Increasing institutional and regulatory support for private sector

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Key Lessons in supporting private sector to achieve safe and equitable sanitation aims

### Key private sector challenges

1. Low demand
2. Lack of regulation leads to unsafe practices
3. High materials and equipment costs
4. Not proactively serving poor

### Key role for government support

1. Market facilitation to increase demand and build capacity to manage services
2. Balance regulation and support from unregulated towards smart compliance
3. Assess gaps in private sectors support for low income households and ensure equity
Overview

i. Role of private sector
ii. Research basis
iii. Major challenges to private sector
iv. Local government role to support private sector
Roles of Public and Private Sector

Public responsibility

- Human rights to water and sanitation
- Government accountability to ensure safe, available, acceptable and affordable services

The public sector should be responsible to provide access
Roles of Public and Private Sector

Private sector providing service

- Previous research found private sector is the main provider (Chowdhry and Kone 2012)
- Role of private sector likely to increase to meet growing demand, particularly for scheduled emptying

The private sector will solve our sanitation problems
To achieve safe and equitable FSM, private sector will need support.

The public sector AND private sector both have roles.

Roles of Public and Private Sector
Considering the middle way
Research basis

**ISF-UTS Enterprise in Wash:** 3 years program in 3 countries

- Structured interviews of 24 sludge removal enterprises in 6 Indonesian cities
- Focused on enterprise characteristics, entrepreneur traits, challenges and an assessment of success
- Findings available at www.enterpriseinwash.info

**World Bank technical assistance in Indonesia and Vietnam**

- Septage Management Pilots and Capacity Building in Indonesia. Development of FSM in 3 cities, included 240 household surveys
- Rural Fecal Sludge Management (FSM) Rapid Assessment – Vietnam 3 provinces, 30 household and 4 emptier interviews
Key challenges for private sector
#1 - Low Demand

Low demand for emptying
- Non-standard and typically unsealed on-site sanitation
- Limited understanding of the need to regularly empty

Moving to scheduled emptying
- Likely to require greater private sector involvement to meet demand
- But significant promotion still required to ensure customers agree to empty
Key challenges for private sector

#2 – Lack of regulation leads to unsafe practices

- 63% reported unclear/lack of government legislation
- 58% lack support from government
- Many reported “Lack of government attention to the limited availability of disposal sites”.

• Led to the perceived need to hide services
• Licencing requirements not clear, although some city examples exist
• Many private sector support greater market regulation to ensure quality services
Key challenges for private sector

#3 – Financial barriers

- High cost of materials and equipment was the biggest challenge
- Higher capital investment correlated with more successful operations – quality equipment efficient but expensive

- But 95% reported a maintained or increased profit in last 3 years
- Capital from: Savings (58%), family (38%), banks (33%) but access to loans not always a perceived barrier
Key challenges for private sector

#4 – Provision of equitable services

Private sector characteristics beneficial for serving the poor

Surveyed households preferred private sector: faster, better access, extra services

In Vietnam, private sector more likely to serve rural areas, public operators considered it too far.

Private sector were found to not proactively support the poor

Sludge emptying enterprises had a lower sense of social responsibility compared with water and sanitation enterprises

Literature review found little evidence that private sector approaches have benefitted the poor (Gero et al., 2014)

Higher cost for private emptying

![Bar chart showing average cost (USD) for private and public emptying in Balikpapan, Tabanan, and Tegal, Indonesian cities (World Bank 2016).]
Government responsibility to support private sector

#1 Market Facilitation

a) **Increase demand** by government lead promotion
   - Improving on-site sanitation and increasing regular emptying
   - Linking private sector with this market.

b) **Enterprise support** such as business and financial skills training. Findings indicate the market is easy to enter but difficult to succeed.

c) **Consider private sector needs** in improved service models
   - Share risk for customer acceptance/demand
   - Improve efficiencies in all steps of service chain
   - Consider small enterprise financing needs
Government responsibility to support private sector

#2 Regulatory Oversight

- **Balance** between supporting private sector and regulating poor practices
- Requires a **considered and staged approach** from the current unregulated market toward smart compliance.

a) **Monitoring** current status of private sector moving to tracking emptying and safe discharge
b) **Licencing/ registration** to create service standards, encourage or sanction practices
c) **Regulate tariff** to improve cost recovery, transparency, equity and reduce cost cutting.
Government responsibility to support private sector

#3 Ensure Equitable Service Delivery

- **Ensure equity** of access and benefits to serve disadvantaged and low income households.
- **Assess the needs** of the marginalised groups to understand the support required for their inclusion.
- **Subsidies** may be required.

Source: JMP 2015
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References