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SANITATION ENTERPRISE RECRUITMENT TOOLKIT

Guide and Tools to Recruit Entrepreneurs for
setting up Sanitation Enterprises



FSG

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PREFACE

The Water, Sanitation and Hygiene Partnerships and Learning for Sustainability (WASHPaLS) project is a 5-year task order awarded to Tetra Tech on 16 September 2016 under USAID’s Water and Development Indefinite Delivery Indefinite Quantity Contract (WADI). Tetra Tech implements the project in collaboration with several non-governmental organizations and small-business partners—Aquaya Institute, Family Health International (FHI 360), FSG, and Iris Group—that contribute expertise in state-of-the-art WASH programming and research. Distinguished academics, practitioners, and policy makers from across the WASH sector regularly provide expert perspectives to the project through an internal research working group and an external WASHPaLS Advisory Board.

WASHPaLS supports the Agency’s goal of reducing morbidity and mortality in children under five as part of the Ending Preventable Child and Maternal Deaths initiative by ensuring USAID programming employs high-impact, evidence-based environmental health and WASH interventions. The project identifies and shares best practices for achieving sustainability, scale, and impact by generating evidence to support the reduction of open defecation and movement of communities up the sanitation ladder while also focusing on novel approaches for reducing feces exposure to infants and young children (IYC). Specifically, the project:

1. offers USAID missions and technical bureaus ready access to thought leaders and analytical expertise across a wide range of WASH themes in response to their needs (Component 1);
2. generates evidence through implementation research to increase the sector’s understanding of and approaches to sustainable WASH services, the effectiveness of behavioral and market-oriented approaches to sanitation, and measures to disrupt pathways of fecal exposure to infants and young children (Component 2);
3. administers a small grants program on innovations in hygiene behavior change (Component 3); and
4. engages and partners with national and global stakeholders to promote the use and application of WASHPaLS-generated evidence and global best practices by practitioners and policy makers, tapping into broad coalitions and dynamic partnerships (Component 4).

INTRODUCTION

Inadequate access to sanitation remains a significant problem globally. According to the Joint Monitoring Programme (WHO/UNICEF), 2.4 billion people still do not have access to basic sanitation facilities, while 970 million people still practice open defecation. Inadequate sanitation is linked to the transmission of numerous communicable diseases—particularly cholera, dysentery, hepatitis A, typhoid, and polio—with a disproportionately large effect on children. The scale of investment required to deliver sanitation services to hundreds of millions of people around the world that currently lack access is staggering and it is beyond the capacity of public finance alone.

Market-based sanitation (MBS)—through which private sector actors supply toilets and related services to individual households—is increasingly viewed as a promising approach to deliver onsite sanitation products and services to low-income populations that are not connected to centralized wastewater collection and conveyance systems. Successful MBS interventions in Bangladesh, India (Bihar), Mozambique, Lesotho, and Southeast Asia and demonstrate the promise of this approach, but the consistent achievement of scale of such interventions has been a challenge (Agarwal, et al., 2020). A USAID desk review on MBS interventions identified a range of barriers to scaling sanitation markets, which included, among others, the lack of local suppliers for toilets (USAID, 2018).

A strategy of many implementers of MBS programs is to increase the participation by local entrepreneurs in the sanitation value chain. However, the viability and sustainability of the sanitation enterprises designed and promoted by MBS programs often pose a barrier to attract and retain entrepreneurial participation in sanitation markets (USAID, 2018). MBS programs need to have a more nuanced understanding of the factors influencing the viability and sustainability of enterprises to help entrepreneurs’ need to grow their enterprise and thrive. Therefore, USAID/WASHPaLS developed the “*Enterprise Viability and Sustainability Diagnostic*” toolkit to help MBS programs analyze sanitation enterprises and understand the factors that influence their viability and sustainability as a basis to support them to improve their performance.

Recruiting appropriate entrepreneurs to start sanitation enterprises is a precursor to supporting them, and MBS programs often struggle with this activity. The challenge is, in part, because while MBS programs typically share information such as the market potential and product system design, they find it challenging to convey and discuss the revenue and profit opportunity, which is of primary interest to entrepreneurs. USAID/WASHPaLS has developed this “*Sanitation Enterprise Recruitment*” toolkit to complement the abovementioned toolkit. This toolkit helps implementers estimate the financial potential of sanitation enterprises and demonstrate the profit and income potential of investing in the new sanitation enterprise opportunity to entrepreneurs. The toolkit facilitates discussion on profit, both in absolute terms and relative to other businesses/opportunities available to entrepreneurs. Prior to using

OBJECTIVE AND APPROACH OF THE TOOLKIT

The Sanitation Enterprise Recruitment Toolkit helps estimate the projected revenue and profit that an entrepreneur can make by running a sanitation enterprise based on the four core design choices [see (USAID, 2018)] of the sanitation enterprise options proposed by the MBS program. Further, the toolkit also helps estimate the investment required and the returns generated (measured by ROCE¹), which when compared with alternate opportunities can help programs identify “best-fit” entrepreneurs and influence an entrepreneur’s decision to start a sanitation enterprise. The projected revenue and profit,

¹ Return on Capital Employed (ROCE) is one among a class of financial metrics called long-term profitability ratios that are used to assess a business’s ability to generate profits relative to alternate opportunities (such as other business lines). ROCE shows the unit(s) of profits generated by each unit of capital employed (such as cash or equipment) in the business.

depicted as a conventional profit & loss (P&L) statement, along with the ROCE estimates can assist implementers:

1. assess the profit generation potential and the financial returns of sanitation enterprise models designed by them and iterate if necessary; and
2. recruit entrepreneurs, ideally with existing related businesses, to set up sanitation enterprises by demonstrating the financial opportunity.

The toolkit provides guidelines to fulfill the above objectives by following two steps. First, implementers can prepare a generic P&L statement and compute ROCE for the program's shortlisted target entrepreneur (e.g., concrete products manufacturer, hardware store, mason) and its chosen sanitation enterprise design. Next, implementers can present the generic P&L statement to entrepreneurs and customize the estimates based on data from the micro-market where the sanitation enterprises are located and discussion with entrepreneurs. Thus, the toolkit affords entrepreneurs a nuanced evaluation of the financial incentive, which is one of their primary motives, along with the start-up investment and the support offered by the MBS program, and compare it to their assessment of the risk involved.

CONTENTS OF THE TOOLKIT

The toolkit contains the following resources:

- **Projected P&L Statement Construction Guide:** A PDF document which provides a) an overview and detailed explanations of the several line items in a typical P&L statement, and b) guidelines to build a projected P&L statement for a sanitation enterprise using an Excel template
- **Projected P&L Statement Template:** An Excel template that allows users to enter inputs to generate a projected P&L statement following the guidelines. The inputs are based on the MBS program's formative research, its sanitation enterprise design, local market data, and discussion with entrepreneurs
- **Returns on Capital Employed Analysis Guide:** A PDF document which provides guidelines to estimate a metric, "Returns to Capital Employed," which indicates the opportunity cost for the entrepreneur to start a sanitation enterprise, compared to entrepreneur's existing business
- **Returns on Capital Employed Analysis Template:** An Excel template that allows users to enter inputs to calculate projected Returns on Capital Employ (ROCE) for the sanitation enterprise and the ROCE of the entrepreneur's existing business
- **Input Requirements:** A PDF document that highlights potential approaches and tips to gather various inputs for the toolkit

HOW TO USE THIS TOOLKIT

Prior to using the toolkit, we recommend that an MBS program should shortlist the target entrepreneur (e.g., concrete products manufacturer, hardware store, mason) and arrive at context-appropriate enterprise designs—well-defined target market(s), product systems that are appealing and affordable for the chosen target markets, demand activation strategies to persuade potential customers, and delivery models that simplify the customers' buying experience. Programs may not have the final design but, at the least, they should narrow their options before using the toolkit. To do so, programs should have completed rigorous formative research on both demand and supply, identified entrepreneurs with "best-fit" businesses, prototyped and field-tested product systems, designed localized sales & marketing mechanisms, and selected delivery model options suitable for the target entrepreneur(s) profiles [see (USAID, 2018; Chapin & Jenkins, 2013; Pedi, et al., 2013; Chapin & Jenkins, 2013)]. In selecting entrepreneurs, programs should also consider factors such as motivation and business acumen, exhibited in their business history.

The toolkit provides detailed explanations and examples of basic concepts and, therefore, does not require prior knowledge of finance and accounts. Practitioners with advanced knowledge are encouraged to study the toolkit to understand the instructions to use the P&L template, which is customized for sanitation enterprises. We suggest the following steps:

- Review the entire toolkit to get familiar with the concepts and the inputs required.
- Gather inputs informed by the MBS program’s formative research and sanitation enterprise designs (as specified in the *Inputs Requirements* document).
- Develop initial assumptions for inputs unavailable from prior research (as specified in the *Inputs Requirements* document) and complete the preliminary projected P&L statement.
- Refine the inputs in discussion with the entrepreneur to iterate the projected P&L statement and estimate the opportunity cost (sample conversations are provided in the *Inputs Requirements* document); we recommend users keep the filled template at hand to re-calculate projected profits and returns during conversations with entrepreneurs.

The above steps are suggestions, and implementers should use/ modify the toolkit as they see fit for their specific contexts.

We recommend using this toolkit to recruit entrepreneurs with existing, “related” businesses, i.e., businesses with assets, capabilities, or customers that can be shared with the sanitation enterprise. Examples of such businesses include hardware stores, concrete product manufacturers, other kinds of retailers, and masons. Many of the inputs required for the toolkit (e.g., expected rent or cost of raw materials) are easier to obtain if the entrepreneur has an existing, related business. Further, the *Returns on Capital Employed Analysis*, which indicates the opportunity cost for the entrepreneur to start the sanitation enterprise, allows entrepreneurs with existing businesses to make an immediate comparison. This approach is in line with our finding that sanitation enterprises operated alongside an entrepreneur’s other businesses are more likely to be viable and sustainable.²

Nonetheless, implementers can use the toolkit to project the financial performance of standalone sanitation enterprises (i.e., full-time, only business for an entrepreneur). For such cases, implementers can use alternative metrics such as the cost of borrowing instead of ROCE of an existing business as a benchmark for opportunity cost. We offer relevant guidance in the *Returns on Capital Employed Analysis* document.

² USAID. 2020. Creating Viable and Sustainable Sanitation Enterprises (Unpublished manuscript). Washington, DC. Water, Sanitation, and Hygiene Partnerships and Learning for Sustainability (WASHPaLS)

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