

WASH Talk Episode 15 - The role of social enterprise in serving the Base of the Pyramid

Show Notes – May 2018

Introduction

Governments have the responsibility to provide safe water to its citizens. In cities, the mandate is given to the water utility to provide safe and affordable drinking water to the population. However, when there is intermittent supply (which is mostly the case in Africa and Asia) contaminated groundwater infiltrates the piped networks during period of depressurization. So, by default, the responsibility of safe water falls on the household, who must treat it, or buy it. Even in rural areas, when water is collected from improved and unimproved sources, contamination is mostly likely to happen during transport or in the home, which again points to the responsibility of households. Where there is a household need, such as is the case for food and every day consumables, businesses respond to this need if there's an opportunity for profit. Such is the case for water, where businesses provide water products and services to those who can afford it, which is most likely middle to higher incomes families. Businesses can provide products and services to the lower income groups, often referred to as the base of the pyramid, and development finance can be used to encourage these businesses to focus their business on serving this base of the pyramid. Today, we're talking to two guests who are working in this area of the WASH sector, which has an important part to play in delivering the SDGs.

Rachel is the CEO of Hydrologic, a Cambodian social enterprise manufacturing and distributing water filters throughout rural Cambodia. She has around 10 years' experience in the development sector, of which 6 have been in Cambodia. There she's worked on a raft of initiatives, particularly social enterprise development and micro-finance initiatives.

Sjef is Managing Director of Aqua for All, a non-profit based in the Netherlands that uses a business approach to stimulate and scale (financially) sustainable solutions targeting the very poor in developing countries. In Sjef's long and illustrious career he's worked and lived in Africa, run a water company in the Netherlands and run an industrial water services company for several years as well.

Show Notes

- The guests define social enterprises as an organisation that creates a social outcome whilst also making a profit. And profits are used to grow the business and thereby grow the outcome.
- Sjef sees a big growth in the number of social enterprises around the world in the years to come. Many are started by younger entrepreneurs who are motivated by social good.
- The Safe Water Project is supporting entrepreneurs in point of use, which were the water kiosks, filter producers, chemical companies (chlorine). They found that instead of just being about raising demand, but about extending water services itself, so about what distribution channels are they using.
- Hydrologic manufactures and sells locally-made ceramic water filters that customers use to treat raw water, from ground and surface water sources. They work on a

direct sales model, so direct to the household rather than through existing supply chains. And they help customers understand the costs of drinking unsafe water. They get it delivered straight to their home, can apply for financing, and get taught how to use it. It's a whole package rather than a simple product.

- Communities are already aware of the need for safe water, after the government invested in public health campaigns.
- It's not the government's role to provide POU products, but the wish is that they finish the job of their mandate, to ensure they deliver safety until point of use.
- There is a role of government in all this. The safe water project's position has been for government not to subsidise the filters, but to facilitate the distribution - through existing channels - like micro finance companies, mobile phone agents, and others distributors of similar products, etc. This can help customers make comparisons between safe water and other products they buy.
- Can social enterprises grow their impact by accessing commercial finance? In Hydrologic's case, they transitioned to a social enterprise after ten years as an NGO, moving from grant funding to impact investment, and more recently, carbon financing. The challenge for social enterprises taking on commercial financing, is that they need several years track record of profitability to demonstrate financiers will get their money back, and for impact investment specifically, very rigorous data on the impact being claimed.
- Sjef concludes that margins will always be small for social enterprises, but that there is a potential second stream of revenue in the form of outcome payments, like in the carbon market. Social enterprises are also a good place to deploy subsidies, as they can support business start-up costs, providing products to the poorest of the poor, and go towards research and development.