

**PRIVATE AND SOCIAL ENTERPRISE ENGAGEMENT
IN WATER AND SANITATION FOR THE POOR**
INCENTIVES SHAPING
ENTERPRISE ENGAGEMENT
IN INDONESIA

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ENTERPRISE IN WASH

“Enterprise in WASH” is a joint research project led by the Institute for Sustainable Futures (ISF) at the University of Technology, Sydney, which investigates the role of private and social enterprises in the delivery of water, sanitation and hygiene (WASH) services for the poor. In particular, the research aims to support civil society organisations (CSOs) engaged at the interface of public sector, private and social enterprise, and civil society.

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ABOUT THE AUTHORS

The Institute for Sustainable Futures (ISF) was established by the University of Technology, Sydney in 1996 to work with industry, government and the community to develop sustainable futures through research and consultancy. Our mission is to create change toward sustainable futures that protect and enhance the environment, human well-being and social equity. We seek to adopt an inter-disciplinary approach to our work and engage our partner organisations in a collaborative process that emphasises strategic decision-making. For further information visit: www.isf.uts.edu.au

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1. INTRODUCTION

The purpose of this document is to present the findings from a qualitative study into the involvement of small-scale enterprises in water and sanitation services in Indonesia. The empirical research for the study was conducted in September 2013 in partnership with Plan Indonesia. This research examines the role played by small enterprises in the water and sanitation services sector, and the incentives that support or undermine their role. It also addresses how and why civil society organisations (CSOs) choose to support such enterprises.

The detailed methodology, based on political economy analysis, is described in Appendix 1. The methodology involved the development of a conceptual framework informed by Ostrom (2011) and a political economy analysis developed by the Overseas Development Institute (ODI). Within the broader country and water and sanitation sector political economy, the focus was on incentives provided by formal and informal rules operating within and between organisations, and on issues of power, control over choice, and access to information. Semi-structured interviews were undertaken with representatives from twenty-nine organisations in Jakarta, Central Java (Grobogan District) and East Java (Lamongan and Sidoarjo Districts). The participants represented private and social enterprises, national and international CSOs, donor organisations, and government agencies from sectors relevant to enterprise development in the water, sanitation and hygiene (WASH) sector. The study aimed to provide insight into the dynamics surrounding recent increase in engagement of enterprise in the Indonesia WASH sector, but did not constitute a comprehensive study of all possible enterprise roles nor cover

the breadth of Indonesia geographically. Lastly, the focus was on water and sanitation services and while there is mention of enterprise roles in hygiene promotion, these were not the core focus.

FIGURE 1 PHOTOS OF FIELD RESEARCH



RESEARCHERS INTERVIEWING THE FOUNDERS OF AN ASSOCIATION OF SANITATION ENTREPRENEURS IN CENTRAL JAVA.



FOUNDER OF ASSOCIATION OF ENTREPRENEURS IN EAST JAVA DEMONSTRATES MODEL PROTOTYPE USED IN TRAINING OF SANITATION ENTREPRENEURS.

2. COUNTRY SECTOR CONTEXT

The current trend of decentralisation of government, which started in 1999, has caused significant shifts in the institutional landscape of the water and sanitation sector in Indonesia. District governments now have administrative and financial independence, and responsibility for the provision of public services, including water and sanitation services (ISF-UTS 2011). This change has brought opportunities but also challenges to the sector. Local governments now have the ability to increase the revenue they earn and control over local budgets, and so they are theoretically in a better position to respond directly to the needs of their communities. However, variable technical and governance capacity remains a major factor contributing to under-investment in the sector. Another difficulty is the translation of policies and sector strategies, which are formulated at national level, to the local level (ISF-UTS 2011; WSP 2011).

Examples of the challenges are many. First, local governments tend to focus on high-visibility investments (for example, roads or new buildings) or on other sectors with 'a traditionally higher perceived priority such as free education and curative health services'. This focus can 'easily crowd out water and sanitation issues' (Garbarino & Holland 2011). Second, as further noted by Garbarino & Holland (2011):

[I]nvestment priorities and funding from central to local governments are largely determined by informal patron-client relationships, despite certain formal processes being in place. Without having any clear guidance, criteria, or mechanisms for deciding on funding allocations, there is space for political considerations or rent-seeking opportunities to influence investments at local level.'

Finally, whilst resource scarcity can be a limiting factor, in some cases it is not the key issue. There may be insufficient pressure from higher levels of government on local authorities to allocate resources to the provision of water and sanitation services. There may also be resistance on the part of executives in local organisations. As a result, high-level government buy-in and demand from civil society

doesn't necessarily translate to budget disbursement (WSP 2011).

The sector is fragmented at both the national and local levels. Responsibility for water and sanitation at the national level lies with Ministry of Public Works, the Ministry of Health and the National Development Planning Agency (BAPPENAS) (ISF-UTS 2011). However, in practice in the country's public sector, only BAPPENAS at national level, and the Regional Planning Offices (*Bappeda*) at the district level can take a lead coordinating role with technical agencies at the same level. Functional agencies like the Ministry of Health don't have authority to coordinate other offices that are at the same level or higher. The *Pokja Air Minum dan Penyehatan Lingkungan (Pokja AMPL)*, a national inter-ministerial water and environmental sanitation working group established in 1999 with support from the AusAID-funded 'WASPOLA' project, has contributed greatly to improvements in sector coordination in recent years (Mukherjee & Shatifan 2009).

WATER SUPPLY SERVICES

Water services are managed differently in urban and rural areas. In urban areas they are provided by local government-owned utilities (PDAMs). Many PDAMs are bankrupt due to low tariffs and financial mismanagement, and they are therefore unable to provide quality services to existing customers, or to expand services to new customers (Buhl-Nielsen et al. 2009).

In rural areas, village water infrastructure is built by government and managed by community-based organisations (CBOs). Although the government has been using the community management model for rural areas since the 1990s, it was only in 2004, through the Water Resources Law, that it formally recognised CBOs as a long-term mechanism to support rural water services provision (Sy 2011). It is estimated that large-scale development partner projects such as World Bank's Water and Sanitation for Low Income Communities (WSLIC) and Community Based Water Supply and Sanitation Project (PAMSIMAS) have formed approximately 10,000 CBOs throughout Indonesia (Ministry of Public Works 2012), and

that 67% of CBOs operating in East and West Java are able to generate profits, with some CBOs serving 3–5 times more households than local PDAMs (Sy 2011).

Such promising results have generated discussion around the potential of expanding the CBO model to accelerate access to water in rural areas. It has been suggested that this would be possible if these operations transition to a professionalised service-oriented enterprise model and if fragilities in their enabling environment are addressed (Sy 2011).

However, CBOs operate largely on an informal basis and they have limited access to finance and a limited capacity to develop and adopt improved commercial practices and planning systems. Consequently, they are limited in their ability to expand and take full advantage of the market (IndII 2011). In addition, although the Law 7/2004 grants full authority and monopoly rights to state-owned (BUMN) and regionally owned enterprises (BUMD), it allows cooperatives, private enterprises or communities to become involved in water supply systems if a BUMN or BUMD is unable to serve its area of responsibility (Sy et al. 2011). In recent years, support from World Bank Water and Sanitation Program (WSP) and the Australian aid program to the sector has supported CBOs to link to banks and access loans and receive training for improved business management practices.

SANITATION SERVICES

Historically, little attention and few resources have been devoted to sanitation and the dominant perception has been that it is a private matter for households. Over the last two to three years, driven in part by the advocacy efforts of external agencies in providing evidence of the economic benefits of sanitation, there has been a shift in this view, with government increasingly recognising its role in supporting sanitation provision (Garbarino & Holland 2011). However, this recent interest in sanitation appears to be largely focused on urban and peri-urban sanitation (ISF-UTS 2011).

Among the various government departments who share responsibility for water and sanitation, the Department of Health (DoH) is the one which has the strongest role in rural sanitation.

In 2005 community-led total sanitation (CLTS) was introduced through trials conducted in six provinces. Its success led to it being adopted as the main methodology for sanitation improvement, with the Ministry of Health (MoH) issuing the National Strategy for CLTS in 2008 (community based total sanitation-STBM), which later became part of the five-year national development plan for 2010–2014. Sanitation marketing was first introduced to Indonesia by WSP in East Java in 2007, in strong partnership with DoH (Robinson 2011).

3. EMERGING WATER AND SANITATION ENTERPRISES

DEFINITION OF TERMS

Private enterprise:

A private enterprise is a business or industry that is managed by independent companies or private individuals rather than being controlled by the state. Ranging from self-employed individuals to large multi-national businesses, private enterprises are generally motivated by profit (Koestler 2009).

Social enterprise:

A social enterprise (also known as a social business, and closely related to social entrepreneurship) couples entrepreneurial behaviour with the desire to draw upon the market as a tool for meeting social goals, serving the general interest and common good for the benefit of the community (Noya et al. 2013). Emerging as a response to complex social needs and also the reduction in public funding, social enterprises draw on sound business practices and often innovation to the delivery of community services (Peredo & McLean 2006).

Private enterprises and social enterprises are defined on the left, and are collectively referred to as 'enterprises' in this document.

Our research found that the involvement of small-scale enterprises in the provision of water and sanitation products or services is relatively recent in Indonesia. It has come into play over the last 5–10 years, mostly driven by development partners such as WSP and CSOs, with many developments only taking place within the last two to four years.

Prior to this, private sector engagement in WASH had been largely focused on water service provision to urban areas. Private sector involvement has included public–private partnerships between government-owned utilities (PDAMS) and large-scale private sector organisations, and the use of small-scale contractors for the operation or construction of supply or treatment systems, a practice which has been common among PDAMs (Ministry of Public Works 2012). We also found that references to such private 'contractors' was associated with marking up prices and a focus on profits: *'they mark up profits and only focus on profits'* and *'usually 50% goes in corruption.'* This historical perception of private sector involvement in water and sanitation services is an important contextual element which may limit some stakeholders' perceptions of the potential roles that could be played by enterprises.

Despite this, more recently a wide range of opportunities has been emerging and it is being filled by individuals and new types of organisations. Our research revealed the following emerging roles:

- **formalised CBOs managing a rural water supply** – formalised as a collaboration between an 'association' and 'cooperative' (see box 1 on page 7) – the latter being required to be a legally recognised body that can access loans and financial support. Also sometimes formalised as a village-owned enterprise
- **associations of CBOs** – formalised associations of community-based organisations operating rural water supplies (see box 1 on page 8) or communal sanitation systems, with some financial revenue but a strong culture of volunteer contributions

- **sanitation entrepreneurs** – small informal or formally registered small-to-medium enterprises working for profit to provide sanitation products and services
- **associations of sanitation entrepreneurs** – groupings of sanitation entrepreneurs, operating as social enterprises with an aim of offering sanitation products or services (see box 2 on page 9), examples including Association of Grobogan Sanitation Entrepreneurs (PAPSIGRO) and Association of Indonesian business Sanitation and Empowerment (APPSANI)
- **distributors of water purification products** – the products are sold through community-based distributors or distributors with links to customers facilitated by NGOs
- **civil engineering contractors** – engaged by government or communities to build water or sanitation systems, generally reported to be focused on profit and not on construction quality
- **desludging services** – small-scale businesses collecting faecal sludge in urban areas
- **specialised services** – consultancies or specialists in mechanical, electrical or energy efficiency skills and approaches, for instance offering services to PDAMs or rural water community management committees.

Our research also touched on the role of large-scale corporate social responsibility (CSR) funds invested through NGOs or directly in communities. In some cases the CSR funds are used to support efforts in rural sanitation or water supply.

BOX 1: PROFESSIONALISED CBOs AND ASSOCIATIONS OF CBOs

Collective organisations operating as forms of social enterprise were observed in the rural water supply sector. This includes community-based water organisations, some of which have been transitioning to formal professionalised service-oriented enterprises. More recently, district-level associations of CBOs have also been formed with the intention of supporting CBOs through training, technical guidance, financial access, and advocacy. In Lamongan District in East Java, the association has been operating for a decade, whereas in other locations such associations have been formed more recently through the World Bank PAMSIMAS program.

To be able to access finance these collective organisations have to acquire legal status. In East Java, for example, there were water committees who were operating as associations, but had formed parallel cooperative businesses registered as separate entities to be able to access loans and subsidies from government for upgrading and expanding their water supply systems. In Lamongan District, the same approach was followed by the association of CBOs at the district level (see figure 2). This enables CBOs to access loans not only from their own cooperative but also from district-level cooperatives as well as bank loans, normally needed for larger expenses.

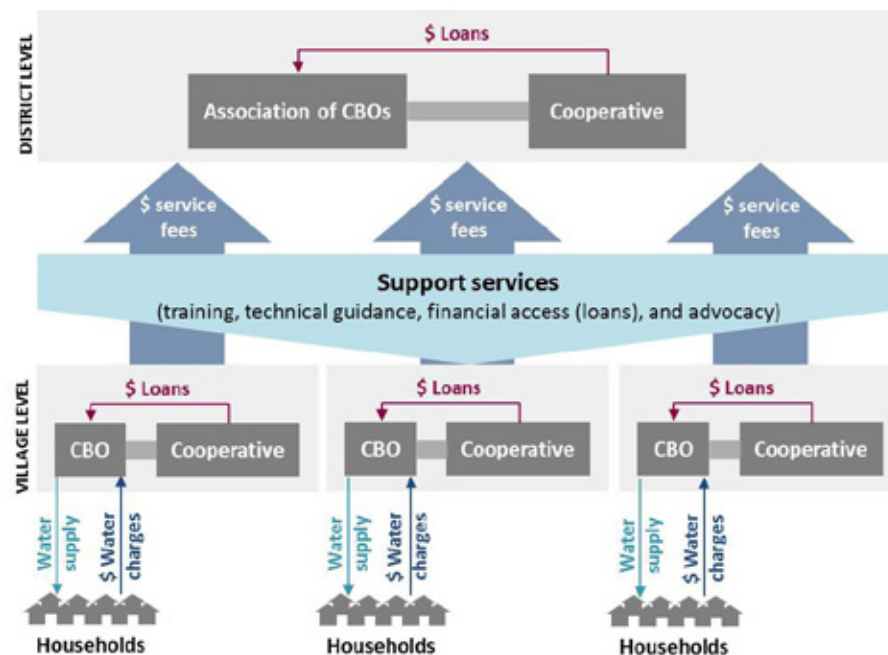


FIGURE 2 CBOs AND ASSOCIATION OF CBOs IN EAST JAVA



FIGURE 3 SEPTIC TANKS SOLD BY APPSANI



FIGURE 4 PAPSIGRO TOILET PAN

BOX 2: ASSOCIATIONS OF SANITATION ENTREPRENEURS

In East Java Province WSP trained local masons, artisans and entrepreneurs to become sanitation entrepreneurs. These sanitation entrepreneurs later came together to form an association (APPSANI). A similar approach was followed by Plan in Grobogan District, and this also led to the formation of an association of entrepreneurs (PAPSIGRO). These associations are membership-based and operate as forms of social enterprise to support sanitation entrepreneurs with the intention of expanding access to sanitation (see figure 5).

The types of support these associations provide to sanitation entrepreneurs include access to cheaper materials, networking and cross-learning opportunities, and training. However, as recently formed organisations these associations are still refining their business models and scope of services. For example one association mentioned its intention of including advocacy support as well as access to business management tools in the scope of its services to its members.



FIGURE 5 ASSOCIATION OF SANITATION ENTREPRENEURS

4. FACTORS SHAPING ENTERPRISE ENGAGEMENT: SANITATION ENTREPRENEURS

Using a political-economy analysis framework, we explore the incentives generated by the institutional structures, power distribution and formal and informal institutions in the Indonesian WASH sector. We examine how they shape the behaviour of *sanitation entrepreneurs*. The following Section 5 deals in a similar way with *collective social enterprises*, including associations of sanitation entrepreneurs, professionalised CBOs and associations of CBOs.

Findings are presented through key elements identified as important to the viability and success of enterprise development (Gero et al. 2013) in relation to sanitation entrepreneurs, which are generally small and micro enterprises. These key elements are:

- a) demand and profitability
- b) access to capacity building opportunities
- c) access to finance
- d) financing options for customers
- e) competition and innovation
- f) political support and priorities.

A) DEMAND AND PROFITABILITY **Entrepreneurs rely on CLTS triggering for demand for their services**

CLTS triggering of communities prior to sanitation marketing plays a key role in generating demand for sanitation products and services. In Grobogan and East Java, most sanitation entrepreneurs work primarily in rural communities that have been CLTS triggered and demand within such communities is generally expected to grow spontaneously once they have been triggered. Therefore, sanitation entrepreneurs rely largely on external agencies (local government and CSOs) implementing CLTS to generate demand in their target areas. This means that the development of their markets currently lies outside their control.

Ikeda (2012) found that a possible lack of demand remains a key concern for sanitation entrepreneurs and that even in areas where CLTS has been implemented entrepreneurs may need to work more on creating demand for toilets. This suggests that in some cases, CLTS may not be sufficient to create demand for improved latrines to sustain entrepreneurs' sanitation business activities.

Entrepreneurs rely on networks (especially with government) to link to their customers

Research conducted in East Java (Ikeda 2012) indicates that one of the most important components of the success of high volume sales entrepreneurs was their partnerships with village heads, staff such as sanitarians working in community health centres (*Puskesmas*), and community health volunteers (*Posyandu cadre*) who act as sales agents. However, findings revealed that often these relationships are hard to maintain as in many cases there are no incentives for *Puskesmas* staff such as sanitarians to perform these roles: *'In [the] past they [sanitarians] used to attend meetings but not now... it's voluntary for them to come.'* It was even suggested in one case that a *Puskesmas* staff member was blamed for a reduction in patients by the head of that *Puskesmas* and was prevented from working further with sanitation entrepreneurs. However, in other situations entrepreneurs pay commissions to government staff for supporting them to reach their customers, and this arrangement provides a benefit to both sides.

Partnership may also be important in enabling customers to access finance and manage the business cash flow. Ikeda (2012) refers to a case in East Java where a sanitation entrepreneur worked with the village head to facilitate an *arisan*¹ for the entire village, an arrangement which was effective in helping the entrepreneur to better manage demand and the related cash flow (Ikeda 2012).

In East Java an unusual situation arose because those trained in sanitation construction and entrepreneurship were government staff members at the sub-district level (sanitarians). Research participants gave mixed views as to whether this was a beneficial outcome which helped to improve sanitation coverage or, whether it was unethical and represented a conflict of interest. For instance one perspective was *'no, it's fine – his job is to promote use of latrines and can use any entry point, even as a business – he can do it as a marketer, as a religious leader, or as a business. It can be a conflict if [they] use work motorcycle*

NOTES

1. This is similar to rotating saving mechanisms used in other developing countries (e.g. merry-go-rounds or ROSCA) which provide groups of individuals access to large lump sums of money, to buy goods or pay large planned expenses (World Bank 1989).

or do [it] in work time'. On the other hand, it was argued that a sanitarian would be unable to 'perform his real duty' to check the quality of products or monitor changes in sanitation coverage, due to vested interests in certain outcomes. Finally, it was also argued that other duties (for instance other areas of environmental health such as monitoring food and drinks) might be ignored.

Profit acts as an incentive for entrepreneurs

Sanitation entrepreneurs demonstrated interest, awareness and satisfaction regarding the opportunity to make a profit. Access to materials at the lower prices offered by the association of entrepreneurs, as well as easy access to local raw materials (e.g. calcite was easily obtained in Grobogan) and transport were mentioned as key elements contributing to the profitability of the business. Most of the APPSANI respondents to the Ikeda (2012) survey 'strongly agreed' that it was easy to make a profit from providing sanitation services.

On the other hand, it was clear that low profit margins constrained the development of sanitation businesses. In Grobogan and East Java most sanitation entrepreneurs work on a part-time basis and sanitation is a secondary source of income for them. Low profits have prevented individuals from taking up the role as their primary income source, especially as most needed to have a stable income for their families.

On average, APPSANI members spend 37% of their time on their sanitation businesses (Ikeda 2012). This suggests that they may be responding to limited, uncertain or irregular demand by diversifying their endeavours. On the other hand, working part-time may limit their ability to respond to demand as they may not have time to supervise large numbers of simultaneous installations: 'I gave my orders to others [within the association] but they are already busy with their own business. And it's also a long distance [remote area].'

Another constraint to ongoing profit is market saturation. Once the market reaches saturation of a product, opportunities for business growth

become limited. Entrepreneurs mentioned that one way to overcome this is to expand into new geographic markets, and also to diversify their businesses to cover other products (for example water filters).

However there are also other incentives beyond profit

There appeared to be a broader range of incentives acting upon entrepreneurs than just profit. According to Clark and Wilson (1961) and subsequently expanded in Wilson (1989) there are four main motivations that affect the decisions and behaviour of individuals in organisations:

- material: tangible rewards e.g. salary, fringe benefits
- solidary: intangible rewards e.g. socialising, camaraderie
- status: intangible rewards e.g. prestige, recognition
- purposive: intangible rewards e.g. a sense of group mission.

We have already discussed **material** benefits in the form of profits. In terms of less tangible **solidary** rewards, it was clear in Grobogan that entrepreneurs, at least initially, enjoyed working together (and in partnership with Plan) to develop their products and businesses together. The formation of the two associations (PAPSIGRO and APPSANI) also helped to formalise interactions and supports social interaction between entrepreneurs. For instance, on research participant noted 'inside the discussion every member agreed that every challenge that they will face in future we will try facing together because in [the association] we have the principle of kinship, solidarity, and mutual cooperation (gotong royong)'. However there may also be challenges that work against solidary. For instance entrepreneurs may hold different views about the best way to drive their work, leading to arguments: 'Sometimes there were conflicts [between members], when we talked about the orientation of the business'. It was also reported that membership was diverse (in terms of age and profession), which may have created complexity that made it more difficult to hold the group together in the long term, though unity also depended on a number of other factors including leadership.

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...in [the association] we have the principle of kinship, solidarity, and mutual cooperation.”

Concerning **status**, contradictory pulls were evident. It was repeatedly noted by various stakeholders that sanitation is not a 'sexy' business, and this may serve to discourage involvement of new entrepreneurs, or cause existing entrepreneurs to lose interest. However, it was also evident that prestige and recognition could be found within such a business. Associations such as PAPSIGRO and APPSANI have attracted some attention nationally and internationally, leading to visits from international organisations, and invitations for some entrepreneurs to make presentations about their experiences in other parts of Indonesia and in other countries such as Vietnam. During interviews, entrepreneurs were quick to note this recognition.

Lastly, the intangible **purposive** rewards were evident among entrepreneurs. In Grobogan, the emphasis by interviewees on having a social purpose to serve the poor to improve their health was evident both in their individual businesses and in the wider association. One entrepreneur said: *'my focus is on how to help the community in [this district] to become healthy'*. Also, in recognition of the challenging financial situations of their customers, entrepreneurs did not have stringent instalment payment terms and conditions. It appeared common for entrepreneurs to not require fixed repayments and to be flexible with late repayments: *'[repayments] can take one week, one month, one year, one-and-a half years... we're not only about business, it is a social purpose.'*

The association also supported entrepreneurs in their shared purpose, by bringing together people with different but complementary skills. In the case of PAPSIGRO, members include not only sanitation entrepreneurs but also marketers, playing complementary roles: *'An entrepreneur is someone who dares to do something and take a risk... a marketer is selling only for commissions'*.

Another example of commitment to social purpose was provided by the leader of the APPSANI association, who spoke of his commitment to developing his own sanitation business partly as an example or model for other businesses to build on and replicate.

Overall, there is variability in which of the above motivators may be stronger or weaker for different individuals and in the extent to which the motives are mutually reinforcing or can undermine or contradict each other. For instance, tensions exist between solidary benefits that arise from associations of entrepreneurs and competition between entrepreneurs for customers to increase their material benefits. Equally purposive motivations to serve the poor may act in opposition to desire to attract profit. Suffice to say that it requires a unique mix of internal motivators and external circumstances to create an environment conducive to sanitation enterprise growth, and this may help explain the relatively low growth and development of such enterprises in the absence of external resources and impetus.

B) ACCESS TO CAPACITY BUILDING OPPORTUNITIES **The need for entrepreneurial 'spirit' and as well as financial management skills**

There were examples of entrepreneurs who showed true 'entrepreneurial spirit'. For example, one entrepreneur noted: *'I dared myself to take the risk. But I didn't have money to take the risk. I did a calculation and took loans from the construction shop and tried to make it into products and in that process I had to take risk'*. Another described how, if business was slow, they would contact government staff and offer to provide snacks for a meeting and presentations about the sanitation services available: *'I say I will provide snacks. I have to take a risk. It's not about money out, it's an investment. My presentation leads to 13 or 14 orders. Sometimes others are not brave enough to do that.'* Another example was an entrepreneur who mistakenly provided higher quality (and cost) toilets, but did not demand increased payment for these (thus tolerating a loss). This led to additional orders from others, and ultimately, a profit. As one entrepreneur put it, an entrepreneur requires a: *'spirit of courage and endurance – how much you can tolerate loss'*.

Ideally, entrepreneurs need a combination of self-motivation, past business experience and industry knowledge, organisation and management

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capabilities, marketing skills, customer relations, a vision, and a willingness to take risks as described above. The research made clear the ongoing need for increased skills in many of these areas: *‘our countrymen [...] still have a lot to learn about entrepreneurship and need advisory support and coaching’.*

It was clear that, if the sanitation entrepreneurship model is to form the basis for the expansion of sanitation services (and given that most such entrepreneurs only focus on their business on a part-time basis) then there is an ongoing need to bring in new entrepreneurs into the field of sanitation. For instance in East Java the current total number is a small fraction of what is needed to cover the province. Development partners looking to build capacity in supply-side sanitation businesses found it challenging to recruit appropriate participants. Plan Indonesia noted that whilst there was a high interest initially from a range of individuals to receive training, there was a much smaller number who had a genuine interest in, and aptitude for, setting up businesses and taking the risks that entrepreneurs must take. Similar experiences were reported in East Java, as was the need to screen potential participants for entrepreneurial spirit and skills before entry to training.

There was a clear need for capacity building in the area of financial management. The issue is not unique to the sanitation sector; it is common in the small-scale private sector. Government agencies that deal directly with small businesses mentioned a lack of financial management skills as a major factor affecting entrepreneurship: *‘Sometimes they use the money for their own needs [rather than investing in the business] and there is no cash flow.’* Pricing mechanisms and payment options offered to customers need to ensure cost recovery. While instalment payment plans are effective in attracting sales, if they are not well managed they can affect working capital and long-term sustainability. Monitoring business profitability by keeping a record of financial transactions is also essential for assessing the viability of the business and for identifying strategies for improvement. For instance a study

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on the challenges to growth of APPSANI entrepreneurs (Ikeda 2012) identified instalment payments management as a key issue affecting businesses’ cash flows and profitability, and most of the APPSANI members surveyed agreed that collecting instalment payments is hard and time consuming. Ikeda’s study also found that only 35% of the APPSANI members keep financial statements, and most are likely to record only a basic income statement, which is not enough to monitor the cash flow. Amongst the entrepreneurs interviewed in Grobogan it was also clear that flexible payment options were supported and also that the current standard price for their toilet package, established by the association of entrepreneurs, does not reflect the extra costs of transportation to locations which are further away.

But there is limited availability of capacity building opportunities for sanitation entrepreneurs

Overall, technical and business training opportunities for sanitation entrepreneurs are limited and there is no standardised training available for sanitation entrepreneurs. In East Java and Grobogan, training for entrepreneurs was provided by international development partners (WSP and Planrespectively), which led to the formation of sanitation trade associations intended to provide support services, including training, to sanitation providers.

Currently, amongst government departments, the Department of Health has the main budget allocation for sanitation-related activities, and so associations of entrepreneurs rely on this budget to deliver training, and funds from this budget are not always available depending on the location. Most districts have vocational education institutions with subject areas in business and management but these require payment (which may render them out of reach for entrepreneurs) and usually focus on trades other than sanitation.

The District Department of SMEs and Cooperatives and the District Department of Mining and Industry, as part of their role in fostering private sector development, provide capacity building support to small businesses, supported

by combinations of local and central government funding. For example, the Department of SMEs and Cooperatives provides advice to businesses on their registration processes. It also assists with marketing (e.g. through expos), training (e.g. glass bending, packaging, batik, marketing) and cross-study learning, and helps small businesses access provincial support for equipment. The District Trade and Industry Agency supports certain new businesses with training, equipment, cross-study learning, monitoring and supervising to ensure customer satisfaction. The processes that determined which types of businesses, and which businesses within each type received support, did not seem to allow for new areas such as sanitation to be easily included.

Interaction of these government agencies with water and sanitation entrepreneurs has been very limited. Historically, water and sanitation services have not been part of the focus of these agencies, and they tend to concentrate on other priorities with more visible connections to socio-economic outcomes, such as food, construction, and arts and crafts businesses. As one government staff member from the health area noted: *Each ministry has its own priorities... the Department of SMEs focuses more on socio-economic development... you have to take into account the national budget system. It is performance-based. If you read their budget system, there is no priority for water and sanitation... it will take time for them to realise.*

It was reported, however, that the Department of Trade and Industry had assisted with some aspects of a new sanitation product design: *'we helped assist them... to build concrete pipes with a 'cone'. We try to mediate them to have tensile test on the ring, at the provincial level'.* Research also revealed that accountability around the budget allocation mechanisms used by these agencies may favour the businesses with which these agencies may have patronage relationships, and this may act as a disincentive for them to branch into new areas, such as sanitation, which may not offer high financial returns. The findings also suggest that these agencies mainly provide support to businesses

that are legally recognised as business organisations, and in many cases sanitation entrepreneurs are not legally recognised.

The POKJA-AMPL water and sanitation coordination group could provide an opportunity to bring in these agencies (SMEs and Trade and Industry). However, agencies active in the POKJA (the Ministry of Health, Public Works and BAPPENAS) may not have the authority to secure such involvement or commitment: *'sometimes they send the wrong person... we cannot force them... we have lots of other duties'.*

C) ACCESS TO FINANCE **Sanitation entrepreneurs face challenges to access finance**

Research findings indicate that one of the major challenges sanitation entrepreneurs face is access to finance. In Indonesia, this is a common issue for micro and small businesses (see Box 3 on page 14). For instance, 87% of 40 million micro and small entrepreneurs in Indonesia do not have access to banking services (IndII 2011). And, according to Ikeda (2012), the costs of bank financing in Indonesia are high.

In Grobogan and East Java, although there are local banks providing loans to businesses, most of the PAPSIGRO and APPSANI members do not borrow from banks and tend to rely on their local community networks, and local forms of informal lending. There are three main possible reasons for this, described below.

Formation of a legal entity is often required for formal lending

Sanitation businesses often operate informally and are not legally registered as business organisations, which is typical in the Indonesian context: *'sometimes the business has started before legalisation'.* This was mentioned as an issue in sanitation businesses' access to loans, as banks, particularly national banks, tend to be less likely to lend money to non-legally registered businesses. A government stakeholder also mentioned the need to be registered and said that registration could lead to support: *'personally, I have an expectation that they individually register to then receive support or capital to help'.* Local banks were mentioned as being more flexible in their

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Each ministry has its own priorities... the Department of SMEs focuses more on socio-economic development...
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sometimes the business has started before legalisation.
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BOX 3: ACCESS TO LOANS

It is not easy to get access to banks or rural banks' loan services. Not only do individuals or organisations need legal status, they also need to fulfill eligibility and administrative requirements, including character, credit history, cash flow history and projections, and they need collateral to secure the loan. In most cases, micro and small entrepreneurs will find it difficult to access banks or rural banks' loan services. In contrast, it is relatively easy for individuals or organisations to access credit from micro-finance institutions (MFIs). The requirements are much simpler, usually the availability of collateral to secure the loan. However, in general, the amount of the loan given is much smaller and the interest rate charged by the MFIs is much higher than the interest rate charged by banks/ rural banks.

Source: Akbar Susmanto 2013, personal communication, 26 October, Universitas Gadjah Mada, Yogyakarta, Indonesia

lending criteria, some providing loans to non-legally registered businesses, based on evidence of their cash flows. However, cash flow management and book keeping requires a certain level of financial management skills, an area of major capacity building need amongst entrepreneurs, as mentioned earlier.

Associations of sanitation entrepreneurs may be in a better position to provide such evidence and may assist entrepreneurs in overcoming this issue by providing loan guarantees. In East Java, APPSANI has been providing this kind of support to some of its members: *'[they] don't need to be legalised, they just have to become a member of APPSANI. APPSANI provides joint signature and gives a recommendation.'*

Informal lending may be a viable solution in some situations. For instance materials stores may support entrepreneurs once trusting relationships have been developed. Such was the case with one sanitation entrepreneur. However, findings suggest such arrangements may involve payback periods which are too short (e.g. two weeks) to satisfy the needs of entrepreneurs. Broader literature

on informal lending practices (World Bank 1989) also points out the potential for high interest charges or intimidating practices if such sources are accessed.

Lending institutions lack familiarity or interest in sanitation

One of the reasons access to finance is often difficult may be the lack of familiarity of banks and micro-finance institutions (MFIs) with sanitation as a business and a consequent lack of interest: *'It is difficult. They [micro-finance institutions] don't trust this kind of business.'* Various stakeholders from CSOs have been trying to mobilise the financial sector to provide loans to support sanitation businesses but they have been met with perceptions that sanitation is not attractive. For instance, *'[b]usiness people, MFIs, are not interested in sanitation... sanitation is not sexy to the real business micro-finance man' and 'there was] no interest, [it is] not sexy, [entrepreneurs have] no collateral. That was our difficulty'*. It may be that the small size of such businesses also served to reduce interest in them: *'Maybe too small money for them? Admin costs associated to it or just not interested... have other ways to make money'*.

Entrepreneurs are not so keen to borrow money

Another reason for the low levels of borrowing from formal financial institutions may be entrepreneurs' lack of confidence in their ability to repay debt and therefore a preference for the more flexible repayment conditions informal lenders may offer. However, although there may be cases where the perception of risk is real, findings suggest that in some cases it may be due to the risk-averse character of the entrepreneur or simply a lack of familiarity with bank borrowing and inexperience in loan application processes. According to Ikeda (2012), most APPSANI entrepreneurs have enough collateral to access loans from banks but avoid doing so. Stakeholders also observed that lack of confidence played a role: *'When I ask them [entrepreneurs] why don't you get a loan from the bank, they say I'm not that confident yet, or, they say, I don't really need it yet... I'm getting my own money [through informal lending].'*

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It is difficult.
They [micro-
finance
institutions]
don't trust
this kind of
business.
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When I
ask them
[entrepreneurs]
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get a loan from
the bank, they
say I'm not that
confident yet...
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it’s a big
problem to
have cash.”

D) FINANCING OPTIONS FOR CUSTOMERS

Access to finance for potential customers influences demand for a certain product or service, particularly in the case of sanitation for the poor for whom ‘it’s a big problem to have cash’. Offering credit to customers can be an effective strategy to attract sales but it increases the risk of cash-flow management issues for providers. The availability of alternative financing options, such as bank loans and traditional informal forms of micro-finance, reduces the need for businesses to offer instalment payments, and reduces the risk of insufficient cash flow. The next two sections describe how traditional lending mechanisms and innovations in the form of partnerships with banks are shaping how entrepreneurs can pursue their businesses.

Traditional lending mechanisms can offer support to customers

In Grobogan and East Java, as a strategy to increase sanitation coverage, local government authorities have encouraged the use of *gotong royong*, a traditional form of sharing in which a group of community members contribute financially to purchasing a toilet for a community member who cannot afford it. It was reported that when a village head is externally pressured by higher levels of government to eliminate open defecation, they may trigger the use of *gotong royong*.

Another traditional mechanism of informal lending known as *arisan* is also widely used in Java, where groups of 20 to 40 people agree to meet regularly for a fixed period of time and contribute a fixed amount

at each meeting, and a member is paid the total of the money pot on a rotating schedule. The process continues until all members of the group have received the money pot at least once (Ikeda 2012).

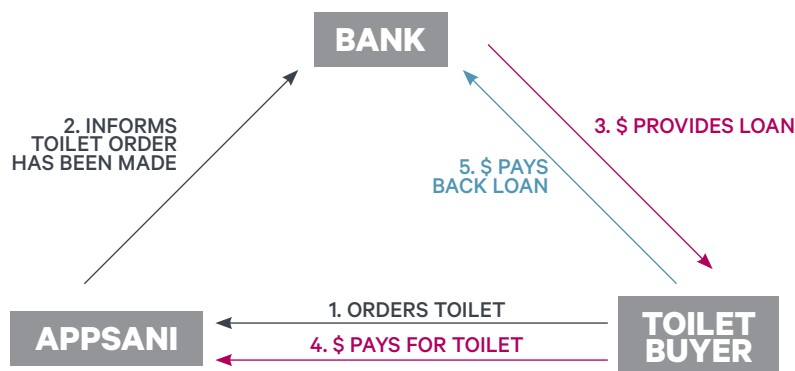
In East Java, this process has been used by community members to buy toilets and some sanitation entrepreneurs have been helping facilitate this process for groups of costumers (Ikeda 2012). However, this process is generally used by wealthier households rather than poorer individuals, and Ikeda (2012) reports that households often prioritise investments other than sanitation when using *arisan*. Therefore, to ensure poorer households are reached, it is likely that other financing options are needed.

An innovative partnership between entrepreneurs’ association and banks

Bank financing options for customers also appear to be limited but there is a potential role for associations of entrepreneurs to address this.

In East Java, APPSANI has recently been collaborating with a national bank to provide loans for its members’ customers. Once a household orders a toilet from an APPSANI member, APPSANI informs the bank that an order has been made and the bank provides a loan to the customer to pay for the toilet. The customer then pays back the bank based on the agreed terms (Figure 6).

FIGURE 6 MECHANISM TO PROVIDE BANK LOANS TO CUSTOMERS IN EAST JAVA



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[competition]
is needed,
to stimulate
improvement
and make
prices stable.
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E) COMPETITION AND INNOVATION
Should associations lead on innovations or foster competition?

Competition is important to stimulate business innovation. Businesses may explore competitive advantage by innovating in the design of their products or in the product and service price packages and payment options they offer to their customers. One stakeholder confirmed that *‘[competition] is needed, to stimulate improvement and make prices stable.’*

Findings suggest that in East Java and Grobogan, it is the sanitation entrepreneur associations, rather than individual businesses, that have been responsible for innovations, for instance in product design and product services packages. Indeed, research conducted by Ikeda (2012) indicates that in East Java, sanitation entrepreneurs may tend to rely on the association of entrepreneurs to access innovations. As such, the associations are also playing a role in ‘controlling’ innovation. This situation has both potential benefits and constraints. The benefit is the possibility to develop products that may be quality certified, and which may create a ‘brand’ and support ease of entry of new players into sanitation businesses, as they may adopt an existing model. This is important since some stakeholders noted the limited ability of existing entrepreneurs to innovate on their own. In addition, associations have greater critical mass, and are more able to invest in product development, as is the case for APPSANI, who have a unit devoted to research and product development.

On the other hand, if associations assume such roles, this may also serve to discourage individual businesses from experimenting and innovating on their own, either with respect to technologies or product-services packages. It may contribute to create a cycle of entrepreneurs’ dependency on the trade associations, and limit opportunities for bottom-up innovations stimulated by competition. An alternative to the current model would entail associations of entrepreneurs fostering and supporting bottom-up innovations by mentoring members to explore different product-service and price packages or new

technologies. This may be particularly important in relation to the development of products and service options tailored to poor households.

These observations reflect typical political economy tensions between cooperative and competitive dynamics, and the contradictions that exist between different incentives. Such incentives also have the potential to shift over time. For instance there may be a point at which the benefits offered by the current association structure and orientation are no longer sufficient to outweigh the costs for individual entrepreneurs.

F) POLITICAL SUPPORT AND PRIORITIES
Securing local government commitment to sanitation is crucial for entrepreneurs

With a decentralised system of governance, authority is devolved to the district executives. District heads (*Bupatis*) and local government receive budget allocations directly from central government, bypassing provincial authorities, and they may also raise revenue locally. Regardless of the policies in place developed by line agencies, the district head and the local parliament have the power to decide which policies to focus on. To get resources for their activities, district departments must convince their *Bupati* and district parliament that the projects they support are worth funding.

This means that a commitment from the local government to addressing community water and sanitation issues is of critical importance to the development of sanitation businesses, both in terms of support for demand creation, and for the linking of this demand to new sanitation businesses. For instance it was noted that *‘when district governments don’t pay attention to sanitation then you can’t have sanitation entrepreneurs’ and that ‘[e]verything is much easier when district government wants to do it – they have the influence, the power and the data’*. This is particularly challenging as generally sanitation is not considered a high priority by national or sub-national levels of government: *‘Very few government officials put sanitation as their priority.’*

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The importance of securing local government's support for sanitation upfront was well recognised by Plan Indonesia when implementing its sanitation program in Grobogan. Plan's approach ultimately resulted in 5–7% of their budget being allocated to water and sanitation activities in 2013–14. Plan worked at a large scale and through this was able to gain support due to the high visibility of its success in increasing access to sanitation: *'Normally government is open to any good ideas to the community, but will they really support you? That depends, if they see it is a success.'*

Limited local government support to entrepreneurs and private sector development

Community health centres (Pusat Kesehatan Masyarakat – or *Puskesmas*) at the sub-district level employ environmental health extension personnel (sanitarians) who have played an instrumental role in creating demand for sanitation products through CLTS triggering.² However, despite the increase in government attention to sanitation at a national level over the last two to three years, findings indicate that the dominant perception within national and local governments is that their role in sanitation is to create demand. Local government

does not understand the need to create a supportive environment which enables the supply-side to meet the demand it helps to create. Such an environment is crucial to maintaining open defecation free (ODF) status: *'Government is in a state of euphoria to achieve ODF but is not focused on sustainability'*. Stakeholders also reported that the government response can be that it is not their concern: *'if [you] say this is private sector, then they respond that this is not their domain, [and that] "they [enterprises] have to survive"'* and that they don't have the skills to help: *'if you ask them to help, then they say they don't know how'*.

Consequently, it is currently difficult to engage local government departments of health in discussions about the support needs of the supply side and it is difficult to secure their commitment in their program components beyond the demand creation phase: *'too much for them to talk about that [private sector] so far'*. As mentioned earlier, there is also no evidence to date of successful contributions or partnerships with other local government agencies (the Department of SMEs and Cooperatives or the Department of Trade and Industry) responsible for private sector development in supporting sanitation businesses.

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Government is in a state of euphoria to achieve ODF but is not focused on sustainability.
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NOTES

2. There are also examples of corporate social responsibility funds being allocated to support sanitation activities.

5. FACTORS SHAPING ENTERPRISE ENGAGEMENT: COLLECTIVE SOCIAL ENTERPRISES

This section uses a political economy framework to examine *collective social enterprises* including associations of sanitation entrepreneurs, professionalised CBOs and associations of CBOs. We explore the incentives that arise as a result of the institutional structures, power distribution and formal and informal institutions in the sector, and we examine how these shape enterprise behaviour.

Four types of collective social enterprise were included in this research:

- associations of sanitation entrepreneurs (APPSANI and PAPSIGRO)
- associations of community-based organisations (CBOs) managing communal sanitation facilities (AKSANSI)
- associations of CBOs managing rural water supplies (at the district, provincial and national levels)
- CBOs managing rural water supplies (HIPPAMS, or BP-SPAM).

These collectives are seen as examples of ‘social enterprises’ as they must develop sustainable financing arrangements to survive and continue to perform their chosen services, and at the same time they are aimed at and contribute to a shared social goal.

Most have been initiated with support from international development partners and the challenge is to build independence and sustainability.

In this section, findings are presented through similar key elements to those described in the previous section in relation to sanitation entrepreneurs. These key elements are:

- a) demand and profitability
- b) business management skills and access to training
- c) access to finance and legal status
- d) political support and regulation.

A) DEMAND AND PROFITABILITY Significant need for the services offered by these emerging social enterprises

Each type of collective social enterprise listed above was formed out of an emerging need and gap in existing institutions and functions to support service delivery.

The *associations of sanitation entrepreneurs* in East Java and Grobogan, were formed due to a need to provide support services and functions to sanitation entrepreneurs and to facilitate an increase in access to sanitation. For example, the formation of PAPSIGRO in Grobogan, which happened after Plan had provided technical and business skills training to interested community members, was partly prompted by the need to link trainees with different sets of skills needed to run a sanitation business. Not all trainees were successful in applying all of the necessary skills, but each had different skills that could be complemented: ‘Some construct the toilet, but can’t sell. Others can make a pipe but can’t sell. Some are good at selling. If we go one by one it won’t work – so we established PAPSIGRO.’

Providing access to cheap materials, training and business management tools (e.g. template slips, administrative billing systems), and advocacy are



FIGURE 7 OFFICE OF ASSOCIATION OF HIPPAMS, SIDOARJO, EAST JAVA



FIGURE 8 PROPS USED IN TRAINING OF SANITATION ENTREPRENEURS BY APPSANI



FIGURE 9 RECEIPT TEMPLATES AND BILLING RECORDING SYSTEM PREPARED BY APPSANI

other important support services these associations provide to entrepreneurs. In East Java, APPSANI has also been playing an important role in establishing relationships with local banks to provide loans to its members' customers.

As with the association of sanitation entrepreneurs, the formation of associations of CBOs managing rural water supplies, such as the one at the district level in Lamongan, arose from a need to provide on-demand support services and functions to CBOs after the CBOs had been set up through donor-funded projects and to ensure the CBOs' long-term sustainability:

'why do we need an association? We see in villages that human resources are not the same in terms of skills and managerial skills, therefore they need an association. We have a technical department, a financial department, an organisational department. Village people need all three of these aspects of advice.'

Such associations have recently begun emerging at the district, provincial levels and one has been created at the national level, catalysed by current Government of Indonesia program PAMSIMAS supported by the World Bank and Australian aid program, executed by Ministry of Public Works. These associations: *'have the mandate and budget to support the professionalisation of CBOs'*. The expectation is that these associations will form *'a bridge'* between CBOs and local government. It is also expected that they will offer technical assistance to CBOs and monitor the status of CBOs (for instance in regard to water system functionality, and the existence of an agreed tariff). Within certain districts, a funded *'advisory board'* of government representatives from relevant agencies has been appointed by the district head to engage directly with these associations and resolve matters related to service delivery. At the national level the recently formed national association (Tirta Nusantara Lestari) aims to support learning exchange, technical support to provinces and districts, and monitoring.

An association for CBOs concerned with community-managed sanitation in poor urban areas, AKSANSI, also has strong

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We see in villages that human resources are not the same in terms of skills and managerial skills, therefore they need an association.

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parallels and similarities with CBOs described above for rural water supply. This association is providing much-needed support to post-construction CBOs but has limited resourcing or formal recognition. AKSANSI exists in the form of a central national secretariat and several branches in different geographical locations. The secretariat in Jogjakarta was set up in 2011 and has eight staff as well as a further 23 members of an organising committee across all the branches. The organisation is growing, and is in the process of setting up new branches in current and other provinces. AKSANSI's purpose is to promote the sharing of experiences between CBOs and to play an advocacy role with government in regard to the implementation of co-management of post-construction sanitation service packages with local government. Other roles include services to assist with monitoring, technical and social assistance and advice to CBOs.

Finally, there were clear indications of a significant demand among CBOs managing rural water supply for access to loans to expand their services: *'[p]ost-project no one is responsible for maintenance. Problems arise when the project is finished. So we had an initiative that all village operators need an advisory team... that's why we need an association [CBO] in each village, so when the project finishes [we] can have a continuing program'*. In Biltar and Lamongan, CBOs serve three to five times more households than the local PDAM. A willingness-to-pay study of 2,100 households in five districts, both connected and potential customers of CBOs, a willingness to pay between 30 and 300 per cent more than the tariff currently paid by rural households (Sy 2011). The success of CBOs in some areas contrasts with the general poor functionality and reliability of government-owned utilities (PDAMs). For instance in Lamongan there was interest from some communities currently inadequately served by PDAMs to instead be served by the local professionalised CBO. Further analysis is needed to understand the incentives driving PDAM behaviour as compared with professionalised CBOs. However, the social goal of CBOs described below is

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...we need an association [CBO] in each village, so when the project finishes [we] can have a continuing program.
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likely an important factor in the reported trust from communities that well-functioning CBOs enjoy (Sy, 2011; 2). It should also be noted that professionalised CBOs are not the norm in Indonesia and their successful formation relies significantly on individual champions (Sy, 2011; 4) and on the quality of available human resources in the village or community (IndII, 2011; p11).

Driven by a social goal and not by profit

These various organisations were formed with a social goal in mind: to provide improved access to water or sanitation to local communities. Therefore they operate as forms of social enterprise, and are largely run on a voluntary basis: *'We are not for profit, we are social.'* They have emerged from civil society engagement in the need to support service provision, particularly in areas where current policy limits government responsibility for operating such services (for instance, rural water supply and communal urban sanitation).

Although some such enterprises may offer honorariums to the community members who manage and operate the organisation, they are generally not enough to make a living and most members were found to place their activities in the organisations as a side occupation to a formal job.

Over-reliance on volunteerism and the social purpose may limit their development and expansion. For instance, according to one participant, only a tiny percentage of CBOs managing rural water supplies (2–4%) have financed the expansion of their systems. This was reported to be due to a focus on *'the social cause, not the business drive – so long as the water flows and it is free, [there is] no business perspective within the water boards'*. This issue is explored further below.

However, a financing stream is important for long-term viability

To remain viable in the long term, these organisations need to generate sufficient economic value to sustain themselves, particularly if they are to expand their services. This means their business operating models and management practices need to ensure financial sustainability. In general the social

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We are not for profit, we are social.
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...[there is] no business perspective within the water boards.
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In future we
cannot continue
doing this
because it
depends on
a few people...
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enterprises discussed here operated based on a form of ‘fee-for-service’. However, in some cases external donors also contribute some financial support.

According to Sy (2011), most CBOs managing rural water supplies are run in an ad hoc way and do not have planning and budgeting systems in place. Their largely voluntary nature also poses questions around their long-term sustainability as they often rely on the leadership of a small group of social minded community members. This was emphasised by the board members of an association of CBOs who noted: *‘it is difficult to find willingness and capacity... must be smart, literate, have time, want to do good... it is hard to find.’* And concerning their own district association of CBOs, they noted its fragility as it relies on their voluntary contributions: *‘In future we cannot continue doing this because it depends on a few people... currently we can provide but we are only 11 guys here’*. Indeed it was reported that such associations do *‘not generally apply a user-pays principle’* and instead work on a voluntary basis. In addition, it appears there may be resistance to formalisation and paying for services within CBOs. For instance it was reported that as a hangover from past ideas and ideological beliefs concerning privatisation, CBOs don’t want to contract out roles such as operation and maintenance, as they fear they may lose control.

Similar challenges were observed with sanitation entrepreneur associations. According to an impact assessment study of APPSANI (Ikeda, n.d., p.1) *‘achieving sustainability of APPSANI itself will be a longer-term goal, and will require significant assistance from WSP and other donors’*. PAPSIGRO’s model relies on financial contributions from members, and voluntary contributions of time. An initial small membership fee is charged, followed by a small monthly fee, and 0.5% of sales and 10% of external training earnings are contributed to the association. The association also has plans around other business opportunities, such as bricks, biogas, refilling purified water, and ceramic filters. Whilst current membership is 30, about 12 to 15 are reported to be active and

attend meetings. One member mentioned his concerns about the finances of the organisation: *‘so in my eyes PAPSIGRO is limited in its economic aspect... I’m a bit pessimistic... the economic situation of members isn’t great’*.

A range of other sources of financial support was mentioned. Corporate social responsibility (CSR) funds were reported as one possible avenue for these social enterprises to improve their financial situations. Several organisations were examining the potential of such private sector partnerships. In several cases organisations were partially reliant on donor support through funded positions or project activities that they implemented. There were also examples of local government paying for certain services from these organisations, particularly where good relationships with key political or administrative leaders had been nurtured.

A key reflection is that where finance comes from can determine who the organisations are dominantly accountable to. Forms of ‘fee-for-service’ provisions promote direct accountability of enterprises to users, whereas donor or CSR funding has the potential to skew accountability towards their requirements rather than those of service users. In general the combination of voluntary time contribution, shared social goal and a fee-for-service financial model appears to result in strong accountability to users. However this can also result in fragile financial status.

B) BUSINESS MANAGEMENT SKILLS AND ACCESS TO TRAINING

Access to business management skills is a major issue for these organisations

We observed limitations in the business skills of the social enterprises, though not in all cases. Limitations imposed by the level of education of their members were noted by some stakeholders.

According to IndII (2011), a key barrier for the professionalisation of water CBOs is a lack of entrepreneurial outlook and experience, as in general, such CBO staff do not have qualifications to match their duties.

In the case of the *associations of sanitation entrepreneurs*, although these were set up with external assistance, it appears that the training provided was limited to

the development of the entrepreneurs themselves. For instance, for PAPSIGRO, no specific training was offered on how to run an association, and it is not clear whether the formal organisation type that is most suited to their needs was selected. It did appear however, that some analytical activities that the association could usefully carry out were being started. For instance, a market inventory to understand the market at a sub-district level was under development, and is likely to be helpful to members. APPSANI benefited directly from the leadership provided by an individual with considerable business experience who passed these skills on to others.

But there is limited training support for social enterprises

Appropriate capacity building support for these social enterprises is not readily available. The role of the District Department of SMEs and Cooperatives and the District Department of Mining and Industry in fostering private sector development, and in providing capacity building to small businesses, was discussed earlier in discussion on sanitation entrepreneurs, there were similar issues in terms of a lack of available support for the types of social enterprises described here. In addition, some of the required skills are likely to be specialised (in terms of running a social minded business) and do not lend themselves to typical ideas around trade and small businesses. Water CBOs have relied largely on training provided through donor-funded partnerships (for example, through IndII and WSP) aimed at improving the commercial practices and planning systems of CBOs. One CBO we visited had developed a high level of business acumen through such support. However, a study of the effectiveness of some of the activities conducted under this program revealed that in general, the training was too advanced and not long enough for the educational level of the trainees, and as a result some CBOs had returned to their 'old ways' of doing things (IndII 2011).

C) ACCESS TO FINANCE AND LEGAL STATUS

Access to finance was discussed earlier as a common issue for micro and small businesses and one of the major constraints faced by sanitation entrepreneurs. Likewise, the findings indicate this is a key challenge to water and sanitation collective social enterprises. Two key dimensions of this are proving creditworthiness, and choosing an appropriate formal, legal organisation type.

Creditworthiness becomes important to access bank loans

To access bank loans businesses need to demonstrate creditworthiness. This often involves being able to provide accurate evidence of their financial status through financial recording and reporting, and some social enterprises may have a limited capacity to meet such requirements. Sy (2011) notes that in East Java, although most CBOs earn more than they spend, and have the capacity to borrow, their financial recording and reporting practices need to be improved for them to be able to demonstrate their financial status in loan applications. On the other hand, it appears that there is a general lack of interest from banks in water and sanitation businesses. This is supported by a participant's observation that *'it seems that banks do not see CBOs as a profitable market'* and this indicates that the high transaction costs involved in providing loans to CBOs may be one reason for this (IndII 2011).

Choosing the appropriate organisation type for a social enterprise is difficult

The legal status of these enterprises also matters, although some interviewees mentioned that local banks may be more flexible with this than national banks. There are various options in terms of choice of organisation type when registering an organisation as a not-for-profit or for-profit organisation with government (see Box 4 on page 24).

The research revealed uncertainty amongst stakeholders around the type of organisation best suited for these social enterprises. For rural water management, each form has pros and cons (see Box 5 on page 24).

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...it seems that banks do not see CBOs as a profitable market...
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...there is a rule,
that *yayasan*
cannot be for
profit, they have
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money locally,
but [only] to
achieve a social
purpose.’
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...it is easy
to set up as
an SME joint
venture...
but setting up
a cooperative
takes more
time...
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BOX 4: INFORMAL AND FORMAL ORGANISATION TYPES

By law, non-formal organisations cannot make any legal contracts or agreements with other parties. Consequently, they cannot receive money from government, or even from private companies or international donors. Any formal organisations can receive money from the government (depending on government programs, policies and specific regulations about certain funding schemes). The following types of organisations are registered with the government.

Formal non-business (not-for profit) organisations:

- 1) *yayasan* (foundations such as the Habibie Centre, Yayasan Dian Desa, most formal registered non-governmental organisations choose to be a *yayasan*)
- 2) *perkumpulan badan hukum* (registered organisations, such as Nahdhatul Ulama or NU, Muhammadiyah)

Formal business (for profit) organisations:

- 1) *koperasi* (cooperatives)
- 2) *badan hukum milik desa* (BUMDes, village-owned enterprises)

Equally, there were diverse perceptions about what each organisation type could or should do and an overall lack of clarity about the boundaries around their ‘allowable actions’. This is particularly important in relation to social enterprises, as social enterprises may include characteristics of both for-profit and not-for-profit organisations. For instance, one stakeholder’s perceptions about what a *yayasan* could or couldn’t do were as follows: *‘If you are a company, you buy a truck, but a yayasan doesn’t do this, because they don’t have capital... there is a rule, that yayasan cannot be for profit, they have power to raise money locally, but [only] to achieve a social purpose.’* In addition, there are perceptions about how easy or hard it is to set up different types of formal organisations: *‘it is easy to set up as an SME joint venture, with two to three people, it costs Rps 4 million and takes one week to get a permit, but setting up a cooperative takes more time, and needs agreement between all members.’*

- 3) *commanditaire vennootschap* (CVs taken from the Dutch, a business entity with two or more partners, one of whom contributes only capital and does not directly manage the business, but still has to be responsible for all financial liability)
- 4) *perseroan terbatas* (PT, in Australia is Proprietary Limited).

‘Perkumpulan’ translates as ‘association’ and may be informal or formal. Similarly, *a usaha mikro, kecil dan menengah* (UMKM, micro, small and medium-sized enterprises) is not an organisation. It is a term used to refer to business entities (regardless of whether they are formal or non-formal) that are micro, small or medium in size. In the same way, *Kelompok usaha bersama* (KUBE, joint enterprise group) is a name used by many small business organisations to identify their business entity, however if they register to become a formal organisation, they need to choose from the types above.

Source: Akbar Susmato 2013, personal communication, 26 October, Universitas Gadjah Mada, Yogyakarta, Indonesia

Becoming a legally recognised entity may also open up doors for these social enterprises to deal with government agencies that have mandates to support the small business sector, such as the District Department of SMEs and Cooperatives and the District Department of Mining and Industry (Sy et al. 2011). Findings indicate that these departments are only able to provide support to legally registered businesses: *‘I have [an] expectation that they individually register to then receive support or capital to help.’*

Perceptions that government and donors shouldn’t directly support enterprises

However, findings also revealed a perception that government as well as donors cannot directly support for-profit organisations, with one government representative reporting the use of NGOs as an intermediary to provide funds to businesses: *‘it can’t be implemented directly, there has to be a third party and then can go to SME or SME association’.* It

BOX 5: A LIVE DEBATE: SHOULD WATER COMMITTEES BE FORMALISED AS FOR-PROFIT COOPERATIVES OR VILLAGE-OWNED ENTERPRISES (BUMDES) OR NOT-FOR-PROFIT YAYASAN?

To access loans, some CBOs and associations of CBOs have formed cooperative businesses. This means that they have formed both an association and a related cooperative (see Box 1 on page 8). Cooperatives are membership-based, and require all members to pay a fee to join. Loans can be accessed from government by a district-level cooperative, however time constraints in repaying loans (loans must be repaid within one year, and in reality are only available for a period of months) limit the ability of a district cooperative to provide loans to community-level cooperatives. Profits are shared between members, and it is not clear whether equitable outcomes for all members and users can always be achieved with this model.

In other places, water CBOs are likely to be legalised as BUMDes. For instance, in one district, leaders noted that they expected to pass new legislation that would support water committees being formalised as BUMDes: *'we plan to have a local government regulation [for] village owned enterprises. By this it can be controlled and managed. We want the BUMDes to operate independently and [be] owned*

by the village but still under the control of government'. Others were resistant to this model. They noted the risks of political interference, and that the social interests of the water committee may become captured by the elite. For instance it was suggested that profits generated by CBOs may be used for other areas of village development, or misused, rather than reinvested in the water system, as existing regulations do not provide clarity on this; *'they [the village government] can play, there is no regulation yet'*. This concern is supported by others (Indll 2011; Sy 2011) who maintain that clear guidance on this is needed as laws and procedures are not straightforward and allow different interpretations.

Lastly, it was reported that in another part of East Java, water committees have been legalised as yayasan, as yet another formal organisation type that could support this type of social enterprise.

A remaining question for all organisation types concerns ownership of assets (and of water resources), as this becomes important when formal arrangements are put in place, yet they remain largely unresolved.

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...the local budget cannot be used just to donate to one community organisation continuously, but it should be spent only to organise trainings.

was noted that: *'the local budget cannot be used just to donate to one community organisation continuously, but it should be spent only to organise trainings'*. Lack of clarity in the regulations on how government can provide funds to support private or social enterprises was reported to contribute to avoiding directly supporting such organisations. It was reported that the laws are unclear, and that *'probably this is one of the obstacles [to enterprise development]'*.

D) POLITICAL SUPPORT AND REGULATION
Support to social enterprise from government is limited

As discussed earlier, in general there has been very little attention paid to water and sanitation by local governments, and in cases where sanitation has drawn some attention, it tends to be focused in creating demand. This means social

enterprises are left alone to service the needs they observe.

Support from government was viewed by some research participants as unimportant, and by others as essential. For instance some members of social enterprises have low expectations from government: *'We are volunteers and don't expect money from the government'*. In contrast, the examination of rural water supply provision revealed a sense of discontent about the lack of recognition from government of the importance of the associations of CBOs and their role in providing a bridge between CBOs and government: *'[district] association is very important for [CBOs], but government doesn't pay any attention' and 'we get questioned [by government]... 'what is your legal status?'* Representatives of these social enterprises also saw the lack of financial support as problematic: *'PDAMs get money from government...'*

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...[district] association is very important for [CBOs], but government doesn't pay any attention...”

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...for [continued
growth]
we need
support from
government...
”

and [CBO associations] get zero, this is the injustice of the budget in government'. Along similar lines, one of the associations of sanitation entrepreneurs was reported to need government support, and proposed that its sustainability depends on this support: 'for [continued growth] we need support from government' and '[the association's] sustainability relies mostly on the government'.

Fragmentation and unclear government roles and regulations may exacerbate this issue

At times it was unclear which parts of government were responsible for supporting or overseeing the actions of social enterprises, due to fragmentation and unclear roles within different departments. For instance, for communal urban sanitation systems it is not clear

who is responsible for post-construction support to community CBOs. Whilst the responsibility is notionally meant to lie with the Community Empowerment Department within the Ministry of Home Affairs: *'they are not part of the history of [urban] sanitation'* and this limits their knowledge of, and attention to this area.

As mentioned in the previous section and in Box 4 (on page 23), the regulations surrounding different organisation types remain unclear, and this leads to a lack of clarity about how social enterprises can or can't be supported, and about what kind of oversight of their finances and operations is required and who is responsible for providing it.

6. FACTORS SHAPING CSO ENGAGEMENT WITH ENTERPRISES

The research revealed a growing trend for both CSOs and other development partners to engage with small-scale enterprises in the last five years. Examples of CSO engagement in enterprise development included:

- training of artisans, masons and sanitation entrepreneurs
- setting up sanitation businesses and social enterprises in water or sanitation
- mobilising the finance sector for loans for sanitation entrepreneurs and customers
- promoting water purification and sanitation products, services and enterprises
- acting as mediators or honest brokers between utilities and contractors
- assisting in professionalisation and licensing of urban sludge collectors
- hiring small contractors to build water or sanitation systems
- acting as a medium for donors or corporate social responsibility funds to support enterprises
- organising competitions to support private enterprise innovation in water, sanitation and hygiene technologies.

The research found a range of elements influencing if and how CSOs engage with private and social enterprises. These elements included:

- development approach and underlying philosophy
- business experience
- donor policy preferences and reporting requirements
- the funding model
- regional offices policies and guidance
- political support, regulations and election cycles.

Differing development approaches and underlying philosophies

CSOs may view for-profit models as potentially at odds with the core civil society goals of addressing human rights issues and meeting basic needs for all, and hence they may be cautious about engaging with private enterprises. Historically this has been the underlying development philosophy of the sector and adopting market-based solutions reflects a shift in approach. Indeed this was reported by one interviewee: 'It

hasn't occurred to me as being a natural partnership, but I can see how it could work on a small scale. Maybe because of [my] preconceived ideas about what NGOs do and are, and my own assumption, prejudices. NGOs are not-for-profit and private sector are for-profit.'

Over the past decade there has been growing concern with sustainability issues in the sector. In response to this, and as a way to avoid dependency relationships, some CSOs have been experimenting with supporting small-scale enterprises in service provision: 'NGOs are funded on a project basis. But if [it] can transfer a project into a business opportunity then it can continue. Even government funding can stop'.

CSOs' views on how to ensure long-term sustainability of market based solutions, and on how these tie in with the concept of ownership, are also relevant in shaping their approach. For some CSOs the idea that entrepreneurs need to embrace risk to create ownership of the business and its operations was seen as important for ensuring the long-term sustainability of market-based such solutions. CSOs were therefore very careful about what type of support they offered: 'real entrepreneurs should sacrifice their own money to start a business.' However, some CSOs in the sector in Indonesia have not incorporated sustainability concerns in their approaches, and were reported to see themselves more as service providers than as facilitators of change, which runs contrary to setting up functioning private enterprises for service provision: 'they work alone [not with government] in the field, [they] see themselves as duty bearers [rather than government]'.

The research also included the case of a CSO whose approach was rooted in concepts of community self-sufficiency, self-reliance and sharing. This CSO viewed market-based solutions as running contrary to this: 'the less you're dependent on the market, the more you're independent... when they have knowledge [of new sanitation products or approaches] they have to share it, not keep it for themselves... [in the] spirit of sharing.' Instead, this CSO's approach focused on the use of local resources and

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It hasn't occurred to me as being a natural partnership, but I can see how it could work on a small scale.

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...real entrepreneurs should sacrifice their own money to start a business.

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empowerment of communities through capacity building: *'[we are] not interested in market-based solutions. For example in sanitation, instead of buying things to clean, we use local [anti-septic] herbs.'* The CSO believed that: *'the people [have] to be the actor cause in the future they have to do the advocacy... because we are aware that it's impossible for us [as a CSO] to be with them forever... the most important thing is empowerment of people... they have to claim their rights... so transformation is the most important process... the principle is that we're just facilitators of the bridge.'*

Another area of tension for CSOs is the wish to support access to supply (of water purification products or sanitation products) without promoting one company, brand or enterprise. One way around this is that CSOs have developed communication materials that are non-brand specific, to promote the concept rather than the product: *'We promote the pros and cons [of different products] and introduce the community to the products.'* However, CSOs may end up in compromised positions, supporting a particular enterprise, and not others.

CSOs may lack business experience

The idea of engaging with private and social enterprises as a way to address sustainability issues is very new to the CSO sector and, as mentioned above, it reflects a shift in approach. This means that CSOs are often inexperienced in working with the private sector and in enterprise development. Consequently they may lack the skills needed to implement or support market-based approaches effectively.

Also, for local CSOs based in areas where there is a lack of entrepreneurial culture (e.g. remote areas), this shift in approach may be particularly challenging. Their lack of exposure to businesses in other sectors due to low levels of private sector activity in such locations means there are limited opportunities for CSOs to naturally grow their understanding of how businesses work and to realise their potential to support or achieve their goals.

The lack of an entrepreneurial culture also means CSOs may have difficulties in recruiting business-minded community

members with appropriate entrepreneurial skills who are interested in sanitation as a business opportunity or source of income.

International aid agency policy preferences and reporting requirements affect CSO programming

CSOs' development approaches and their underlying philosophies can be internally driven or externally influenced or imposed by donor organisations. Therefore, donor policy preferences can shape how some CSOs engage with enterprise development. Despite a growing interest in private sector involvement in the WASH sector in global policy debates, findings indicate that some donors may still be hesitant to support such approaches:

There's a mindset that [we donors] shouldn't be working with private sector, helping private companies make a profit. There are a number of NGOs internationally who understand that the private sector is the driving force behind development... the problem is that you have a perception that when there is a public good, it should be provided by government, but sometimes, the private sector is able to provide a public good much cheaper than the public sector. There is private sector involvement in other sectors, so it is not an alien concept, depends on who you talk to.

For instance the World Bank's WSP program has been one of the most active supporters of domestic enterprise development in Indonesia, and in many ways it has socialised this area with both CSOs and government.

Concerning reporting to donors, two main issues were raised by participants: the type of outcomes valued and the timeframe for change. CSOs are, in general, highly reliant on donor funding and 'upward' accountability measures to donors for progress and performance. Hence if donor reporting requirements include the provision of results specific to private sector involvement, then CSOs will have an incentive to focus their efforts on engaging with the private sector. However, this is rarely the case. CSOs reported that in general, reporting requirements are focused on tangible results or targets (e.g. number of people with access to improved sanitation) and do not necessarily focus on intermediate steps of enterprise



There's a mindset that [we donors] shouldn't be working with private sector, helping private companies make a profit.



“
...most [CSOs] want to achieve the targets and the sustainability principle, it's a burden for them.”

development: *'most [CSOs] want to achieve the targets and the sustainability principle, it's a burden for them. This is a world-wide problem... donors looking at targets and not to sustainability.'* There are, however, also cases of a donor focus on a learning agenda alongside such targets, for example in the case of current Australian aid support to CSOs in Indonesia and elsewhere, which provides some room for experimentation. In addition, an organisational commitment to learning between and across project-cycles can reduce the impact of narrow donor requirements. The second issue raised by participants is the time scale to achieve the 'tangible' results through the development of market-based solutions may be much longer than usual donor project time frames (reported to commonly be two to three years), particularly with regards to serving the poor.

Organisational policies and guidance guide programming decisions

Country offices of international CSOs often operate under the guidance of their regional or international offices, or particular developed-country offices, and the approach they take in their WASH programs may be shaped by their policies and guidelines, and by how much flexibility they have around these. Therefore, if and how a CSO engages with the private sector and enterprise development depends on whether these policies and guidelines recognise the role of enterprise involvement and if in general, they support it or encourage enterprise development. Further, where recognition and a desire to support enterprise development do exist, such organisations can still be limited in their approaches by current international thinking on 'best practice', which may not always be 'best-fit' for the local political economy context. There is a current focus in the sector internationally on particular ways of supporting enterprise development, which focuses on certain elements of business development (and not others) and this is a strong influence on current approaches in Indonesia.

The type of funding model influences CSO choices and flexibility

The funding model of a CSO shapes the extent to which its approaches are shaped by policy preferences, policy requirements or the limitations imposed by external organisations, such as donors, international partners, or internal organisational policy.

CSOs whose funding models are largely donor driven may not have as much flexibility as other organisations to experiment with their own ideas of how to engage with enterprise development based on their local experience. For example one CSO discussed the freedom offered by discretionary use of sponsorship funds or corporate sustainability funds to explore and pilot new approaches and synergies within its programs.

On the other hand, the type of funding model can also shape the level of exposure a CSO has to global trends in thinking in the WASH sector. These trends have increasingly recognised the role of enterprises in service provision. Organisations whose funding models are not driven by external international organisations (for instance, local CSOs), and rely on other sources such as local fundraising, are likely to be less exposed to and influenced by such trends than international CSOs.

Political support, regulations and election cycles affect CSO implementation

Water and sanitation are generally not considered to be a high priority by the different levels of government and, as discussed in earlier sections, the idea that government should also have a role in supporting enterprise development is very recent. Consequently, CSOs using market-based approaches face challenges in engaging local governments in discussions about mechanisms to support the needs of the enterprise, and in securing their commitments or involvement in supporting enterprise development. Equally, as regulations concerning government support to enterprises are unclear, the role of CSOs as intermediaries becomes important.



...[you] need to have his [the Bupati head-of-district's] blessing. If he doesn't give his approval you're out.



In the context of decentralisation in Indonesia, commitment from district heads to addressing community water and sanitation issues is of critical importance to support CSOs work in WASH: *'[you] need to have his [the Bupati head-of-district's] blessing. If he doesn't give his approval you're out.'* District heads are elected for five-year terms. Newly elected district heads may or may not provide continuity to any commitments previous heads made to water and sanitation, and any work done in this area. CSOs reported that this may require them to start from scratch in their efforts to build trusting relationships with local governments and in their efforts to secure the district head's commitment to allocating funds from their budgets to WASH, and to supporting private sector development.

7. CONCLUSIONS & IMPLICATIONS

The findings of this research support the conclusion that there is an important emerging trend in Indonesia for private and social enterprises to contribute to better water and sanitation services. Such enterprises cover a wide range of organisations and purposes. They include: formalised CBOs managing rural water supplies, associations of rural water CBOs and communal urban sanitation CBOs, sanitation entrepreneurs, associations of sanitation entrepreneurs, water purification products and their distributors, civil engineering contractors, desludging services, and specialised services in the form of consultants or specialists (for instance in mechanical, electrical or energy efficiency skills and approaches).

The incentives for these enterprises include *material incentives* in the form of potential profits. However, for many of them, particularly social enterprises, but also some private enterprises, a more complex web of motivators and incentives are relevant. Indeed some private enterprises tolerated a low-profit margin in order to provide services to the poor. However this, and other limitations, poses limits to their expansion and the spread of their services. In terms of other motivators, first, associations of different kinds offered members a sense of *solidary*, which is considered in the literature to be a potential motivator. Second, several individuals mentioned *purposive* motivations, in terms of enterprises offering them a means to fulfil their commitment to a social purpose. Lastly, potential for improving *status* may form a motivator. However sanitation, in particular, is not perceived as 'sexy' and this may limit its appeal. Recognising the complexity that sits behind why individuals choose to engage in an enterprise opens up a range of new pathways to considering how to support and to attract potential entrepreneurs to develop services in this sector. This includes considering how material, solidary, purposive and status motivations might be identified, tapped and supported as well as recognition of the complexity of potential motives, which may at times work in contradiction to one another.

In addition, this paper demonstrates the ways in which different organisational

models for private and social enterprises have arisen in conjunction with and in relation to water and sanitation services in Indonesia. In particular, *associations* as a model of enterprise were prevalent and appeared to arise from the need to solve collective action problems, since the current policy environment allocates communities and citizens (particularly in rural areas) significant responsibility within water and sanitation service provision. Such structures also appeared to help navigate the institutional complexities of access to finance and other business requirements in the Indonesian context, where ambiguities in the functioning of both the informal and the formal economy support such models. Despite this, there was a lack of clarity amongst the majority of research participants about the most appropriate choice of legal structure (for both for-profit and not-for-profit organisations). This is an area in which careful consideration is needed, as the chosen structure must support both organisational sustainability as well as equitable service outcomes, and must consider the risks of placing excessive control with more powerful members of society who may draw disproportionate benefits.

This paper also made observations about the supports needed to further the role of enterprises. Indeed the majority of enterprises included in this research were initially supported through external support of development partners and did not spontaneously emerge. Whilst further research is needed to explore existence and roles of enterprise in WASH services for the poor across a wider geographical region, indications are that examples of extensive enterprise involvement are limited.

The need for initial motivation and capacity building support for enterprises was considered by several research participants to be critical, and yet such support (and indeed incentives that might lead to provision of such support), are currently limited. There is a wide range of initiatives that could be developed to help address this need, including building on existing efforts such as initiatives to deliver training through vocational schools. Possible further initiatives include: strengthening business training curriculums offered

by CSOs or government (for instance in market analysis, financial management, etc.); the provision of training by CSOs and/or government that is tailored to collective social enterprises (e.g. training in leadership, group facilitation, business models) and promoting cross-learning opportunities between different groups; and supporting learning from businesses in other sectors. For any of these to occur, the political economy barriers discussed in this paper would need to be addressed, and effort would be required to further understand and build on the incentives for government (and in particular those government agencies responsible for private sector development) to contribute to such capacity building for enterprises in this sector.

Equally, the difficulty of obtaining access to finance was also an obstacle to expanding private and social enterprises in this sector. A contributing factor was the lack of familiarity of formal lending institutions with the WASH sector. Both informal and formal lending mechanisms currently played roles, and in some cases were sufficient, but for social enterprises in particular, forming a legal entity becomes an important step to accessing larger sums. Reluctance among private enterprises to borrow money, and a historical and accepted reliance on volunteerism within social enterprises, also currently limits the long-term sustainability or potential expansion of the services they offer.

Lastly, the institutional framework and perceptions about whether and how government should provide support for the development of enterprises, or give greater focus to public-private partnership, requires attention and evolution. This is particularly important since enterprises in the WASH sector are serving a social purpose by providing water and sanitation services, and the 'business opportunity' in terms of potential profit may not always offer sufficient incentive to induce them to be active in this sector. Advocacy efforts are needed to shift perceptions about government's role, and to build confidence in knowledge of appropriate (and inappropriate) ways for the public sector to offer support or to partner

with enterprise. A particular example important for sanitation is the roles of local health staff in providing linkage to sanitation enterprises.

The factors shaping CSO roles in relation to enterprise development included questions about alignment (or not) of their underlying philosophy to enterprise engagement and related organisations policies and guidance, their existing business experience and engagement with government, as well as the way in which a CSO is resourced, in particular in relation to donor preferences and requirements. Further implications of the research are that there are several roles that CSOs may be well placed to play that could increase the ability of enterprises to play effective roles. Each of these roles requires appropriate consideration of the aspects of political economy described in this paper that shape how CSOs and other actors function. These roles include: considering capacity building needs for enterprises at a systems level (for instance across a province) rather than just at the level of a particular implementation project; implementing targeted advocacy and capacity building efforts to engage with government about the need to actively support private and social enterprise development, and the range of ways to achieve this, including through forms of public-private partnerships; strengthening CSOs' internal expertise through recruitment of or partnerships with professionals with relevant business backgrounds; liaison with banks and financing institutions; improving CSOs' knowledge and understanding of legal structures and their pros and cons, and then sharing and communicating this information with prospective private and social enterprises; brokering public-private relationships by, for example, assisting with contract negotiations; advocacy and liaison with the large-scale private sector to channel CSR funds to the development of water and sanitation enterprises; monitoring who is reached by enterprises, to determine whether the poor are included or excluded.

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9. APPENDICES

APPENDIX 1

The guiding methodology for this paper was a political economy analysis. We took a ‘problem-driven’ approach, in line with recent trends in the application of political economy analysis to the development sector (Fritz et al., 2009 and Harris, 2013). The central problem was taken to be ‘*how CSO engagement with enterprise could better lead to equitable, sustainable service delivery for the poor*’. The two central research questions addressed were:

- How is enterprise involvement in WASH shaped by sector dynamics, and informal and formal links to other organisations and agencies?
- What shapes CSO engagement with enterprises in WASH?

Balance was sought between a focus on broader political economy factors, important service delivery subsector dynamics (McLoughlin with Batley, 2012; Harris et al., 2011:25) and the narrower ‘problem’ of concern. The priorities given to these three areas were as follows:

- the macro political economy context (including relevant regional and international dynamics) (minor attention)
- sector-level dynamics, including key distinctions between relevant sub-sectors (some attention)
- organisation-level dynamics, focusing on civil society organisations, and private and social enterprises and the interface between these two types of organisations (central focus).

A review of recent literature was used primarily to address the first of the levels above, whereas the empirical qualitative research was used primarily to address the second two levels of analysis. Semi-structured interviews were undertaken with representatives from twenty-nine organisations in Jakarta, Central Java (Grobogan District) and East Java (Lamongan and Sidoarjo Districts). These locations were chosen due to the recent attention given by development partners to the role of enterprise in water and sanitation services. Interviewees represented private and social enterprises, national and international CSOs, donor organisations, and different government agencies from relevant areas

(planning, health, home affairs, public works, enterprise development, industry and trade) and local leaders. In particular, the relationships between the different organisation types were interrogated (see Figure A1 on page 34). An ethical research protocol was followed, including provisions which protected the privacy of research participants and allowed for member-checking with participants where organisation names were been included.

Question areas were used to develop sub-questions used during interviews with CSO, enterprise, civil society and government participants (see Table A1 on page 34). The groupings are drawn from Ostrom’s (2011) institutional analysis and development framework which suggests focusing on (Ostrom: 2011; p11):

“(i) the set of actors; (ii) the specific positions to be filled by participants; (iii) the set of allowable actions and their linkage to outcomes; (iv) the potential outcomes that are linked to individual sequence of outcomes; (v) the level of control each participant has over choice; (vi) the information available to participants about the structure of the action situation and (vii) the costs and benefits- which serve as incentives and deterrents- assigned to actions and outcomes”

Detailed interview notes, including direct quotes, were analysed using a ‘node’ analysis approach using node diagrams which promoted systematic interrogation of each formal linkage between organisations and relevant informal institutions, as well as a focus on the node itself and internal drivers, where a node represents the key organisational actor considered in the analysis.

A combination of this analysis and literature on critical aspects of enterprise development in WASH (Gero et al., 2013) then shaped the thematic areas against which the narrative in this paper was constructed. Peer review with partner organisations and member-checking with participants was undertaken to verify the interpretations presented in this paper.

FIGURE A1 ORGANISATIONAL RELATIONSHIPS INTERROGATED IN THE RESEARCH

	ENTERPRISES	CSOs	GOVERNMENT
ENTERPRISES		✓	✓
CSOs	✓		✓
GOVERNMENT	✓	✓	

TABLE A1 QUESTION GUIDE FOR SEMI-STRUCTURED INTERVIEWS**A) Assessing some of the broader features of the context:****How is the behaviour of CSOs and private enterprises shaped by relevant features of the (country/local) context?**

- How have factors such as historical practices, political ideology, type of government, state–society relations or social inequalities influenced the way that WASH services are delivered within the context, and the role of private enterprise and CSOs in that delivery?
- How is ‘private enterprise’ understood by different actors in this context? Who does this include/exclude?
- How is ‘civil society’ understood by different actors in this context? Who does this include/exclude?
- How do relevant actors view service users (e.g. as ‘rights holders’, customers, etc.)?

B) How is each organisation structured internally? What are the implications of this structure for the way in which it functions?

- Who are the actors involved? What are the set of positions to be filled by those actors?
- What options does the firm or CSO have with respect to its role in the WASH sector?
- Before working in a particular context or with a particular firm, and before adopting a particular strategy, does the individual/organisation require approval (e.g. from government, superiors within the organisation, a central authority, a funding agency)? Do they confer or negotiate with others over their planned activities?
- What are the objectives of the various actors involved?
- What are the major sources of funding?

C) Assessing particular action situations: A set of questions regarding interactions specifically related to CSO support to private enterprises:

- What do firms, CSOs, government and service users see as the ultimate aim of interaction between CSOs and private enterprises? Are these shared by all actors involved? Do the objectives of the various actors complement or compete with each other?
- What do CSO–PE interactions look like/involve? What is the set of allowable actions for each actor?
- What are the theories of change at play (on the part of CSOs, private enterprise, government (national or local) and donors)? i.e., what chains of events link different potential actions to outcomes? How are these actions expected to lead to particular outcomes? How are these likely to affect prospects for sustainable service provision (the desired outcome for the project, other evaluative criteria might be applied)?
- What information is available to actors about their interaction?
- Costs and benefits: Has the CSO–private enterprise collaboration led to improved WASH service delivery? According to whom?
- What benefits (to the firm, to the CSO, or to others) can be achieved as a result of various group outcomes?
- Is CSO–private sector engagement viewed as effective and efficient by service users?