

Flush With Success

A ROUNDTABLE

HOW SOCIAL
ENTERPRISES ARE
SCALING UP TO MEET
GLOBAL SANITATION
CHALLENGES



CITYWIDE INCLUSIVE SERVICES SERIES

Flush With Success

Scaling social enterprises to meet the world's sanitation challenges

Wednesday 14th June 2023

3pm - 4:30pm UK time (GMT+1)

ROUNDTABLE

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Rémi Kaupp – **Panel Chair**, Executive Director, Container Based Sanitation Alliance (CBSA)

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FLUSH WITH SUCCESS: HOW SOCIAL ENTERPRISES ARE SCALING UP TO MEET GLOBAL SANITATION CHALLENGES

INTRODUCTION

How can Small and Medium-Sized Social Enterprises (SMSE) help meet our enormous global sanitation challenges? What's holding them back, and how can governments, businesses, donors, and academia support them to achieve the scale required?

To answer these questions, the “Flush With Success” roundtable on 14 June 2023, co-hosted by Cranfield School of Management, Water & Sanitation for the Urban Poor (WSUP) and the Container Based Sanitation Alliance (CBSA), brought together sanitation experts, social entrepreneurs and researchers to share the hurdles and opportunities of supporting growth through the provision of facilities and services in the sector. WSUP Chief Executive Ed Mitchell noted, global sanitation “is a challenge that is so big that no one organisation can solve it or even begin to solve it.”

This report summarises the diverse contributions of the roundtable’s panel as well as input from more than 50 international participants, all facilitated by CBSA Executive Director Rémi Kaupp. Discussions surfaced several systemic issues faced by actors in the sanitation sector when trying to achieve scale. In this report, these are organised according to the five Strategic Areas of the WSUP Urban WASH sector Functionality Evaluative Framework¹ as summarised in Figure 1.

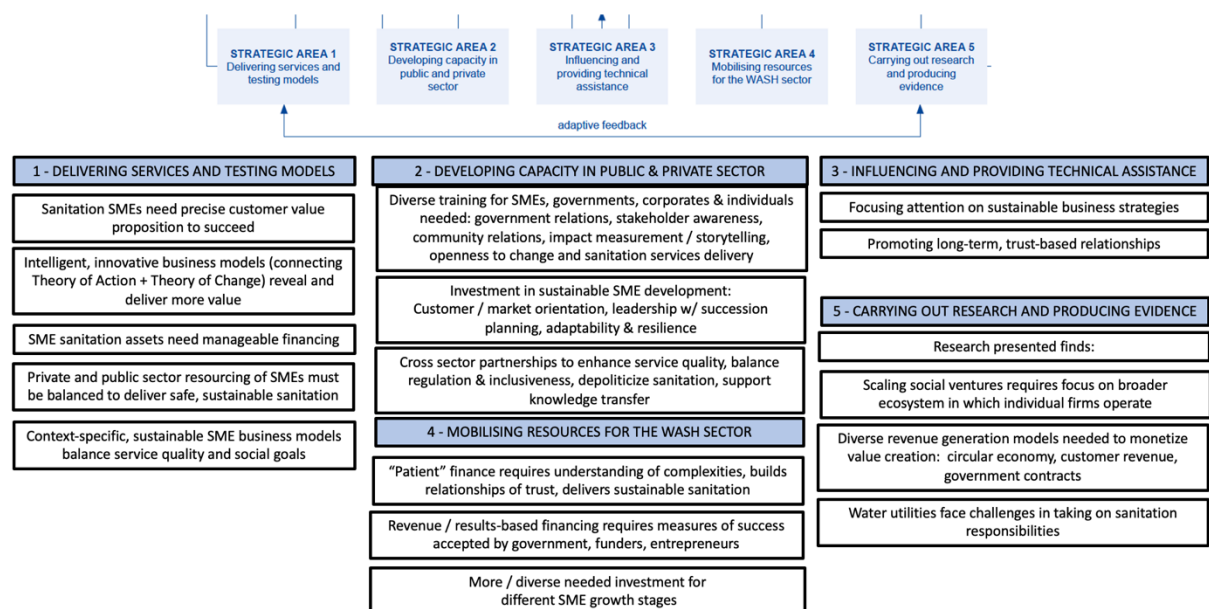


Figure 1: Emergent themes impacting SMSE scale-up.

¹ WSUP (Water & Sanitation for the Urban Poor). An evaluative framework for urban WASH sector functionality: Baseline assessment results from six countries (2018). <https://www.wsup.com/insights/evaluative-framework-for-urban-wash-sector-functionality/>

1 - DELIVERING SERVICES AND TESTING MODELS

Sanitation SMSEs need a precise customer value proposition to succeed.

Sanitation social enterprises need a “precise customer value proposition”, and this is likely to vary according to context. In India, for example, a clean town attracts a lot of tourism. Therefore, sanitation access connects to cleanliness, tourism, and economic prosperity. By contrast, in Africa, an alternative customer value proposition for a different user community is “safe, reliable, quick and effective”. Understanding the customer value proposition should enable an SME to charge a premium for providing a professional sanitation service. However, this value is not always perceived by “customers” (funders or agencies) or direct users of sanitation services.

The importance of the customer value proposition was placed in the context of the Toilet Board Coalition (TBC) Accelerate model for scaling sanitation SMSEs (Figure 2) which highlights Intelligence, Investment and Demand as strategic enablers.



Figure 2: Toilet Board Coalition's Accelerate model for scaling sanitation SMSEs.

Intelligent, innovative business models reveal and deliver more value.

Sanitation SMSEs are consistently pioneering new business models, which can involve a range of private and public sources of financing, incorporating different, often novel, forms of value creation. The challenge was likened to “trying to assemble a bicycle and ride the bicycle at the same time.” However, such models need to be adapted to the ecosystem in which the business operates. This is illustrated in Figure 3 drawn from the *Beyond the Pioneer* report (Koh et al., 2014)².

² Koh, H., Hegde, N., Karamchandani, A. (2014) *Beyond the Pioneer: Getting Inclusive Industries to Scale*. Deloitte Touche Tohmatsu India Private Limited,

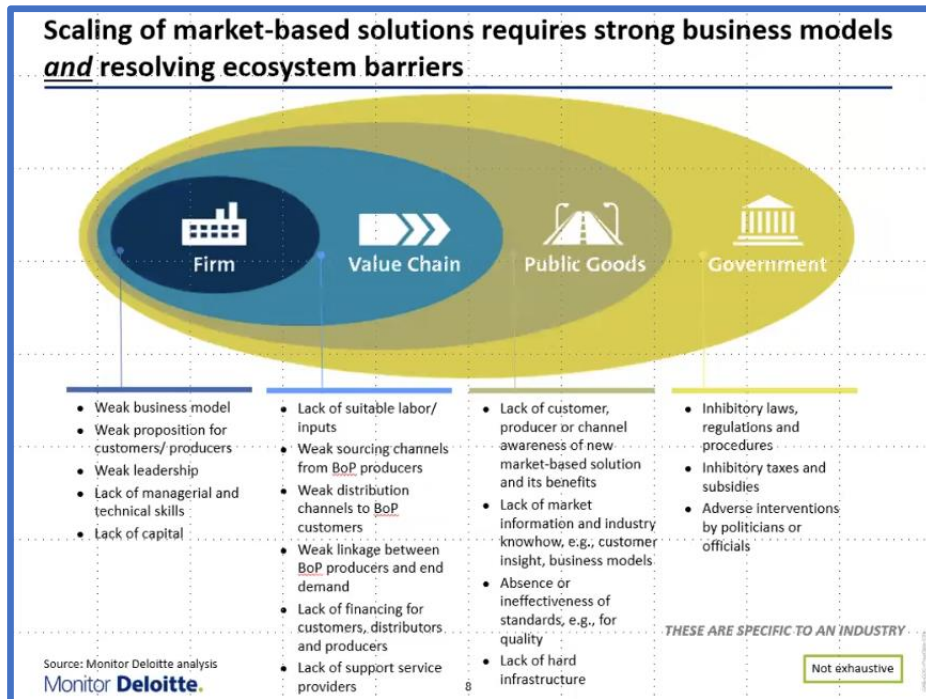


Figure 3: Barriers to scaling market-based solutions³

SMSE sanitation assets need manageable financing.

Sanitation assets should have a long life, lasting many years. However, the financing mechanisms for such assets available in most markets are short-term. TBC simulations concluded that paying for a 15-year asset, over three years, can consume 48% of a sanitation venture's revenue.

A question which stimulated considerable discussion among panel members was, "Is there a reputational challenge for sanitation social enterprises around service quality when providing affordable and profitable services?"

Private and public sector resourcing of SMSEs must be balanced to deliver safe, sustainable sanitation.

Sanitation ventures strive, in the main, to achieve operational efficiency over time. However, as they become more efficient, subsidies – whether provided by external funders, including Foundations, bilateral organisations or governments – will likely reduce. However, these will not necessarily vanish entirely. It should be remembered that even sanitation services in most of the developed world are not fully profitable. Subsidies and profitability need to be balanced intelligently in new business models, implying an important and continued role for government, and indicating that SMSEs should pay careful attention to these relations.

³ Koh et al., *op cit.*, p. 11.

Context-specific, sustainable SMSE business models balance service quality and social goals.

Balancing service quality and social goals, and private and public funding, can be complex for sanitation SMSEs. Depending on context, privatisation of sanitation enterprises to generate revenue from service users can yield successes but also failures as well. In Lagos, sanitation service users objected publicly to the idea of privatisation, believing that water and sanitation should be provided by the government (Figure 4). However, given that the customer base is typically low income, the prospect of generating significant revenue from them might be unrealistic.

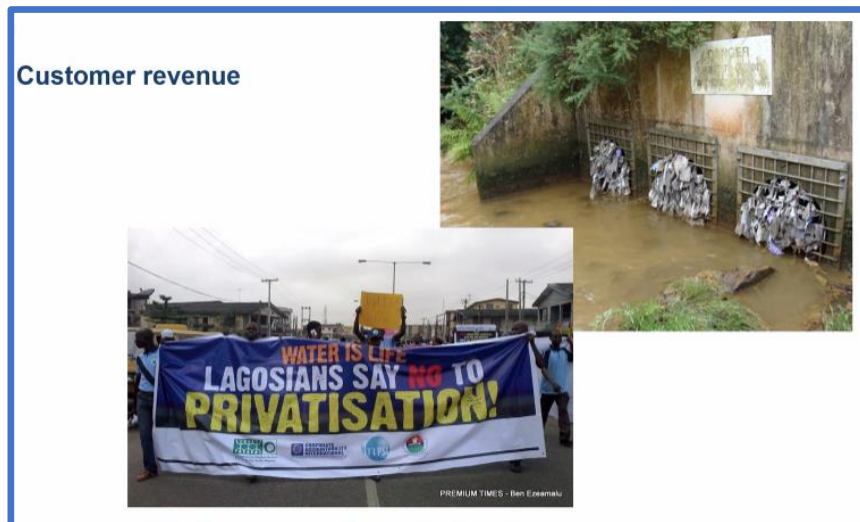


Figure 4: Balancing competing logics

While commissions and government contracts can be seen as potentially significant revenue sources, these can have mixed results. In an example from South Africa, where one municipality provided container-based sanitation services contracted out to private enterprises, customer satisfaction was so low that protestors hurled containers of waste at city officials' cars (see upper right photo in Figure 5). Contrasting with this, the experience of Sanergy, who have collaborated with the CBSA and who use a hybrid for-profit/nonprofit structure to create access to sustainable sanitation, has been to create a service which satisfies customers (see lower left photo Figure 5).

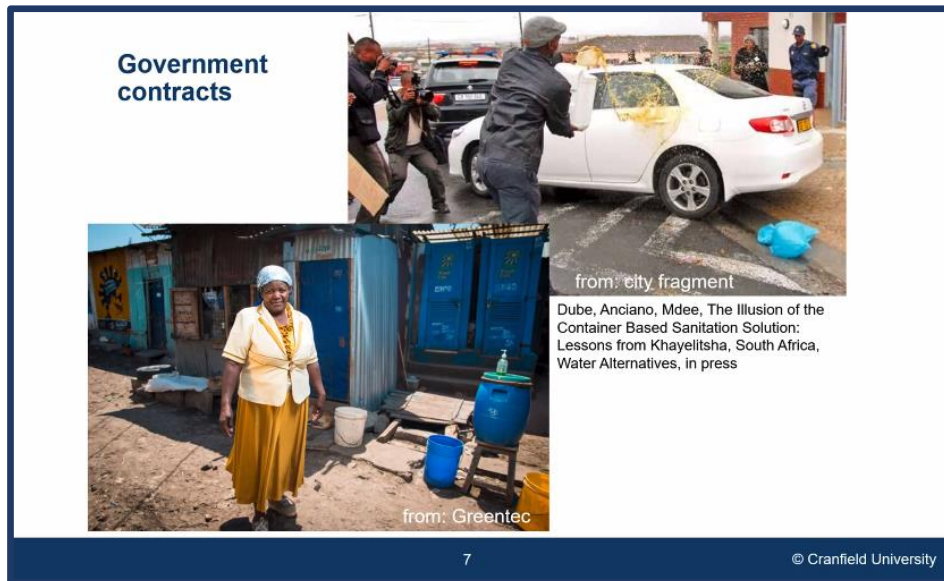


Figure 5: Government contracts - not a straightforward solution to scaling

2 - DEVELOPING CAPACITY IN THE PUBLIC & PRIVATE SECTOR

Training for SMSEs, governments, corporates, and individuals is needed.

Diverse forms of training and development for the various actors in the sanitation services sector, as well as awareness-raising among its customers, are needed in a variety of areas. These include development of management capabilities such as government relations, stakeholder awareness, community relations, impact measurement and storytelling, as well as more technical skills such as sanitation services delivery, and development of mindsets

Sector supporters invest in sustainable SMSE development.

Supporters of sanitation SMSEs are working to develop a range of capabilities to enhance their resilience in the sector. While social entrepreneurs may be motivated to enter the sector to achieve social goals, they need to be supported to develop viable business and financing models as well as entrepreneurial and management capabilities. These include customer and market orientation, leadership development strategies including succession planning; adaptive capacities to withstand shocks and recognise challenges as opportunities (e.g. COVID).

Cross sector partnerships support scaling up of the sanitation sector.

The value of cross-sector partnerships in scaling up the sanitation sector was highlighted by several speakers. The benefits include access to public finance; investment in infrastructure; knowledge transfer among partners; and the opportunity to achieve social goals – including servicing bottom of the pyramid customers - more quickly to meet government targets. However, such partnerships also create challenges, including over-regulation and political interference. The ability to navigate government relationships is therefore crucial.

3 - INFLUENCING AND PROVIDING TECHNICAL ASSISTANCE

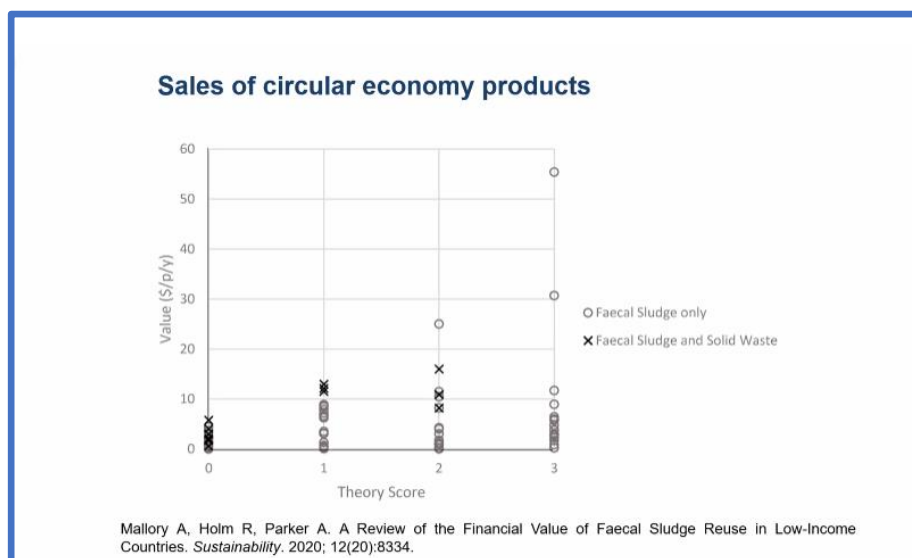
Focus attention on sustainable business strategies.

SMSEs need to adapt their business funding models to the contexts in which they operate. The circular economy sanitation model (Figure 6) is popular in sanitation, and many waste treatment models involve creation of a circular economy product (e.g. compost, electricity, animal feed).



Figure 6: The circular economy sanitation model

However, research from Cranfield University has found that the actual revenue generated by SMSEs using circular economy models (vs. making theoretical value projections) is small - \$5-\$6 per person a year (see Figure 7, Mallory et al., (2020), p. 5).⁴



⁴ Mallory A, Holm R, Parker A. A Review of the Financial Value of Faecal Sludge Reuse in Low-Income Countries. *Sustainability*. 2020; 12(20):8334. <https://doi.org/10.3390/su12208334>

Figure 7: Sales of circular economy products

This suggests that while circular economy models should be used to ensure safe treatment of waste, alternative models – including generating revenue from customers - should also be considered by SMSEs. However, most of the considered businesses already generate revenue from users and this, too, has proven insufficient and additional revenues have to be sought from other sources including public subsidy, results-based financing and so forth.

Promote long-term, trust-based relationships enhancing SMSE adaptability.

To support the work of sanitation SMSEs, impact investors / funders need to take a long-term view and invest in developing long-term relationships with sanitation enterprises. Social entrepreneurs should help these investors understand the grounded reality of projects where returns may not materialize in the short term. Both parties need to work to establish understanding and trust.

Consider the example of “Design Thinking”. At the heart of Design Thinking is an empathic orientation focused on understanding the needs of the people who are affected by the problem (see, for example, Jayakumar et al. (2019)⁵), and it has become increasingly popular in the NGO sector. However, commitment to such a strategy by social entrepreneurs may impede their ability to change course when circumstances compel a change. That is, what happens when SMSEs adopt a design thinking approach, but it later becomes apparent that the developed strategy fails to map to donors’ interests and criteria? Investors, donors and SMSEs need to foster and support enabling environments where adaptation and change is welcome, respected and facilitated.

4 - MOBILISING RESOURCES FOR THE WASH SECTOR

“Patient” finance requires understanding of complexities, builds relationships of trust, delivers sustainable sanitation.

Reminiscent of boxer Mike Tyson’s observation that everyone has a plan until they get punched in the face, for investors in innovative businesses which are developing new business models, such as those working in container-based sanitation, reality does not “turn out much like the business plan”. Social investment therefore requires “a lot of patience because you’re investing in a concept, in an idea.” Investors must trust that:

“...they will be able to adapt. That they will listen to the market; that they will listen to, see what is going on, figure out...they won’t change what they’re trying to do, but they’ll change how they’re doing it. And that is the nature of this business.” Attendee.

Revenue / results-based financing requires measures of success accepted by government, funders, entrepreneurs

For SMSEs seeking results-based financing, measurable results are needed in order to secure financing. Typical metrics can include tonnes of faecal waste removed from the environment or number of households served with safe sanitation. However, not many

⁵ Jayakumar, T., Das, K. and Srivastava, N. (2019), "Design thinking: a working strategy for the third sector", Journal of Business Strategy, Vol. 40 No. 5, pp. 28-38. <https://doi.org/10.1108/JBS-11-2018-0195>

results-based financing development impact funds use such metrics. To achieve scale, SMSEs therefore need to determine the metrics on which it is meaningful to be assessed and match these with similarly motivated (impact) investors.

One caution offered was that investors need to ensure that SMSEs do not conflate a Theory of Change – “the sector-wide effort to achieve a broader social goal and get a problem solved” - with a Theory of Action – “the social venture’s part of delivering that overall Theory of Change.” A separate observation was made that the Theory of Action and the Theory of Change, while distinct, are connected by partnerships between social ventures (each enacting a Theory of Action) and governments (enacting a Theory of Change).

More / diverse investment required for different SMSE growth stages.

Investment can sometimes be perceived as a ‘monolithic block’, but SMSEs must recognise it can come in a variety of forms: one attendee observed that working capital cannot substitute for equity and equity cannot substitute for long term asset management. SMSEs require additional investment and investment from different sources and for different purposes and various points in their growth cycle.

The right type of investment for SMSEs will depend on its stage of growth, its financial needs, and its risk tolerance. However, by considering a variety of options (grants, in-kind donations, social impact bonds etc), SMSEs can increase their chances of finding the investment they need to succeed. By having a diverse group of investors, social enterprises can access the different types of investment they need to grow and succeed.

5 - CARRYING OUT RESEARCH AND PRODUCING EVIDENCE

Scaling social ventures requires focus on broader ecosystem in which individual firms operate.

The *Beyond the Pioneer* report cited earlier not only proposed the ecosystem model (Figure 3) also highlighted the importance of industry facilitation in scaling up the sanitation sector, but a priority also noted by roundtable participants:

Notably, this report describes the idea of an industry facilitator — an actor not usually tied to any single enterprise that makes a long-term commitment to building capacity in a given sector and geography. The authors clarify that the entrepreneurial firm has always been, and remains, at the heart of these efforts. There is little chance of driving a thriving market without enterprises that make smart choices about their products, business models, and structures. But industry facilitation dramatically increases the pace, potential and scale of the success that these firms can achieve.⁶

Diverse revenue generation models needed to monetize value creation: circular economy, customer revenue, government contracts.

Research conducted by Cranfield University (Mallory et al., 2020)⁷ not only highlighted the need for diverse funding models beyond those derived from circular economy products, but

⁶ Koh et al., *op. cit.*, p. 3.

⁷ *Ibid.*

also the need for more empirical research on social funding models. From a review of 43 publications in the academic and grey literature examining financial values of resource recovery, the research found that approximately only one-third of studies drew on empirically observed product data. That is, only limited limited studies provide evidence on actual experiences of revenue in practice.

Water utilities face challenges in taking on sanitation responsibilities.

Panelists also highlighted the challenges for utilities taking on responsibility for sanitation, particularly those in Kenya and Zambia, which had been mandated with pit emptying. Inasmuch as such enterprises have to balance service quality, affordability and profitability, Cranfield research highlighted how water utilities, some of whom had no previous responsibility for wastewater management or sewerage, have found the transition to sanitation particularly challenging.

CONCLUSION: Commentary by Rémi Kaupp

We are arriving at the end of today's conversation – but certainly not the end of this topic! It is very rich. I believe that the organisers at Cranfield and Water & Sanitation for the Urban Poor will share the recording of this and maybe even produce some notes from it that would be really useful. If you would like from me, not a very impartial summary.

What I liked in this was the mention of:

*For the enterprises, I liked the suggestion of **starting with the Government relationships**. In sanitation, you can't do this on your own. You are not going to revolutionise this without engaging from the start with government.*

*And you should **expect a lot of changes in how the market works and how the customers react**, etc.*

*Then, **for the funders, there is a request to be patient**, to see the long-term view, to support this long term vision in ventures. And that can include supporting succession plans, etc.*

*But also, **it's very interesting to help them surface where they add value**. Where is the value created? And that can be not where you expect it, as Venu was emphasising. And this value may or may not create revenue. Alison was pointing out how relatively little financial value is created from circular economy, though it is very very useful.*

*So in sanitation we can remember that **subsidies are needed**, can be included in how to make ventures viable. But again, that needs good relationships with government to start with.*

*And as we have been reminded, **it's hard to have a good, balanced relationship with governments** very often in sanitation. There are not that many places where you don't have that top-down relationship or the very laissez faire attitude, either.*

*So this will take time to change. Our panel has provided a few examples, especially from the off grid energy sector, and others...**it takes time to change, but it is very valuable**.*

So we have to do very good storytelling on this to show how that can change.

And find a good balance in terms of regulating, ensuring there are good services, ensuring they are inclusive, ensuring that everybody is served. But letting innovators add their value, add their creativity, their effectiveness, etc.

*And that came together for me in the mention of the **results-based financing**. For example, more generally, **what are the metrics of success?** And we've got different ones - between government, between funders, between entrepreneurs. **Where can we find the right alignments?** In terms of customer satisfaction, or in terms of the Triple Bottom Line, also mentioned earlier. Lots of focuses here on creating goods, accountability, good regulation, good relationships – but it's possible.*

And I think there will be a lot to learn from all of you for future discussion, hopefully. And I hope to make it happen. And I hope I can play a role in this as well.

Thank you very much for this today. I will hand back to Ed, for the final words.

Ed Mitchell

I just wanted to say, what a fantastic conversation, I really enjoyed that. And I loved having the different perspectives and have really learnt a lot personally from it, so thank you very much indeed. A particular thank you to Venu, to Alison, to Thelma, to Louis, to Georges and of course, most of all to you Rémi for brilliantly corralling and bringing together and putting some order and structure around everybody's comments. I hope you all enjoyed that; I certainly have. And thank you very very much for your participation and attendance.

Acknowledgements

In this report, we have sought to summarise the conversation of the Flush for Success Roundtable jointly convened by Cranfield University and WSUP. As a summary document, we do not ascribe any opinion, comment or observation expressed, either in whole or in part, to any individual contributor or participant.

The convenors would like to express their thanks to Cranfield School of Management's Research Development Fund for sponsoring the roundtable, to WSUP for hosting, to the panel chair Rémi Kaupp, to panelists Dr Alison Parker, Georges Mikhael, Louis Boorstin, Thelma Ekiyor and Venugopal Gupta for their generous participation and, of course, attendees from across the globe who contributed to this stimulating discussion.

June 2023

To continue the conversation, please connect with Dr Richard Adams at r.j.adams@cranfield.ac.uk

