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Enterprise Viability & Sustainability Diagnostic Toolkit

Assess Sustainability | Operational Independence Assessment

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Enterprise Viability & Sustainability Diagnostic Toolkit Modules

1. **Preliminary research**
2. **Understand current performance**
3. **Identify factors to improve viability**
4. **Assess sustainability**

Analytical activities

Enterprise Mapping

Select diverse enterprises based on their market context and sales performance for in-depth research

Exploratory Research

Understand enterprises' contexts and operations to customize tools and research questionnaires

Profit & Loss Statement Preparation

Prepare profit & loss (P&L) statements with revenues, costs, and resulting profits to support analyses

Profit & Loss Statement Analysis

Analyze P&L statements using financial ratios to enable inter-enterprise comparisons

Enterprise Classification

Categorize enterprise based on revenue and profit

Gross Margin Variance analysis

Identify the profit drivers that differentiate performance among enterprise categories

Strategy Identification

Identify the strategies that improve profit of enterprises in different contexts

Financial Independence Assessment

Assess enterprises' ability to meet recurring future financial investments independently

Operational Independence Assessment

Assess enterprises' ability to operate independently in future market conditions

Return on Capital Employed Analysis

Compute returns from sanitation relative to other opportunities available to the entrepreneur

Focus of this document

Table of Contents

- Introduction
- Assessment of supply-side conditions
- Assessment of demand-side conditions

Objective of this document

Intended outcomes

This document is intended to help MBS programs:

- Understand the different conditions that can influence operations of enterprises in the future
- Assess enterprises' ability to operate independently in these conditions

Value for MBS programs

Provides an assessment of the **likelihood of enterprises' ability to operate independently** in future supply-side and demand-side conditions

Indicators of operational independence

The ability of enterprises to operate independently in the future can be assessed based on both supply-side and demand-side conditions, using appropriate indicators.

	Indicators
Ability to operate in future supply-side conditions	• Influence of non-market actors
Ability to operate in future demand-side conditions	• Level of future demand • Enterprise resilience to demand shocks

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- Assessment of demand-side conditions

Influence of non-market actors

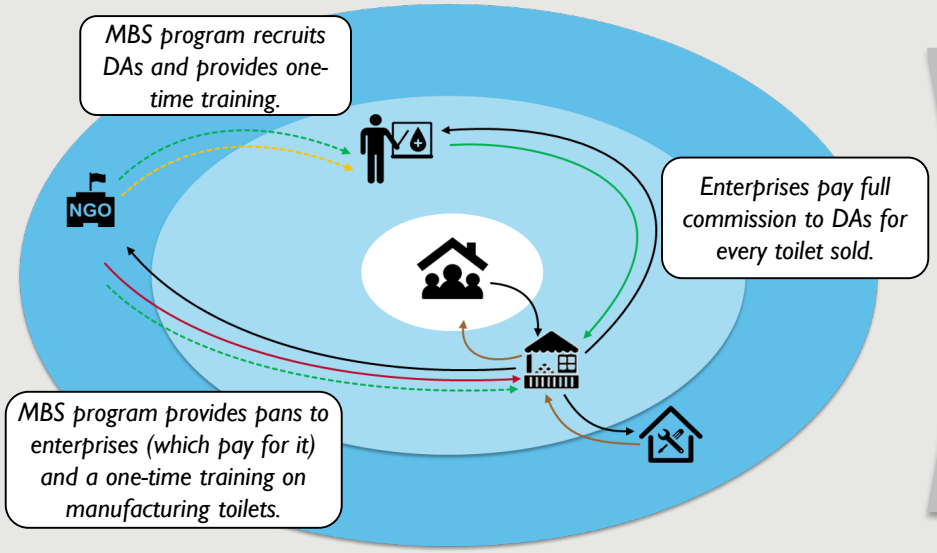
Sanitation enterprises often receive support from non-market actors in the form of products, information, or coordination efforts. Such one-time or recurring support may be directly provided to enterprises, or to other value chain players (such as demand activators) that are core to the enterprises' business operations.

Enterprises that are dependent on recurring support from non-market actors are less likely to be sustainable, unless alternatives from market actors are available once the support ends.

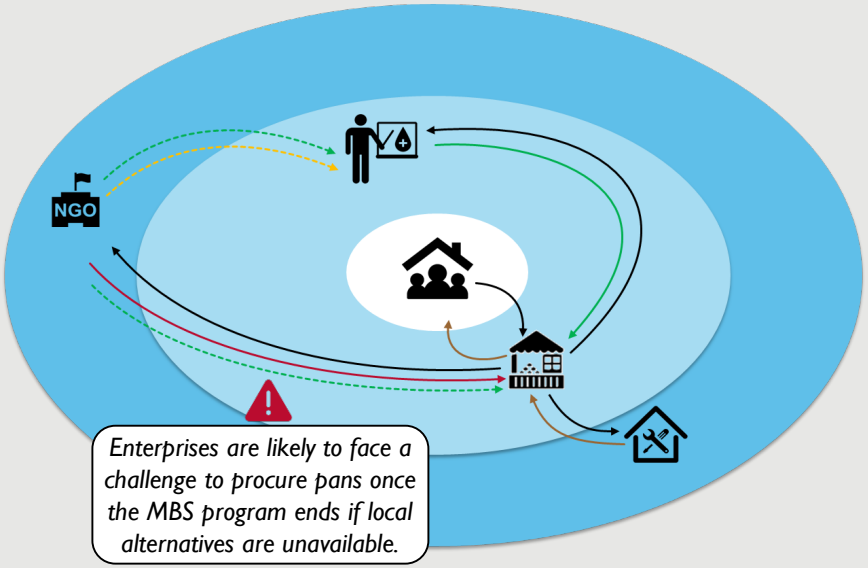
Types of support	Examples
Products	Provision of toilet products/inputs (e.g., pans), equipment (e.g., molds)
Information	Training on manufacturing toilets, guidance on running a business
Coordination	Recruitment of sales agents, management of relationships with value chain players

Influence of non-market actors – Example 1

Illustrative support provided by MBS program



Assessment of sustainability



Financial flows

- Money flows

Recurring non-financial flows

- Information
- Products
- Coordination

One-time non-financial flows

- Information
- Products
- Coordination

- Household
- Demand activator (DA)
- MBS program
- Sanitation enterprise
- Raw material supplier

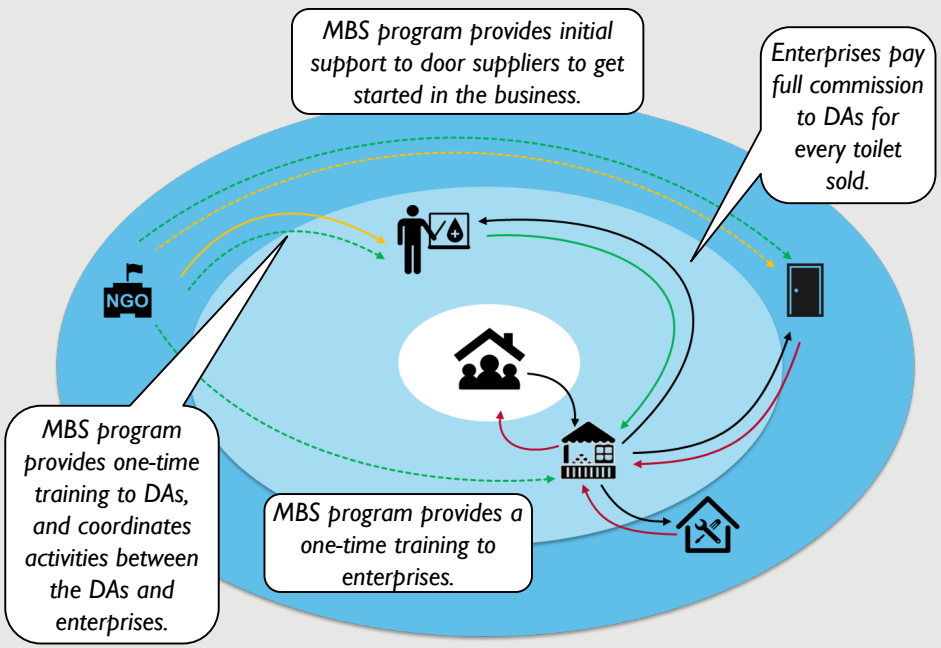
- Unsustainable support
- Sanitation market
- Business environment

Tip

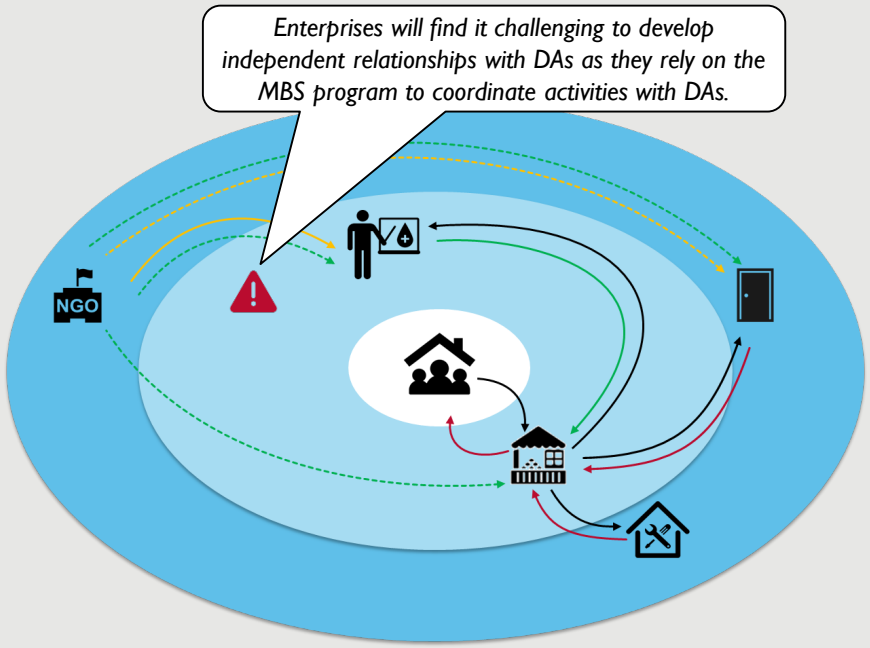
- The visual above includes financials flows, which are assessed in the *Financial Independence Assessment* document of this module
- The visual serves as an example template to map linkages in a sanitation market system. MBS programs can use other visuals that serve the same purpose.

Influence of non-market actors – Example 2

Illustrative support provided by MBS program



Assessment of sustainability



Financial flows

- Money flows

Recurring non-financial flows

- Information
- Products
- Coordination

One-time non-financial flows

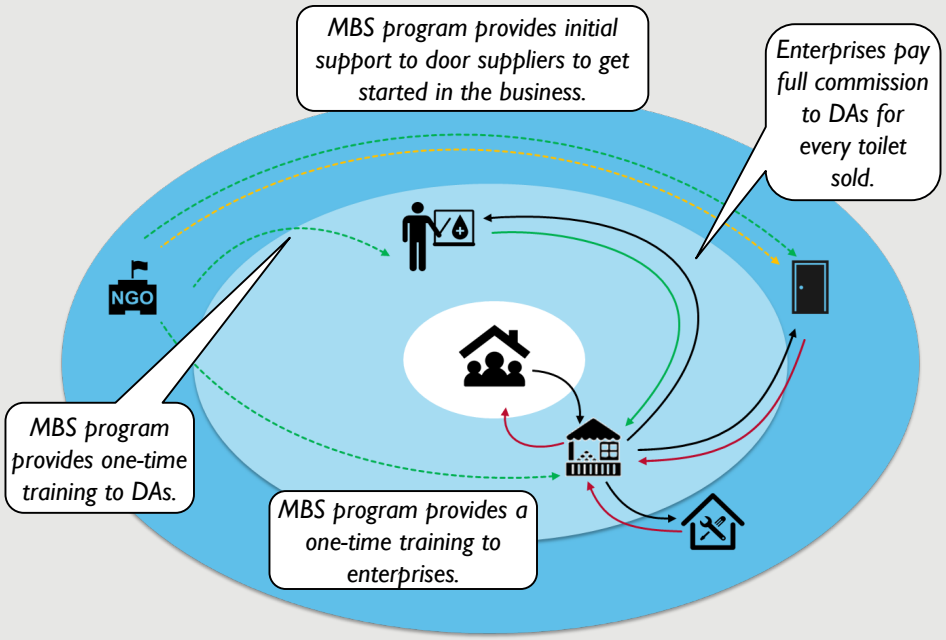
- Information
- Products
- Coordination

- Household
- Demand activator (DA)
- MBS program
- Sanitation enterprise
- Raw material supplier
- Door supplier

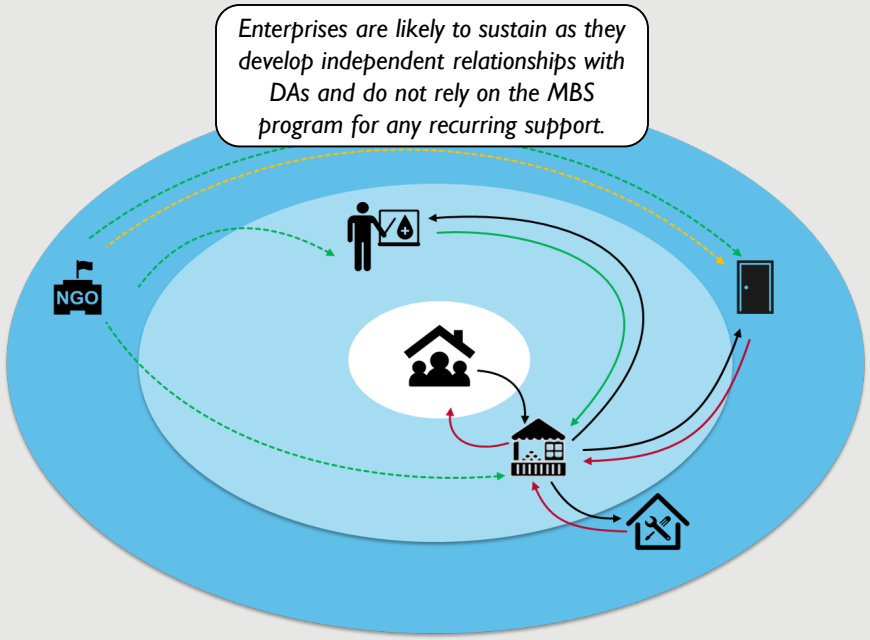
- Unsustainable support
- Sanitation market
- Business environment

Influence of non-market actors – Example 3

Illustrative support provided by MBS program



Assessment of sustainability



Financial flows

- Money flows

Recurring non-financial flows

- Information
- Products
- Coordination

One-time non-financial flows

- Information
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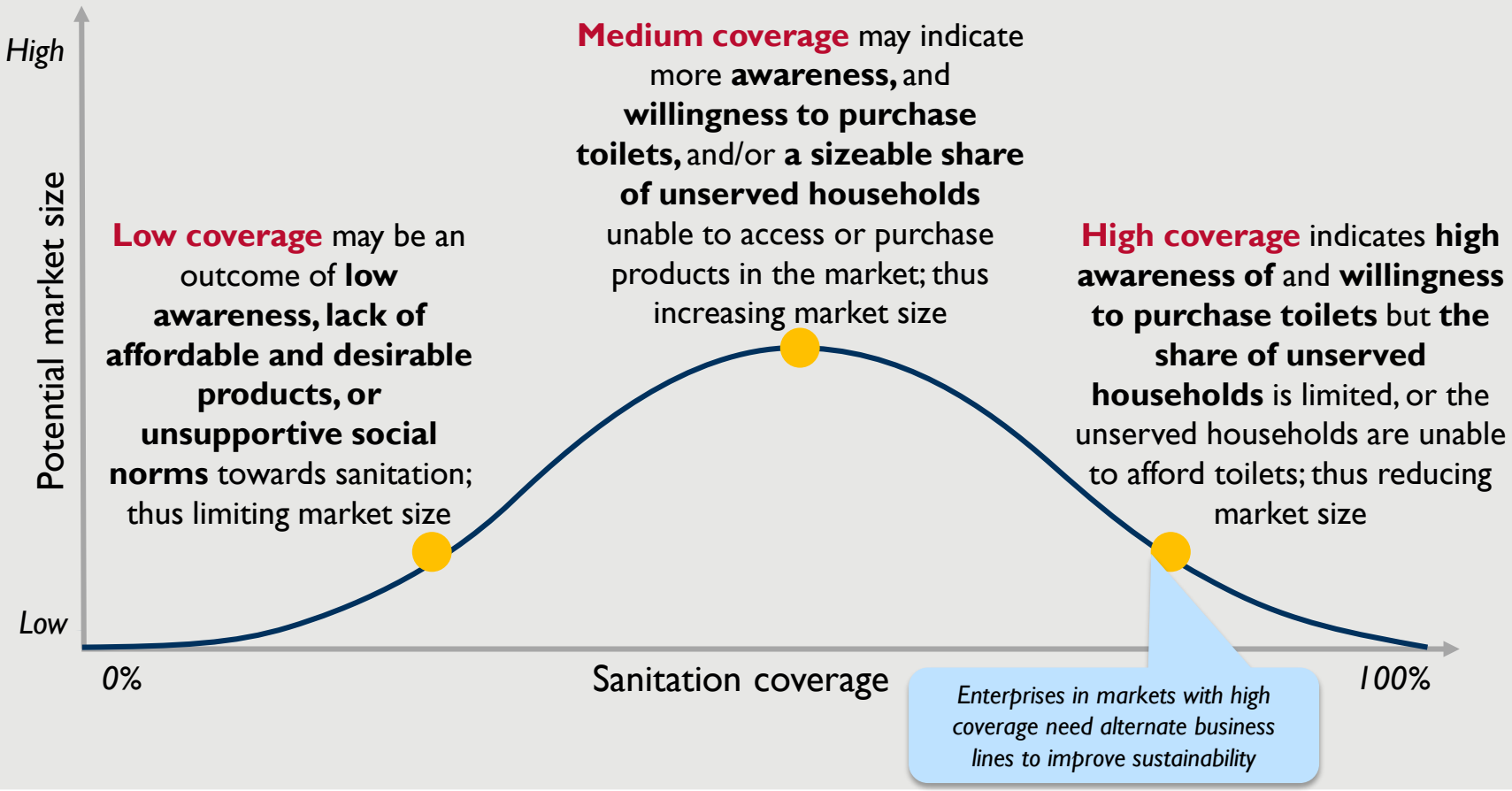
Level of future demand

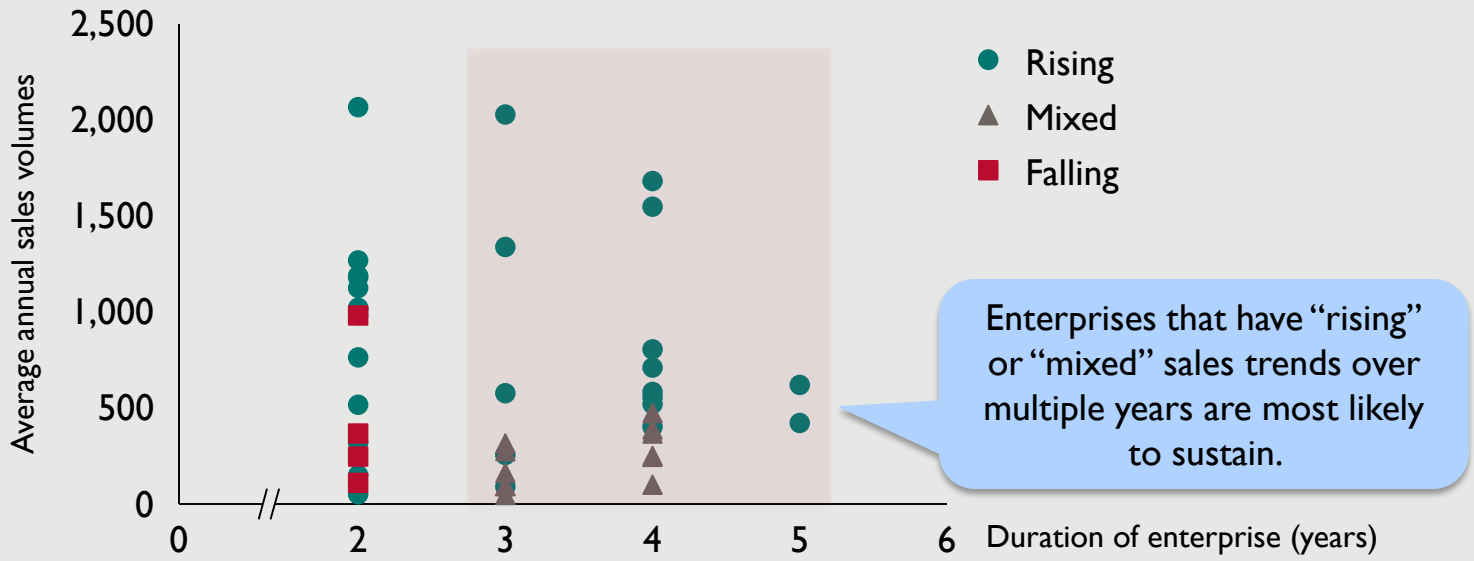
As sanitation coverage in a market approaches full coverage, the market size, and consequentially, sales of toilets will reduce because toilets are typically a one-time purchase for customers. In such markets, enterprises with other business lines are more likely to be sustainable as they are not solely dependent on the sanitation enterprise.



Resilience to demand shocks

Sanitation enterprises can also be impacted by potential macroeconomic shocks that impact overall demand (such as droughts that reduce disposable income in agriculture-dependent markets). Their sustainability depends on their ability to withstand such risks and continue operations.

Enterprises with consistently rising or fluctuating sales volumes over multiple years are most likely to be sustainable, as they have demonstrated the willingness and ability to continue operations over a prolonged period notwithstanding market conditions.



Tip "Rising" refers to enterprises with annual sales volumes increasing every year while "falling" refers to the opposite. "Mixed" refers to enterprises with annual sales volumes increasing in some years and decreasing in others. Duration of analysis will vary by the program's and local context.