

SOLUCIONES ALTERNATIVAS PARA EL SANEAMIENTO



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A NEW PARADIGM: SANITATION AS A BUSINESS *Inclusive Market Models for the poor in Peru*

“Alternative Pro-poor Sanitation Solutions in Peru” Initiative

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Inclusive Market Models for the poor in Peru

SUMARY

Is there a sanitation market for the poor populations in Peru? Is there actually a potential, profitable market that permits the different actors to mobilize their interests in favor of their development? Those are the questions that the Steering Committee of the “Alternative Solutions for Sanitation” Initiative expects to respond¹. For this purpose, this committee develops public, private and social alliances, both at national and local level, which based on an innovative and challenging approach, permits to increase the access to high-quality sanitation services in the country.

The five pilot areas of the intervention are characterized by a climate of shortage, with high levels of poverty, but, at the same time, there are appearing enterprising segments, with a limited payment capacity, but committed to improving their living conditions and social status and willing to pay for high-quality sanitation products and services. Here is the big challenge of the initiative: to promote a paradigm shift which reassesses the concept of consumer and citizen of those who have always been marginalized, responding for the first time to their high-quality expectations by creating a local supply of profitable small businesses and facilitating the exchange through ad hoc micro credit options.

INTRODUCTION

In the past few years, Peru has invested 833 million dollars in the water and sanitation sector, 123 million dollars² of which was invested in the construction of latrines and sewerage systems in rural zones and small cities in different areas of the country. However, this effort has not significantly improved the health and environmental impact indicators. At present, many of these sewerage systems are decayed and latrines have been dismantled, remain unused, inappropriately used, or are employed in other activities other than the safe disposition of human excretes.

What are the factors that go against making an important change for the population to access sanitation in a sustainable manner? In various studies, it has been showed

¹ The Steering Committee of this initiative is composed of the Vice-Ministry of Construction and Sanitation (VMCS), SEDAPAL, the World Bank, the Swiss Agency for Development and Cooperation (COSUDE), the United States Agency for International Development (USAID), the Americas Fund (FONDAM), the Ensemble Foundation and the Water and Sanitation Program of the World Bank (PAS).

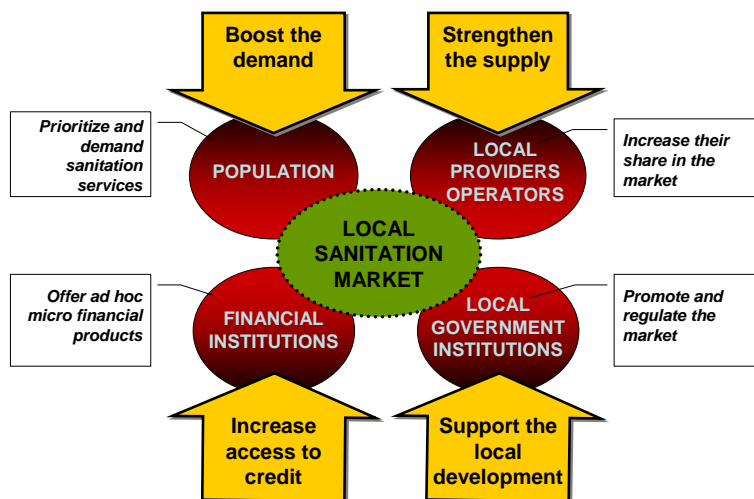
² See: Ministry of Housing, Construction and Sanitation: **2006-2015 National Plan of Sanitation**, Water is Life. Lima, march of 2006. page 79.

that there is a set of interrelated causes. In spite of it, it is surprising that no in-depth study has conducted on some of them, such as the development of a technology supply that responds on an efficient and timely basis to the economic and cultural expectations of the population.

In view of this scenario, the “Alternative Solutions for Sanitation” initiative headed by the Peruvian Government through the Vice Ministry of Construction and Sanitation (VMCS), SEDAPAL, the World Bank, the Swiss Agency for Development and Cooperation (COSUDE), the United States Agency for International Development (USAID), the Americas Fund (FONDAM), the Ensemble Foundation and the Water and Sanitation Program of the World Bank (PAS), seeks to promote the development of high-quality local sanitation markets for low-income populations in five pilot markets in the country. In these markets, different conditions are represented: urban marginal areas, rural areas, small localities, the coast, highlands and jungle regions.

The central objective of the initiative is to increase the access to high-quality sanitation services, based on four pillars: **a)** a population who gives priority to sanitation and demands high-quality products and services, **b)** a competent, coordinated and profitable local supply able to provide high-quality products and services, **c)** a micro-credit system that dynamizes the local market, and **d)** a set of key local actors committed to the sanitation management, as well as to the promotion and regulation of this market.

Graphic N° 1: Public objectives and expected results



The model is based on the sensitization and mobilization of the demand through promotion, information, communication and education actions that allow developing

market segments and niches to be served through an attractive, accessible and high-quality supply. It is expected to develop, simultaneously, a local supply, based on the resources of the zone and the establishment of commercial networks at regional and national level, that allow to create competent, certified and profitable local providers. At the same time, it is expected to promote the participation of national, regional and local financial agents who will develop a micro-credit supply for sanitation. Finally, the purpose is to strengthen the local government and social actors by improving their competencies to manage sanitation, as well as to promote and regulate the development of this local sanitation market.

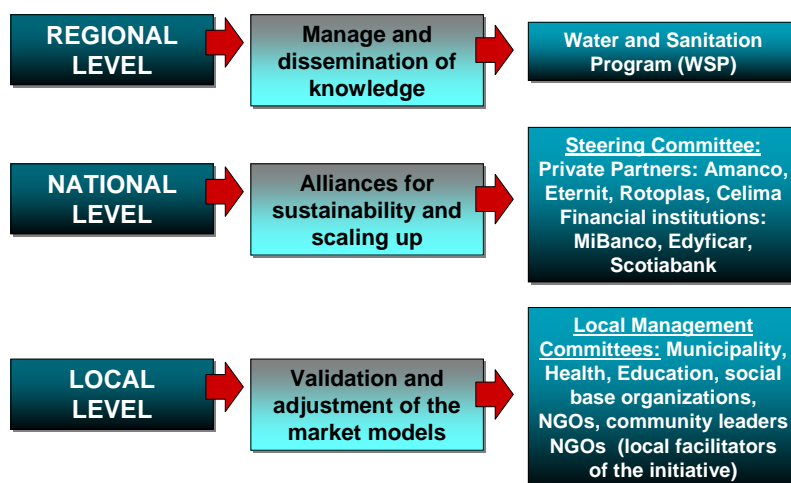
The intervention implies a paradigm shift in the intervention models, since it is proposing strategies to create markets and business opportunities in the local ambit, as well as from the consumers, developing a payment culture focused on valuing the dignity and self-esteem of people against the regular practices of subsidies and welfare. It is expected through this effort to respond to claims for access to modernity, privacy, security, but, above all, to respond to thousands of Peruvian men and women who live under the line of poverty and who demand respect to their human dignity and their right to be considered first-class consumers and citizens.

METHODOLOGY

How is the initiative managed and implemented?

The essence of the initiative is to establish alliances with different (public, private and social) sectors, with a variety of actors and at different levels.

Graphic N° 2: Levels of management and implementation





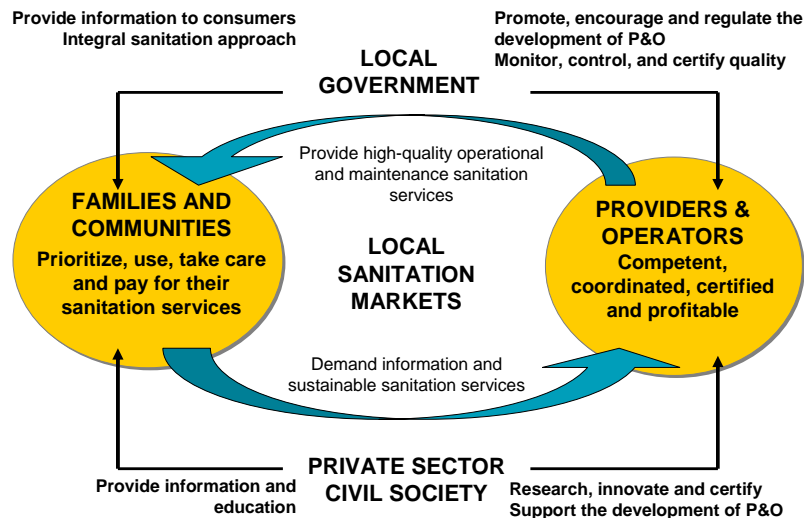
- *At the regional level* of Latin America, the initiative expects to spread and disseminate knowledge and lessons learnt, with the purpose of generating concerns and raising the model issue in the discussion of the sanitation policies of the countries.
- *At the national level*, alliances are being generated among the Governing Entity, the different sectors of the State, the construction and sanitation industry, the private banking and universities, who, as partners in the initiative, are boosting the transfer of resources, establishing mechanisms of incentives and promoting the development of capabilities at local level. These alliances are oriented towards building confidence and generating commitments for the national scaling-up and their sustainability. This alliance building process is promoted by the Steering Committee of the Initiative and managed by the Water and Sanitation Program on its behalf.
- *At the local level*, through local operators represented by NGOs of the area, the different strategies and activities are managed, and the promotion of the local sanitation market is facilitated. The Local Government, the school, the health center, promoters, community leaders, the basic social organizations, local providers, micro-credit operators and the own families establish alliances and interact with one another to ensure local sanitation services. This process is promoted by the Local Management Committee and facilitated by the local operator.
- *The Local Management Committee (CGL)* is a local coordination and linkage body of the initiative. It is a multi-sectoral and inter-disciplinary space composed of the actors' representatives from the local government, basic social organizations and local providers. These actors are organized within the framework of a participation body, already established or specially generated for the theme, which seeks to implement actions by consensus, as well as to integrate and coordinate them, so that efforts are not duplicated or mixed messages are sent to the population and, at the same time, boosting the impact of the activities. This Committee is headed by the Local Government and is facilitated by the local operator of the area.

Who are the actors of the local sanitation market?

There are four principal actors of the local sanitation market: a) the families and communities who prioritize, use, maintain and pay for their sanitation services, b) the local competent, profitable and certified providers who work in a coordinated and associated manner, c) the private sector represented by the financial and micro-finance institutions, the universities and educational institutions and the national and

local construction and sanitation industry, and d) the local government, who in an integrated manner, reflects the regional and national policies.

Graphic N° 3: Main actors of local sanitation markets



- **The families and communities** are those who mobilize the demand. The organized people, whether the immediate family or through basic minimum social structures, are those who require information, and high-quality sanitation products and services. This happens because they recognize that sanitation plays a role in the improvement of their quality of life and in the opportunities for the community development. They have gained competencies for appropriate use and maintenance of sanitation services and feel that sanitation supply meets their quality expectations, so they are willing to pay for them.
- **The local providers**, are all those who manufacture, market and provide sanitation services in the locality. There are three subgroups clearly defined as local providers:
 - The artisans and/or technicians who design and manufacture sanitary products with local labor and raw material.
 - The micro and small entrepreneurs who distribute or sale sanitation products directly to the end-users; and
 - The sanitary technicians and/or plumbers who offer installation and maintenance services for the sanitation systems.
- **The private sector (PS)** is composed of profit or non-profit private organizations who offer products and services at a regional and/or national level related to:
 - Sanitation and construction technologies,



- Training, instruction and certification; and
 - Finance and micro-credit options
- ***The local governments*** are those who promote and regulate the local sanitation market. Its mission is to promote the development of a network of certified local providers, as well as to ensure the design and implementation of the overall sanitary and environmental education policies that permit the empowerment and leadership of the population. Although the local government should prioritize sanitation in their policies, taking care of the regulations, investing in treatment networks and plants of liquid and solid wastes, at the same time it should keep vigilance over the development of this market, being consistent in the development of these government policies, avoiding welfare and the delivery of subsidies that have an adverse effect on the development of the market.

EVALUATION AND RESULTS

In the first stage, the initiative has been focused on understanding the variables that prevent families and communities from developing pro-active actions aimed at changing their present sanitation situation. On the other hand, the Initiative has sought to characterize the conditions of the supply of sanitation technology and financing options in the pilot intervention areas. The results may be grouped into two large groups: a) results of the demand and b) results of the supply.

Why families and communities do not give priority to sanitation?

- Because sanitation competes with other priorities. In general, in all the studied areas there is a climate of shortage, evidenced by the lack of work and income sources. The levels of poverty exceed 50% of the population.
- Because sanitation is not seen as an integral part of the house. Families feel dissatisfied about the house they own, which translates into a permanent concern about improving their safety against the inclemencies of weather and nature, changing ceilings and walls, protecting and safeguarding it, taking into account that their houses is a source of protection for the family, emotional ties and achievements. This finding would be indicating the occurrence of a strong driver for change, with the possibility of associating sanitation with the parameters of quality of the house and incorporating it to the element of satisfaction and proud of which it is inferred.
- Because families do not recognize the relationship between sanitation and health. It is unclear to them the pollution-disease route. It is clear that health does not appear as a driver for the behavior shift, which must lead the program to strengthen the educational strategy, understanding that the processes have



different times and that this is an effort whose results can be seen in the medium term.

- Because sanitation has not been internalized; it is just part of the speech. There is a gap between what it is said and what it is done. In general, outdoor defecation practice is rejected as a response to the social rule; however, it is a behavior tolerated in the public space. Although, people do not defecate in their houses' private space; this practice is more a primitive, instinctive, fully irrational reaction rather than a behavior resulted from a revaluation and understanding process.
- Because the concept of sanitation has a double dimension: the individual and community level. There is no a comprehensive sanitation mental construction. Latrine is a concept with multiple meanings and different connotations according to the publics. These are related to their own experience and the type of technology and quality of the latrine. Generally, the word is associated to negative concepts and is less accepted in the urban than rural areas. On the other hand, the concept of "sanitation" in the community space is synonymous with quality of air, water, absence of pollution and garbage, bad odors and flies. However, people cannot find a mechanism to harmonize all these ideas in one dual representation: that of the individual and collective responsibility.

What is the sanitation situation in the intervention areas?

- There is a relatively high access (73%), however, this figure hides two aspects: the quality and present situation of the systems, as well as the marked differences between the rural area and the urban area. 66% of those with access to sanitation has latrines and a high percentage claims not being satisfied with them. Only 10% has a sanitary module with sewerage, a system which is recognized as the highest-quality option. There is a marked preference for hydraulic dragging sanitation technological options.
- Although many of the current sanitation systems have been subsidized by the State or the NGOs, most of the families have built latrines with their own resources. Four out of five households has built them with their own funds by using their own labor, local materials, and without receiving technical assistance or criteria of quality.
- In general, there are no appropriate maintenance practices, or families are unaware of them. There are wrong myths and ideas which increase the bad condition of the sanitation systems.



What are the characteristics of the technology and financing supply?

- The supply of sanitation and construction products is concentrated in Lima. They are transnational companies with an extensive network of distributors at national level, among them, we can point out: Amanco del Peru, Nicoll Peru, Eternit, Rotoplas Peru and Celima. There are also some regional companies such as cement plants, Siderperu, among others. All this companies have certification systems and training programs which are being implemented in a successful manner. The great majority comply with the national and international quality rules and standards. Only one of them (Amanco del Perú) has a formally established RSE program and has proven experience.
- At the local level, there are small and medium-sized hardware stores and construction material stores. Some of them are located in the main city and other in the intervention locality. There are also local manufacturers of granite bathroom fixtures, as well as traveling distributors, who go from fair to fair.
- Services providers are composed of foremen, bricklayers and day laborers. In the local ambit, labor is not qualified and formation is given only by the practice. Sanitation maintenance services are not offered.
- In recent years, Peru has experienced a high growth and a greater specialization in the micro-finance institutions. Supply has characterized itself by the rapid, safe, and regulated growth, accompanied by the development of regional financial markets.
- However, their products have concentrated on meeting the needs of the commercial and productive activities, with relative short terms (3 to 6 months), high-frequency collections and high rates of interests.
- Micro-finances are developed by an extensive and distinctive set of regulated and unregulated institutions. Multiple banks with specialized divisions, specialized banks, non-banking micro-finance institutions such as CMAC, CRAC and EDPYME³ and unregulated institutions such as the NGOs, commercial houses and lenders.
- The sanitation sector has virtually no previous micro-credit experience. The CARE experience in Huaraz reports a limited success and a growing delinquency.

³ CMAC: Municipal Cajas de Ahorro y Crédito, CRAC: Cajas Rurales de Ahorro y Crédito, EDPYME: Entities for Development of Micro and Small Enterprises.



- Access to credit is limited in the pilot areas (14.3% has received a credit in the last year). This figure is lower than the national average (19% according to ENAHO 2004). Despite this limited access, this is a formal financial market, accompanied by the growth of a regulated supply. In line with the specialization of the sector, most of the credits have been basically requested for business purposes.

CONCLUSIONS

Based on these findings, the following large challenges are inferred for the initiative:

- ***To motivate, mobilize the families and communities*** by reevaluating their self-esteem, promoting the recognition of their effort and responding to their expectations on a timely basis and with quality. This activity must be based on the establishment of incentives for the family, the community and the local government. In the same way, it must be based on responding to the expectations, considering a sanitation system for which they indeed would be able to pay for: odor management, modernity and attractive presentation, privacy, comfort and safety, especially in regard to its use by small children.
- ***To develop a system of information, guidance, counseling and demonstration*** of the products and services based on the social network in place. To boost “sales promoters” based on the identification of community leaders who with a set of communication tools and properly trained, can provide information, settle doubts and fears, and offer the experience of trying the advantages of what they are offering. Its objective is that families and communities are able to make well-informed decisions as well.
- ***To promote the incorporation of contents to the school education systems*** which permit students and their families to develop competences around three central issues: **a)** sanitation and health, **b)** maintenance and operation of sanitation services and **c)** credit culture.
- ***To design a package of integrated options (sanitation technology and micro-credit supply)***, which based on alliances among the sanitation and construction industry, financial system and local providers, permit to offer integral solutions to the families and communities. These options should be individual and community ones, with interest rates affordable to most of the populations and with mixed financing mechanisms: State, private enterprises and the own families.



- *To promote the formation and certification of sanitation micro- enterprises at the local level*, by strengthening their capabilities for business management, as well as the supply of products and services under high-quality standards.
- *To boost the development of linkage systems of the sanitation micro-enterprises* that allow them to improve their negotiation level with the large industry, decreasing costs, as well as providing exchange of experience and knowledge, and ensuring innovation and development.
- *To develop a supply of qualified and certified installation and maintenance services*, by ensuring not only a high-quality but also a low environmental impact service. This action requires the design of training systems and the certification of the service providers, including, the local Municipality, local school, universities and the private enterprise itself.

The initiative is implemented for achieving the Millennium Development Goals, by increasing the access to sanitation services. However, the big challenge goes beyond this initial commitment. Its real potentiality is to explore the opportunities that the advance of the corporate social responsibility and the private enterprise's new role in the development management offer, as well as to create mechanisms that permit to build bridges between the huge number of entrepreneurs located at the bottom of the pyramid and the formal private sector. Sanitation could be a good opportunity to find those new roads for access to sustainable high-quality services based on social inclusion, equity and solidarity.

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