors to maintain business after the local market for household latrines becomes saturated.

During implementation, CSOs appeared to realise that no single entrepreneur, market actor or external facilitator can provide all

Figure 4: Live & Learn's WASH product branding logo



Photo credit: Live & Learn Vanuatu

of the resources necessary for market functionality or to bring a specific product to market. This is clearly demonstrated by the wide-ranging responses seen in Figure 5. These strongly illustrate the need for those entering, facilitating or funding a market-based approach to understand the resource needs and availability for full operation of the market and the costs of incorporating each.

Figure 5: Conditions identified as conducive to market creation

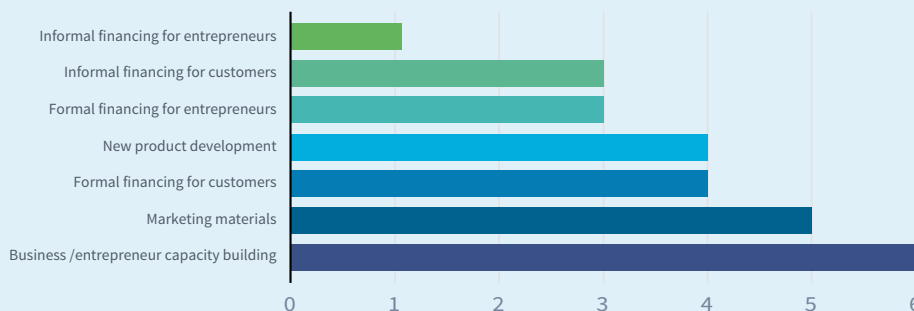


Photo credit: Thrive Cambodia

Facilitating a Market

There is consistent evidence from CSO efforts that market interventions take many years to be established; this implies realistic expectations of how fast and how far markets can mature and achieve scale within the limits of a programme funding cycle. Several different market pathways and levels of scale were identified across the Fund, from local, to sub-national to truly national. Irrespective of pathway, the majority of CSOs prioritised product creation and support to suppliers, but few had any form of exit strategy that would facilitate their departure and leave behind a locally sustainable WASH market.

The research identified common critical programme elements and the extent to which the variety of market-based approaches applied by CSOs resulted in the ultimate goal of WASH sector investments: improvement in service delivery². Commonly cited critical elements focused on products with multiple CSOs applying Human Centred Design for the creation of new products targeted to known or supposed customer needs (see first, second, and fifth bars in Figure 6).

To build a broader systems of service delivery several CSOs supported suppliers to make existing products more widely available. But, the frequency of citations of facilitating natural leaders is of particular note. A natural leader displays the characteristics and personality traits of a leader including vision, effectiveness, social ability, self-confidence, assertiveness and boldness. Live & Learn Vanuatu perhaps summarised their importance best: identify the “right people to take on the right roles” both within the CSO, government and in businesses.

The final critical element is the importance of allowing sufficient time for market maturity. Thrive Networks in Cambodia cited the need for more time for full governmental adoption of its Output-based Aid rebates for sanitation improvements. Plan Indonesia noted that they have been involved in sanitation market development for seven years and the market is only now reaching maturity. Live & Learn Vanuatu emphasised the slow, incremental nature of business development in their programme, and iDE Cambodia’s multi-faceted programme developed incrementally over two decades of in-country market expansion.

Of the 11 CSO interventions across 9 countries investigated, only two were found to have an exit strategy in place that would leave behind a locally sustainable WASH market. For Plan Pakistan this was enabled by the government’s programme and accelerated by government’s closure of CSO operations across the country, including Plan itself. Thrive Networks’ exit strategy has a longer-term view as it advocates for full allocation of OBA rebates from governmental budgets. Of note, each exit strategy is contingent on government taking on the roles and responsibilities of a sanitation service authority and, especially in Pakistan, as a partial service provider of demand creation activities.

Finally, the importance of government and proven business operations cannot be overstated, as illustrated in Figure 7 and the box below.

Figure 6: What are the common critical elements of effective market-based approaches?

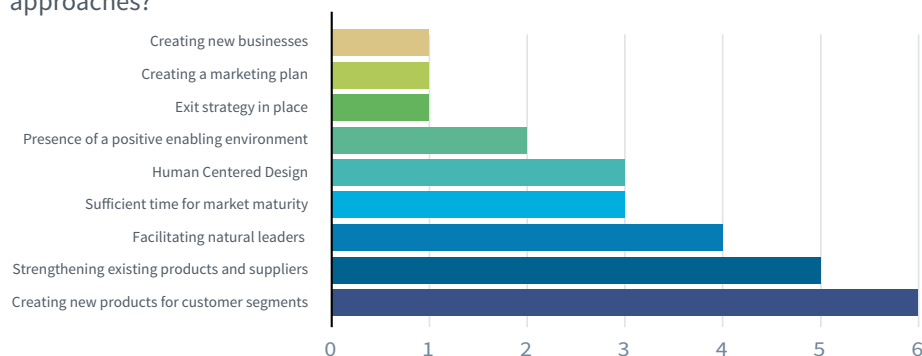
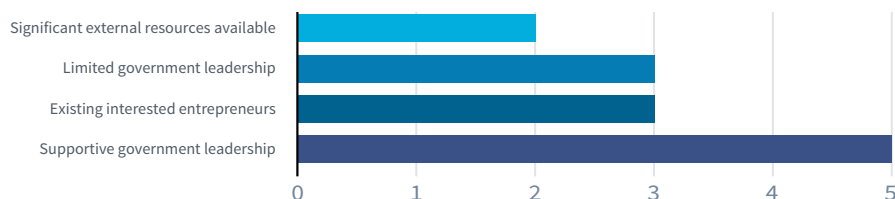


Figure 7: What are the contexts of effective approaches and how much have these been tailored to specific contexts?



The importance of understanding market context as a determinant of scale.

At community level an approach to mobilise a cadre of small-scale entrepreneurs to meet immediate product supply objectives may be most appropriate.

Across districts or provinces, a focus on cost-effective pathways to complete WASH coverage with marginal attention to building robust government capacity may be appropriate.

For national systems of sustainable service delivery, combining governmental capacity and authority with a confident and competent private sector may be best.

The research found that in each approach **supportive government leadership aligned with its capacity and mandate combined with existing interested entrepreneurs were the bedrock of effective facilitation of WASH markets.**

2. The research applied the following criteria to describe service delivery: (1) Emphasising the life-cycle of both the hardware (engineering or construction elements) and software (capacity building, institutional support, financial planning) required; (2) Building local capacity, particularly the capacity of government, to operate, maintain, monitor, and report on improvements; (3) Defining roles and responsibilities for multiple actors working at different institutional levels and improving lines of accountability, coordination, and harmonisation among their activities; and (4) Applying indicators that cover aspects like reliability, affordability, safety and user satisfaction.

Main findings

Three fundamentally different pathways to market development were taken by CSOs in response to differing policy environments:

- 1. Working at local level under the policy radar:** Habitat for Humanity in Bangladesh, for example, worked in a very localised geography, creating demand and building supply with an exit strategy of establishing and handing over a revolving loan fund to CBOs – minimal/no involvement of government
- 2. 'Become the market':** iDE in Cambodia uses their experience to influence policy to sustain and grow the market and support all points along the market chain, initially in a context with weak government policy and capacity
- 3. Work with existing markets and public policy:** Plan programmes in Pakistan, Indonesia, and Vietnam analysed market operations and filled functional gaps to operationalise policy at scale through existing market actors in support of defined national programmes. The private sector responds to the confidence provided by national mandates: With national mandates for WASH in place, private sector engagement was more likely as the assurance of continued demand for products and services and therefore profit-making opportunities increased.

Successful CSOs internalise business development skills needed to facilitate sustainable markets: Markets are complex systems that require skills in, at a minimum, finance, marketing, pricing, financial management, communication, procurement, regulation, human resources, and facility maintenance. CSOs need to build capacity in these business development skills if they wish to provide value to entrepreneurs in the WASH sector.

CSOs can be a particular market asset by guiding the creation of comprehensive business plans: CSOs should develop each element: (1) customer segments; (2) communication channels to reach segments; (3) how intended products or services meet customer needs; (4) market cost structure; (5) resources needed by the market intervention; (6) partners needed to support the CSO and a business; and (7) a record of revenue to validate profitability.

Recommendations

- **Ensure all future market-based programs carry out rigorous market analysis**, as it is the equivalent of the formative research needed to guide social change or the technical analyses conducted in advance of infrastructure construction.
- **CSOs that understand market functionality should lead future market-based efforts**, potentially in partnership with private sector actors, particularly organisations offering communication and financial management expertise which CSOs rarely have.
- **In future market-based programs, CSOs should be obligated to identify how and from whom they will access skills** that they do not have in-house. Market-based initiatives require a wide range of resources and expertise, and as such work plans should identify how these will be provided and the costs involved.
- **WASH market-based programs need to shift focus to align with the SDGs.** Future investments in market-based approaches need to move from providing products and coverage to better alignment with SDG-mandated requirements for service management, including an expanded focus on commercial approaches to faecal sludge management. Particular attention is needed with relation to SDG6.
- **CSOs undertaking WASH market-based approaches should demonstrate capacity to apply basic business skills**, for example profit/loss statements, to quantify profitability and market-based success.
- **Realistic timeframes and expectations** must result in reasonable objectives for market-based programs.



The research into effective CSO approaches was carried out by Aguaconsult, UK; www.aguaconsult.co.uk



This learning brief on lessons for WASH market facilitation was authored by Dr. Christopher McGahey, March, 2018.