

Development Policies & Practice

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Drinking Water Access

Using Small Entrepreneurs in Developing Countries: A Strategic—Not Automatic!—Choice

While small local enterprises in developing countries definitely have a role to play in expanding access to drinking water, they must not, for all that, be seen as the next “solution” that some are constantly seeking.

The diversity among these actors requires one to carefully examine their characteristics, operating rationales and constraints. All these elements need to be taken into account before including these actors in sectoral programs. Recourse to small private entrepreneurs is not a universal cure-all, but under what conditions is it a suitable solution?

The Failures of Large-Scale Models

How can access to drinking water be lastingly improved in developing countries? The multiple attempts to do so over the past three decades have had very different outcomes. Despite the progress made in several countries, we are still a long way from attaining the goal of universal access to drinking water.

In the 1980s, development cooperation policy in the field of water favored the financing of public monopolies. Based on technical planning rationales that took people's expectations into account very little, these “supply-side policies” aimed to help cities and villages catch up in terms of equipment.

OFFICIAL DRINKING WATER ACCESS STATISTICS

According to the United Nations, between 1990 and 2010, one billion more people gained access to an improved water source. The most significant progress was made in Asia where the access rate rose by 20% over the course of the period. Results have been less consistent in Africa, however, notably in the sub-Saharan region where more than one third of the population still does not have access to adequate water supply systems. In all, 900 million people are still currently excluded from access to improved water sources. And this figure says nothing about the sustainability of existing equipment or the quality of the water supplied.

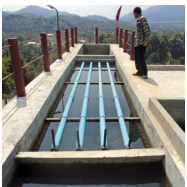
At the end of the 1980s and start of the 1990s, these public management systems were denounced, and the failings—both real and imagined—of administrations and public companies in charge of water services were used to justify large-scale reforms. Many States were ordered to withdraw from managing water services to leave room for other actors who were assumed to be more efficient. In rural areas, sectoral policies adopted a “community-based” approach that led to the creation of village committees in charge of managing the equipment. In urban areas, public service delegation to multinational water companies mushroomed.

Founded in 1976, GRET is a non-profit association of professionals for fair development. It supports sustainable development processes in urban and rural areas by building on social equity, economic promotion and respect for the environment.

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These arrangements were supposed to increase professionalism in service management and bring private capital to expand systems.

During this period, tangible results were obtained on the technical and commercial levels. However, the failures during the 2000s in some large cities in developing countries (Cochabamba, Tucuman, La Paz, Buenos Aires, etc.) and the inability of village water committees to persist beyond the end of the projects considerably undermined these models.



Small Water Companies: Despite Appearances, an Ancient Phenomenon

Because of these pitfalls, developing country governments and international organizations began to consider local private sector participation to improve access to water. While their initiatives remain poorly known, small entrepreneurs contributed to the development of a non-negligible range of water services. Sometimes presented as a new phenomenon, the emergence of these forms of water supply is not new and history contains periods of cohabitation of various lengths depending on the country between these systems and conventional systems.

In the settlements at the edges of metropolises, in secondary cities and in rural towns, small businesses have for many years filled the local demand not met by conventional supply modes. Very scattered, these private initiatives cover a wide variety of services ranging from door-to-door water sales to standpipe operation and to mini piped water networks.

In many countries, a large segment of the population turns to these local operators to meet their water needs (drinking, cooking, bathing, etc.). A World Bank study (Kariuki and Schwartz, 2005) in 50 countries identified more than 10,000 such operators!

Small Water Network Companies Stand Out

But what do water carriers, standpipe operators and small water network managers have in common? Not much, other than the fact that they all developed their activities by filling gaps left empty by the public authorities and those officially in charge of running an inadequate network. Indeed, service characteristics (constant or irregular, free or for-pay, etc.) and the quality of the product delivered (potable or not) are very different. Similarly, their relationships with the public authorities and users can be very diverse.

In cities, some are profiting from “niche markets” alongside conventional systems while others are investing in segments already occupied by formal operators. In rural areas, they may be monopolies or subject to competition from village hydraulic systems.

Among all these actors, small entrepreneurs running water networks probably make up the most promising category to increase water supply in under-equipped towns and settlements. Supplying water through small, more or less rudimentary piped systems, these small entrepreneurs have each between 500 and 10,000 clients.

DEPENDENT OR INDEPENDENT ENTREPRENEURS?

Two kinds of small piped water entrepreneurs can be found. The first distribute water obtained from the formal operator; this is the case in the city of Kampot in Cambodia where GRET has for two years been helping the water authorities take into account informal dependent entrepreneurs. The second distribute fully independent systems, ensuring production, distribution and commercial management; one such entrepreneur is the Meddea program managed by GRET in Madagascar.

The potential for these actors to expand or emerge depends on the trajectory of the country in question, and in particular economic fluctuations and the forms of entrepreneurship supported by the local cultures. This potential is considerable in countries where there is a fabric of dynamic small enterprises, such as Cambodia where GRET estimates that small entrepreneurs could supply between 10% and 15% of the total population.

There are undeniable advantages to using small piped water entrepreneurs to supply small agglomerations and disadvantaged settlements.

With their solid technical know-how and some degree of investment capacity, they are remarkably able to adapt to households’ demands. Because of their local roots, they constantly juggle the need to meet certain social obligations and the imperatives of ensuring that their activities are profitable. Their intervention flexibility allows them to provide services whose quality is sometimes on par with that of conventional systems.

Adapting Support Strategies to Diverse Contexts

Growing out of uncertain environments (weak local institutions, urban splintering, etc.), small piped water enterprises rarely reach an advanced stage of formalization: they are not always identified, have little capital, are untaxed, and are legally vulnerable. In addition, their levels of professionalism and risk-taking vary greatly.

This diversity is reflected in their ability to mobilize financing, which varies greatly depending on the type of service provided and the local socio-economic circumstances. For instance, in Laos, some are capable of investing more than 80,000 euros to build small piped water networks, while in Mauritania, local entrepreneurs ready to invest more than 10,000 euros in this activity are few and far between. Despite this diversity, they all share three financial constraints: they finance the initial outlay mostly from their own pockets; as a general rule, their financing capacity does not allow for full coverage of the service; and formal borrowing is rare.

Independently of their size or degree of formalization, their reasons for entering this sector vary. First and foremost, there are economic motives: small water network entrepreneurs seize investment opportunities following specialization or diversification strategies. More in-depth analysis also reveals other motives. Between clientelism and ostentation, some also want to acquire social prestige or forge ties with the public authorities to expand their networks of influence.

PROFILES OF WATER ENTREPRENEURS IN CAMBODIA

Social factors play a large role for small water operators in Cambodia.

The Mirep project was able to draw up three typical profiles based on motive-related criteria. First, there are the “pioneer” operators who prioritize service modernization and professionalism above the search for high profits. Second, there are “pragmatic” operators who seek to best meet local demand without unnecessary investments. Finally, there are “profiteer” operators who charge abusive rates and reject all forms of dialogue with the public authorities.



Clearly, small water network entrepreneur support strategies must be adapted to the diversity among these actors and the variety of contexts in which they operate. Differentiated solutions in regards to the technical, financial and legal aspects must be designed to respond to the diversity of small water network entrepreneurs' needs and constraints.

Tempering Enthusiasm

Spontaneously developing small piped water enterprises were long seen as a problem that needed to be resolved. At best, they were tolerated as a temporary solution until the formal service could be extended, or until households' standards of living improved. It was only near the end of the 1990s that international organizations and developing country governments began to acknowledge their usefulness.

Today, in some countries, dialogue is beginning with the government authorities. This process absolutely needs to be ramped up and continued through greater efforts to integrate these actors into sectoral policies. Indeed, to attain public service standards, it will not be enough to content ourselves with small enterprises' adaptation capacities. Ambitious policies are needed, which have to include support strategies and suitable regulatory systems.

However, in countries where small network operators do not yet exist, one must act cautiously. Encouraged by the current fad, some hope that small network entrepreneurs will provide the new solution to managing and financing services.

Rather than running after the “right model” that could be applied everywhere with a few adjustments, it would be preferable to proceed in an iterative manner, starting with experiments.

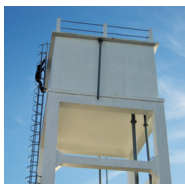
Taking this stance implies rigorously analyzing the fabric of local entrepreneurs, the characteristics of the institutional environment (what roadblocks are there to the emergence of small piped water



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entrepreneurs?), and the strengths and limits of existing supply systems (what complementarities are envisaged?).

Above all, it requires both the social and political acceptance of local private actors' participation in water service delivery.



In Conclusion

- **Small piped water enterprises are an interesting alternative** to expand access to drinking water in developing countries, one with considerable potential to supply small agglomerations and disadvantaged settlements in large cities.
- **The initiatives of these small operators must be seen as complementary forms of water delivery** capable of improving the quantity and quality of water access, rather than as a substitute for conventional supply methods.
- The diversity of small water network entrepreneurs and the contexts in which they operate (large towns vs. large cities, monopolies vs. competition, etc.) implies **recourse to a variety of tools and solutions** (on the technical, financial, legal, etc. levels) in promotion and support strategies.
- Strategies must be adapted to **two types of contexts**:
 - In countries where these actors exist already, the issues deal with **monitoring the activities** of small local entrepreneurs, improving their professionalism, and determining or ensuring the feasibility of replicating local experiments on a larger scale. Recognition of the social usefulness for segments of the water market is a prerequisite to its inclusion in national policies;
 - In countries where these actors are not yet present, the question is which **emergence strategies** could be used and whether they are relevant. In this case, we are faced with small-scale experiments and it is crucial to adapt the models proposed to the potential pool of entrepreneurs and to the local socioeconomic, political and institutional conditions.

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Glossary

- **Niche markets**: these include water sales to the poorest households, service in neglected settlements, etc.
- **Village hydraulics**: designates all technologies and developments generally used to ensure water supply in small rural areas (wells, wells with manually operated extraction, impluviums, etc.).
- **Improved drinking-water sources**: these include public taps and standpipes, tube-wells or boreholes, protected wells, protected springs, and rainwater collection.
- **Conventional systems**: centralized, integrated piped water systems.

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