Promoting Sanitation Markets at the Bottom of the Pyramid in Peru: A Win-Win Scenario for Government, the Private Sector, and Communities

Launched in 2007, the Creating Sanitation Markets (CSM) initiative is a multistakeholder effort led by the World Bank’s Water and Sanitation Program to explore new alternatives for increasing access to quality household sanitation in Peru. The approach is premised on a market-based system for sanitation at the bottom of the pyramid, introducing a new paradigm for local sustainable development with the participation of private enterprise. The model seeks to build an equitable and harmonious relationship between supply and demand, through development of products and services that meet the expectations and needs of populations, encouraging the state to assume a promotional role for the development of local entrepreneurship and the education of citizens, and development of financial options that allow the matching of supply and demand. The SmartLesson below shows what we have learned from four pilot projects in peri-urban and rural areas that have contributed to innovation in the sanitation sector by adding new players and resources and opening new opportunities for improving access to sanitation while moving the agenda beyond coverage and poverty.

Background

The CSM’s objective is to increase access by the poor to safe, sustainable, and low-priced sanitation services in order to improve their health and decrease the environmental impact of inadequate sanitation practices. The initiative’s working strategy has four components: demand stimulation, product development, strengthening of the supply, and demand access to micro-credit options. The CSM pays special attention to the active involvement of the private sector in sanitation supply, promoting sanitation as a business opportunity to benefit local development as well. The model relies on key alliances and interactions among public and private actors. These alliances operate at local, national, and regional levels and are meant to provide platforms for sustainability and scalability of sanitation markets.

The CSM initiative has been tested since the end of 2007 in four pilot areas that represent Peruvian geographic and cultural diversity, characterized by high levels of poverty, integrated by 47,813 households with an estimated population of 180,000 people. As a result of 24 months of promotion in these pilot areas, the households without access to sanitation decreased from 32 percent in 2007 to 17 percent in 2009. The SmartLesson below shows what we have learned from four pilot projects in peri-urban and rural areas that have contributed to innovation in the sanitation sector by adding new players and resources and opening new opportunities for improving access to sanitation while moving the agenda beyond coverage and poverty.
to 21 percent in 2010. Around 9,000 households invested in new sanitation facilities or in the improvement of their current one. The households’ investment amount reached $1.2 million, while the private sector has contributed about $570,000 for training, promotion, and lending.

Lessons Learned

1) Important paradigm shift: from beneficiary to consumer.

One of the most important lessons for starting the market process is the promotion of new thinking among market actors, moving their vision of target groups from beneficiaries to consumers. This involves having market actors take responsibility for finding solutions, rather than merely standing aside awaiting outside solutions.

The nongovernment organizations (NGOs) leading the pilot programs invested significant efforts in this paradigm change. They succeeded in convincing local actors, as well as their own NGO staff, that this new sanitation approach was not providing subsidized sanitation solutions to the poor.

In facing this great challenge, their first step was to understand consumers’ expectations, needs, and desires. This led to the development of behavioral studies focused on finding the drivers of change, going beyond socioeconomic research. The studies found that health is not a top family motivator for investing in sanitation. In fact, there is a weak link between health conditions and sanitation in people's perceptions. The studies demonstrated that the main motivator to investing in sanitation is improving the house, thereby enhancing social status as a symbol of progress. Water and sanitation systems are considered part of the urban culture and part of modernity. That is why, in the minds of many poor Peruvians, latrines are perceived as a factor of social “differentiation.”

The pilot phase showed that families who invest in sanitation help to improve the use, maintenance, and sustainability of sanitation facilities. Thirty-nine percent of families in the four pilot areas are definitely willing to invest in a new sanitation facility, while 31 percent are willing to invest in the improvement of an existing facility. Sixty-two percent think this investment will allow them to feel that they are progressing; 55 percent think that their house will look more modern; and 50 percent think this investment will make them feel proud of themselves.

The interesting findings of the pilot phase have prompted the CSM initiative to open the discussion into core questions such as these: Are we ready to respond demand expectations? What is the border between the “right” solution for people and the “desired” solution? Who decides?

2) Better segmentation of population: Identify the diverse segments of those at the bottom of the pyramid.

Poor households have different expectations of sanitation facilities. Pilot intervention has shown the dual nature of the perception of sanitation. First, there is the private aspect that must be faced by families. Then, there is a public dimension that relates more to a vision of development of the community and that takes shape in subjects like the final disposition of sludge and solid waste, the sanitation base infrastructure development (networks, systems, treatment plants), and operation and maintenance.

Evaluation studies conducted by the CSM found that discretionary criteria for segmentation are related to at least five categories: the household’s income and ability to save, housing ownership, access to credit, the urban experience of family members, and their family preferences regarding their conception of a bathroom and the methods of installation and purchase.

Taking into account the sanitation dual perception as well as the discretionary criteria just mentioned, it is possible to define six preliminary segments: Four are household segments based on a mix of income and saving capacity with bathroom preferences. One segment focuses on sanitation as a community investment, and the other segment involves entrepreneurs, looking at sanitation as a mechanism to increase business profits.

The payment capacity of poor segments is diverse and responds to a wide range of economic activities, income levels, expectations, and demands for social inclusion and progress in life. Eighty-seven percent of CSM clients1 are below the Peruvian Poverty Line. Eighty-six percent of these families have purchased sanitation facilities, using exclusively their own resources; 8 percent have made the purchase through credit; and 6 percent used a mixture of both. The median household investment was $57, and the median credit amount was $536 (with an average of twelve monthly payments). Toilets (43 percent) and sinks (21 percent) were the most purchased products.

3) Creating affordable household sanitation solutions involves more than simply finding the cheapest technology.

The objective of providing an affordable sanitation option does not mean that the quality of products and facilities must be of lower quality. By using a mix of cost-saving measures, addressing the financing needs, and spreading costs out over time, the CSM experience has shown that almost any household can have a high-quality sanitation facility in the home. An affordability strategy should provide options to the consumer with respect to financing, product, construction, installation, and timing of all of these components to ensure that all consumers, regardless of economic status, can install the toilet or bathroom they desire and not be obligated to accept a product they do not want.

The CSM initiative worked to develop an attractive and accessible “sanitation package” based on a technology catalogue, installation and maintenance services, financing services, and information and orientation for customers. It also worked to create an accessible point of sale for communities, building a good quality local sanitation supply, using local materials and resources, and supporting local

1 Households that invested in new sanitation facilities or in the improvement of their current one in the last 24 months.
providers through validation of diverse certification programs. These programs were run in alliance with educational institutions, private suppliers’ enterprises, and local governments.

The promotion of market mechanisms at the local level helped to enhance the social and economic dynamic. Local employment in pilot areas was increased. Forty-one percent of the baths/latrines installed were made using local service providers, who were trained by the CSM initiative. At the same time, local hardware stores have been increasing their sales, with 48 percent of families preferring to acquire toilets, sinks, showers, and baths locally.

Despite these results, questions remain. The sustainability of the actors’ interaction continues to be an unreached goal, along with how to develop a sustainable accreditation mechanism for service providers that can assure quality standards in an informal country such as Peru. Another question involves how to link people’s desires (a bathroom with shower, sink, and toilet) and their willingness to pay for it with the country’s water-saving challenges.

One promising effort is headed by six private enterprises (four suppliers, one international bank, and one private foundation) for scaling up a sanitation package under a unique umbrella brand tentatively called “Mi Baño” (My Bath). The package includes goods, construction and installation services, financing options, information, and orientation through community promoters and points of sale, as well as guaranty and maintenance mechanisms.

4) Target financial solutions according to income level.

Reaching all income levels of the population requires innovative financing alternatives, such as group lending, retail direct credit, or market-based subsidies. The CSM results have shown that there are clearly three segments: the upper poor, who can be easily reached by the traditional financial sector (banks and multilateral financial institutions, or MFIs); the middle poor, a key target segment of the population that does not usually have access to formal financial supply; and the bottom poor, people in extreme poverty who receive government subsidies.

The first segment has sustainable income and/or limited saving capacity ($215 to $358/month household income scale). Progressive home improvement financial products are a great opportunity for this group. The CSM initiative has not had enough success in involving banks and MFIs for launching ad-hoc sanitation loans, but there are promising signs, such as dissemination activities to increase sanitation awareness and the benefits of their prioritization in home upgrading, implementation of a system to pay commissions to promoters or retailers that provide loan clients, and establishment of alliances for sharing sanitation promotion investments.

For those in the middle poor ($90 to $215/month household income scale), the challenges are bigger. The CSM initiative has validated diverse financial alternatives to figure out how to reach that segment with a viable cost-effective financial product. These include the village banking model through NGOs and credits directly from hardware stores and from community water committees. Although first CSM monitoring reports show clients’ satisfaction, very low delinquency rates, and increasing access, there remain critical barriers to replicating these community financing approaches in a sustainable manner. These obstacles are related to inadequate population profile evaluation tools and to limited credit terms. The low education level of this segment requires significant investments in training to operate those financial mechanisms. The NGOs’ successful management of village banks indicates that an intermediary is required to promote the formation of the group and to provide continuous training and monitoring, which requires resources and expertise.

Finally, the still unanswered question is whether subsidies are the only alternative for the extremely poor (less than $90/month household income scale). The initiative has tried to prove the viability of market-based subsidies by offering households an opportunity to choose the toilet or bathroom they would like to have. In the Cajamarca
pilot zone, the initiative has formed self-help savings and lending group with women members of the direct transfer cash program Juntos, a government antipoverty social program that provides a bimonthly subsidy of $70 per household. The lending model has a cross-guarantee system that allows households to improve sanitation access through buying materials or paying for labor.

5) Do not underestimate the private sector’s role.

The CSM initiative results show an enormous potential for the private sector to contribute to improving sanitation services for the poor. Peruvian economic growth rates suggest opportunities to identify new actors interested in improving people’s living conditions. Today, more than in the past, the private sector enterprises understand that they need consumers' satisfaction to survive. When people feel comfortable with their own well-being (feelings, access to basic services, education, etc.), they have more expectations and needs.

The private sector has proved a number of things: that it is able to deliver households loans for sanitation; to enhance the knowledge of retailers, improving the supply chain and the service quality at the point of sale; that it can support research and innovation to discover new materials and processes in accordance with environmental policies, resulting in better products in terms of quality, price, and environmental impact; that it can create quality information systems for consumers and invest in educational campaigns; and that it can improve the quality of health and sanitation conditions of its workers, creating a better physical and emotional business environment, which in turn can lead to enhanced productivity and well-being.

Conclusion

The CSM initiative faces different challenges to open sanitation markets at the bottom of the pyramid in Peru. This new approach to sanitation implies a change of paradigm and renewed roles for different actors, especially...
the customers (households and communities) who prioritize sanitation investments, demand information, and use and maintain sanitation services. Also needed is an articulated local supply offering an integrated solution to customers that includes goods, services, financing, and information. Private-sector enterprises should develop sanitation businesses at the bottom of the pyramid or include sanitation as part of their business model, and governments should promote sanitation markets as a matter of policy.

This is not a spontaneous process, nor is there a unique model. Sanitation market development requires an actor who plays a catalyzing role in identifying potential public and private partners at the national and local levels but also assumes a technical assistance role to build partnership platforms that address different institutional incentives for promoting the sanitation markets, as well as supports the implementation partners, and an advisory role through policy dialogue with government to identify entry points for mainstreaming and scaling up this concept in national-level programs. Probably the most important lesson is that there is not one way to reach the goal.