

**PRIVATE AND SOCIAL ENTERPRISE ENGAGEMENT
IN WATER AND SANITATION FOR THE POOR**
INCENTIVES SHAPING
ENTERPRISE ENGAGEMENT
IN VIETNAM

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WITH SUPPORT FROM DANIEL HARRIS

“Enterprise in WASH” is a joint research project led by the Institute for Sustainable Futures (ISF) at the University of Technology, Sydney, which investigates the role of private and social enterprises in the delivery of water, sanitation and hygiene (WASH) services for the poor. In particular, the research aims to support civil society organisations (CSOs) engaged at the interface of public sector, private and social enterprise, and civil society.

The research is funded by the Australian Development Research Awards Scheme as part of the Civil Society Water Sanitation and Hygiene Fund. The CSO partners are the East Meets West Foundation (EMWF), Plan International, the SNV Development Organisation and WaterAid. Other partners are Universitas Gadjah Mada in Indonesia, the Vietnam National University, the National University of Timor-Leste and the Overseas Development Institute (ODI).

ABOUT THE AUTHORS

The Institute for Sustainable Futures (ISF) was established by the University of Technology, Sydney in 1996 to work with industry, government and the community to develop sustainable futures through research and consultancy. Our mission is to create change toward sustainable futures that protect and enhance the environment, human well-being and social equity. We seek to adopt an inter-disciplinary approach to our work and engage our partner organisations in a collaborative process that emphasises strategic decision-making. For further information visit: www.isf.uts.edu.au

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1. INTRODUCTION

This document presents findings from a qualitative study into the involvement of small-scale enterprises in water and sanitation services in Vietnam, with a core focus on rural areas. We conducted the empirical research for the study in January 2014 in partnership with SNV Development Organisation Vietnam (SNV) and the East Meets West Foundation (EMWF). The research examines the role that small enterprises play in the water and sanitation services sector, and the incentives that support or undermine their role. It also addresses how and why non-governmental organisations (NGOs)¹, as civil society organisations (CSOs), choose to support such enterprises.

The detailed methodology, based on political economy analysis, is described in Appendix 1. The methodology involved the development of a conceptual framework informed by Ostrom (2011) and a political economy analysis developed by the Overseas Development Institute (ODI). Within the political economy of the broader country and water and sanitation sector, we focused on:

- incentives provided by formal and informal rules operating within and between organisations
- issues of power
- control over choice
- access to information.

We conducted semi-structured interviews with representatives from over 70 organisations and individuals across six provinces and at national level in Hanoi.

We also conducted interviews concerning water enterprises in Tien Giang, Tra Vinh and Dong Thap Provinces in the Mekong Delta. We investigated the role of enterprises in sanitation in Nghe An Province (Anh Son and Quynh Luu Districts), Hoa Binh Province (Mai Chau District) and Dien Bien Province (Muong Ang District). We based our choice of these locations on the research aim of investigating enterprise engagement in rural areas, including low-density settings.

Research participants represented private enterprises, national and international NGOs, donor organisations, mass organisations (e.g. Women's Union) and government agencies from sectors relevant to enterprise development in the water, sanitation and hygiene (WASH) sector. We included households in our research to provide a local community perspective. The study aimed to provide insight into the changes in the ways enterprises are engaging in the Vietnam WASH sector, but the research does not constitute a comprehensive study of all possible enterprise roles, and nor does it cover the breadth of Vietnam geographically. Lastly, we focused on water and sanitation services and while we mention enterprise roles in hygiene promotion, these were not our core focus.

NOTES

1. We use the term non-governmental organisations (NGOs) in this report rather than civil society organisations (CSOs) to differentiate them from mass organisations (e.g. Women's Union), which are also sometimes referred to as CSOs in Vietnam despite receiving economic support from government.

2. SECTOR & CONTEXTUAL BACKGROUND

2.1 COUNTRY CONTEXT

Over the past 25 to 30 years, Vietnam has changed remarkably. Now classified as a middle income country, overall poverty rates have declined and five Millennium Development Goal (MDG) targets have been reached (World Bank, 2013). As a result, some donors (e.g. Danida, DFID) are withdrawing support and overall Overseas Development Assistance (ODA) is declining. The national government is leading the mobilisation of domestic resources to address outstanding inequalities which remain challenging, particularly in rural and remote areas where inequities in the rate of progress are becoming apparent. These changes constitute a shift in the overall political economy of Vietnam, and they have implications for: the way in which the government views the role of NGOs (see Section 6), the changing roles of civil society and mass organisations, the potential role of social enterprises, and the rapid recent emergence of the private sector (see Sections 4 and 5).

Conceptions about the importance of the private sector have been changing over recent decades. Prior to 1996, the private sector was not formally recognised in Vietnam. The Enterprise Law, passed in 2000, led to formal registration of household businesses and the creation of new private enterprises (Hakkala and Kokko, 2007). While an NGO research participant noted that “*Vietnam has always had entrepreneurs – people bargaining and trading – it just was not recognised formally*”, many people in Vietnam still consider the formalised private sector to be a new phenomenon. Since 2000, the Vietnam Chamber of Commerce and Industry (VCCI) has also been established to support and promote enterprises and entrepreneurship.

Given the relatively short history of the formal private sector, public perceptions of state and private enterprises are still evolving. Historically, the government was responsible for service delivery, including for WASH, and now that enterprises are involved some customers are asking why they have to pay for services that were previously government supported (or subsidised). Related to this is the public's trust in private enterprises. For

instance one government interviewee noted, in relation to the building of infrastructure that: “*if the private sector constructs something wrong, they don't care*”. This interviewee said that while they believed this was the dominant attitude of the public now, things may change over the next 10–20 years if enterprises improve their performance. Indeed another interviewee said people were sceptical because the private sector has not ‘proved’ itself, but that positive experiences with private water operators could overcome such views.

Vietnam's approach to policy making involves decisions, decrees and directives issued at the national level which are intended to guide lower levels of government administration (provincial, district and commune). This governance structure has implications for the water and sanitation sector. While top down policies provide direction for subnational governments, they may also be ignored or sidelined in response to other contradictory incentives affecting district and commune level government staff (discussed later – see Section 5).

2.2 WASH SECTOR CONTEXT

Since 1998, Vietnam's National Target Program for Rural Water Supply and Sanitation (NTP) has dominated the drive to expand access to water and sanitation. In the first two phases of the NTP Program (Phase One 1998–2005 and Phase Two 2006–2010) the Ministry of Agriculture and Rural Development (MARD) was the leading national ministry for managing both water and sanitation. MARD, along with its provincial counterparts, the Department of Agriculture and Rural Development (DARD), the Provincial People's Committee and the Provincial Centre for Rural Water Supply and Environmental Sanitation (PCERWASS), tended to direct funding towards rural water supply, leaving little focus or budget for rural sanitation (Harris et al., 2011a). While the Ministry of Health (MoH) was included as a stakeholder in NTP 1 and NTP 2, an NGO interviewee noted that “*the role of MoH was weak, especially in budget allocation – that's why most budget goes to water, not sanitation*”. Many

participants saw the low priority given to sanitation over NTP 1 and NTP 2 as problematic, and said that it meant the program had made little to no progress in expanding access to sanitation.

The Third Phase of NTP (2011–2015) saw changes to this model, with the MoH (specifically Vietnam Health Environment Management Agency (VIHEMA)) formally allocated authority for rural sanitation in terms of planning, monitoring and implementation, especially of household latrines. The changes also resulted in revisions of budgetary splits between water and sanitation, allowing MoH and its subnational authorities – the Department of Health (DoH) and the Centre of Preventative Medicine (CPM) to propose how rural sanitation budgets should be allocated (the Provincial People's Committee (PPC) made the final budgetary decisions). Most budgets went to subsidies for household latrines, as the government considered this to be the most effective and efficient option, a point that is heavily disputed in the sector. NGO interviewees also noted the increasing role of mass organisations (particularly the Women's Union) in collaboration with CPM at the district and commune level to address household sanitation.

Despite these positive changes in NTP 3 regarding the allocation of roles, responsibilities and funding for rural water and sanitation, challenges remain. At the provincial level, the allocation of

funds for water and sanitation is also the responsibility of the Provincial People's Committee, the Department of Finance and the Department of Planning and Investment, with PCERWASS acting as the Standing Committee for water and sanitation. Several interviewees confirmed that *“as a result, sanitation can again be sidelined if not prioritised by these groups”*. Obstacles also remain at the national level in terms of capacity within MoH and VIHEMA, with an international organisation participant noting: *“Now sanitation [responsibility is] with MoH and VIHEMA... But they were just recently assigned it, and [as yet] they don't have much capacity – both financially nor personnel.”* Figure 1 below shows stakeholders involved in water and sanitation decision-making at the provincial level. It indicates the prominence of the PPC, the Department of Finance, the Department of Planning and Investment and the Standing Committee. The low investment in sanitation is reportedly due in part to a Ministry for Planning and Investment (MPI) circular that directs a certain proportion of funds to ‘investment’ rather than ‘recurrent’ expenditure (the category against which most sanitation activities are classified). The Department of Health and the CPM are included but their authority is limited, as shown by the dotted line to the Standing Committee. As one government employee put it *“CPM has no voice in budget allocation”*.

“
Now sanitation [responsibility is] with MoH and VIHEMA... But they were just recently assigned it, and [as yet] they don't have much capacity – both financially nor personnel.
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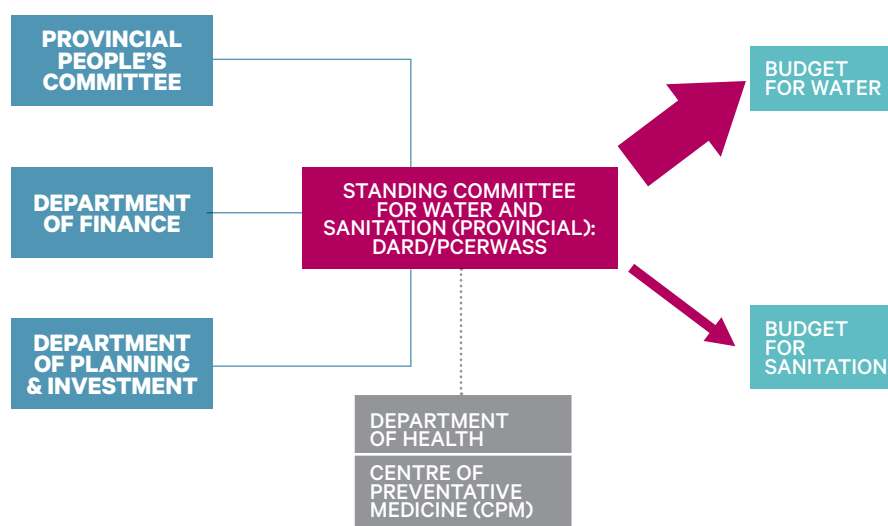


FIGURE 1 WATER AND SANITATION DECISION MAKING AT THE PROVINCIAL LEVEL



The Prime Minister's Office issued a Decision 131 – they mention the private sector to be involved in the WASH sector. Sanitation is not so present. They use the words 'water and sanitation' – but they don't talk about the sanitation part.



Alongside NTP programming, NGOs have been implementing demand creation schemes for sanitation, starting with SNV's Community Led Total Sanitation (CLTS) in 2008. Government and other NGOs have since taken on CLTS in numerous provinces, recognising the benefits of the approach. Since then, Sanitation Marketing has also begun to gain traction. Introduced in Vietnam by iDE, Sanitation Marketing has aroused the interest of VIHEMA, UNICEF and other NGOs alike. Sanitation Marketing is seen as a way to meet newly established community demand for sanitation.

It is becoming clear that the government is interested in the role that private enterprise may play in the WASH sector, including in rural areas. A Vietnam Partnership Development Forum held in late 2013 focused on the role of private and social enterprise, with government showing support and interest in how to better engage with the private sector for WASH service delivery. Numerous national-level interviewees saw this forum as a turning point in terms of government recognising and supporting the role of enterprises in service provision.

The government is yet to develop a finalised policy for private sector participation in WASH, however initial steps to do so include the government's "Decision 131" of 2009, issued by the Prime Minister (and supporting Circulars, issued by the Ministry responsible, in this case, MARD). Decision 131 provides a framework of support to eligible enterprises, including incentives to operate in rural water supply and sanitation (MARD, 2013). Feedback from WASH sector interviewees noted that Decision 131 *"allows private enterprise access to land, access to soft loans and tax breaks. But the private sector tells us loans are hard to access and only available at high rates"* (see Sections 4 and 5 for further discussion on this matter). Attention also seems skewed once again to water over sanitation. This highlights differences in policy versus practice, with stakeholders hoping the formal policy linked to Decision 131 will provide clarity on specific incentives for the private sector for both water and sanitation.

VIHEMA, the National Centre for Rural Water Supply and Environmental Sanitation (NCERWASS)² and other government organisations indicated their support for working with the private sector (*"We [VIHEMA] have intentions to work with them [private enterprise]"*), but they recognise more needs to be done to expand private enterprise engagement and optimise the role it is best placed to play. Other interviewees noted that government engagement with the private sector will require new thinking and skills to enable effective collaborations and partnerships to develop. NCERWASS, who played roles throughout all phases of NTP, are currently responsible for making recommendations concerning the appropriateness of different management models for water service provision. In addition, under MARD, the government-funded Institute for Water Resources Economics and Management (IWREM) is also commissioned to research and advise on the role the private sector, and public-private partnerships, may play in the delivery of water services. Meanwhile, VIHEMA is rapidly building experience and is in the process of rolling out training in pilot provinces to support enterprise engagement in sanitation.

Additional stakeholders in the WASH sector worth mentioning include the Vietnam Bank for Social Policy (VBSP) and mass organisations including the Women's Union, Farmer's Union and Youth Union. VBSP offers loans to the poor to enable them to access water and sanitation services (among other things). Despite clear commitment by VBSP at the national level, its ability to effectively offer these loans varied in the provinces involved in this research. One interviewee noted that *"VBSP's ability to reach out to the poor is getting stronger"*, and identified VBSP as the main channel for WASH credit, however elsewhere (e.g. in Dien Bien) it appeared that loans were either not readily available or not focused on the poor. Demand for VBSP loans also varied; in some locations it was high, and in others it was low. Mass organisations were found to play a role in facilitating poor households' access to VBSP loans. One donor interviewee noted that *"Mass organisations are very important,*

NOTES

2. A semi-autonomous non-profit agency with government and contracted staff.



Social enterprises – there are more appearing in Vietnam... they use part of their profit to do community work and fund some activities.



especially in WASH. Loans from VBSP... provided a subsidy. They [VBSP / subsidy program] work through authorised agents like Women's Union, Farmer's Union – they are active especially in water and sanitation.” See Section 5 for further discussion on the role of mass organisations in demand creation.

Finally, the emergence of social entrepreneurship and social enterprise in Vietnam appears to be very recent. Vietnam's Centre for Social Initiatives Promotion (CSIP) is an NGO established in 2008 to support social enterprises. It has undertaken a mapping exercise to better understand the spread of social enterprise across the country (see CSIP, 2011). Perceptions about what a social enterprise is varied. For instance one interviewee described them as follows: *“Social enterprises – there are more appearing in Vietnam. I haven't seen them but they use part of their profit to do community work and fund some activities... They earn money and they use part of their profit to do community work.”* Others define the enterprises offering water service provision as ‘social enterprises’ simply due to their overall social purpose (see Section 4 for further details). VCCI reported that there was currently no clear policy surrounding social enterprises, and other interviewees noted that social enterprises are categorised under the business sector, however rules were still fairly unclear. Given the research did not find many social enterprises operating in the WASH sector, it is difficult to comment on whether the lack of policy guidance helped or hindered social enterprises in Vietnam. More research in this area would be of value.



FIGURE 2 SMALL-SCALE ENTERPRISE MANUFACTURING CONCRETE RINGS IN THE MEKONG

3. EMERGING ROLES FOR ENTERPRISES IN WATER AND SANITATION

DEFINITION OF TERMS

Private enterprise:

A private enterprise is a business or industry that is managed by independent companies or private individuals rather than being controlled by the state. Ranging from self-employed individuals to large multi-national businesses, private enterprises are generally motivated by profit (Koestler 2009).

Social enterprise:

A social enterprise (also known as a social business, and closely related to social entrepreneurship) couples entrepreneurial behaviour with the desire to draw upon the market as a tool for meeting social goals, serving the general interest and common good for the benefit of the community (Noya et al. 2013). Emerging as a response to complex social needs, often in response to an absence of or reduction in public funding, social enterprises aim to draw on sound business practices and have been associated with innovative approaches to the delivery of community services (Peredo & McLean 2006).

Private and social enterprises are defined on the left. As noted in Section 2, research in Vietnam revealed a limited presence of social enterprises, particularly in the WASH sector (see CSIP, 2011), and therefore most mentions of 'enterprises' refer to private sector enterprises and operators.

In the context of Vietnam, the above definition of a private enterprise should be viewed as limited to the small-scale businesses that are the focus of this research. More broadly, privatisation of public enterprises in Vietnam is often referred to as 'equitisation', and this process is typically relevant for large firms and involves additional complex dynamics between state and enterprises.³

As noted by an NGO interviewee, the role of the private sector is changing in Vietnam: *"For all sectors, the private sector plays a very important role. In the past, water was governed by the government. Now we move to a market-based mechanism so the private sector is more and more important."*

Various types of private sector enterprises are emerging as important players in the political economy of Vietnam. Governments, in part informed by experience from NGOs and other stakeholders, are recognising how private enterprises can play a role in the WASH sector. A considerable number of interviewees noted that businesses are beginning to view the poor as customers, with a NGO interviewee noting that: *"Many local enterprises also have a change in mindset – they see the poor as good customers. This is changing and we see there being a market for the poor now. The poor can pay."* However, there was only limited evidence of a pro-poor business focus in interviews with enterprises engaged in the sector (see for example Sections 4A and 5A).

Below we provide a snapshot of the types of businesses currently engaged in the WASH sector, and the roles they are playing. Interviewees said the diversity of business types, which reflects the diversity of the private sector as a whole, is in part due to Vietnam's varied socio-economic and geographic landscapes, as well as the different technologies available or appropriate in different locations. In

addition, the diversity relates to the earlier comment on the equitisation of businesses in Vietnam, and the way the state is thought to continue to control private businesses (see Gainsborough, 2009).

• Small-scale private water service providers:

Private water enterprise can buy a water system or cooperate with the public sector through a lease contract, depending on the province. While all such enterprises are privately owned, some operate more as social enterprises. An example is a small household business in the Mekong that sold water for cost price only, as noted by an interviewee:

"One family have a household [water] service scheme serving hundreds of people... The money is collected for maintenance and not profit. He is happy to serve and help people, and uses his own money for water tank and pipes and charges good price."

• Product manufacturers, drilling and construction companies:

Drilling and construction companies are involved in household wells and constructing piped systems. Vietnam supports many manufacturers of water pipes and other materials. In the past, IDE has been involved in research, development and design of water pumps that suit the needs of rural poor households. Ceramic toilets are also produced at large scale in Vietnam, and concrete rings are produced locally in many provinces. Specialised sanitation products were also under development, including a flood-proof latrine using innovative composites to construct floating toilets suitable for the Mekong area. Interviewees also mentioned that Unilever engages with enterprises in hand-washing initiatives.

• Social enterprise undertaking bottled water production:

An NGO partnered with a community to produce and sell bottled water in the south of Vietnam. The NGO believed there was high potential for this approach to work, and an interviewee involved in the initiative noted that *"At the initial stage, it is a community management system. But*

“

There are other incentives for them [businesses] – different programs from the government targeting the poor – so they know that income is coming and also from other aid organisations. We can work with them as donor partners.

”

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3. Equitisation has been underway over the past 15 years in such a way that some have argued that newly sold enterprises cannot be thought of as 'independent companies' (as noted in the above definition) or equate to a retreat of the control of the state. Gainsborough (2009) argues that since enterprise shares are often sold to state officials, and given that this is done in such a way that the state continues to exert control over how they are run, equitisation is only a new form of state intervention. Our research focuses mainly on small scale, often family run businesses which are not former public enterprises, so these issues will not influence how we analyse findings.

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It's made of floating material and they connect it with the house. The house is right on the river and they put the latrine floating on the water.

”

“

There are a lot of masons who are not working as masons full time. They are a member of a household - in farming time they are farmer and other time they are mason.

”

at a later stage, the management will be developed by the local authorities to transfer it to be a company.”

- Household water treatment:** We found that household ceramic filter producers were active in Vietnam, and NGOs are supporting the creation of demand for such products. Companies producing purifiers, tablets and reverse osmosis technology play a role in improving water quality.
- Rural materials supply shops:** Supply shops in rural areas (at the district and commune levels) supply building products such as concrete, steel, pipes, sand and latrine products. Supply shop owners often have relationships with transport providers and labourers, and households generally purchase materials themselves (with advice regarding material types and quantities from the shop or mason).
- Masons:** Masons can work alone or in teams, with master mason, skilled mason and assistant masons as recognised roles with specific responsibilities and rates of pay, and the master mason playing a business leadership role and handling contracts. Research found many masons were not solely dedicated to this trade and also worked as farmers, labourers or other diverse jobs. In one example, a business combined a mason's service with a materials shop in Dien Bien, however, this was not a common model.

- Co-operatives:** Co-operatives are a common model in the Vietnam agricultural sector. They were previously universal at the commune level. Modern day co-operatives are non-profit collaborative efforts, “coming together to contribute land, human resources, capital – they join as a cooperative” as noted by a NGO interviewee. Co-operatives are one management model for rural water supply provision
- Transport providers:** Transport providers in the construction business are often household businesses, with the family owning one or two different sized vehicles and delivering materials across a district



FIGURE 3 A CONCRETE RING PRODUCER IN QUYNH DIEN COMMUNE, NGHE AN PROVINCE

4. WHAT IS SHAPING ENTERPRISE ENGAGEMENT IN WATER SERVICES?

Using a political-economy analysis framework, we explore the incentives generated by important aspects of the context, including both formal and informal institutions, and the distribution of power between different stakeholders in the Vietnam water sector. We examine how they shape the behaviour of small-scale water enterprises, which predominantly comprise private water operators in a small number of provinces in the Mekong Delta region.

We present the findings against dominant themes which arose in the interview data. Key elements that are important to the viability and success of enterprise development also inform these findings (Gero et al. 2013). These key elements are:

- a) demand, cost recovery and profitability
- b) investment and ownership
- c) access to finance
- d) relationship with service users
- e) political support and priority.

A) DEMAND, COST RECOVERY AND PROFITABILITY

Demand for water services is variable across locations

Consistent, secure demand is essential for small enterprises to maintain a service. However, household demand for safe water supplies was reported to be variable across different parts of Vietnam. In the Mekong area, where many of the existing private enterprises are located, demand is generally high. One enterprise in Dong Thap Province reported that they used a volume of 3m³/hh/month as the design value for their system; however, actual demand had increased over recent years up to more than 5m³/hh/month.⁴ They proposed that this was due to declining river water quality and rising socio-economic status of service users. In other parts of Vietnam, particularly mountainous regions, private enterprises were reportedly struggling due to inadequate demand. This is particularly true in areas of low socio-economic status, where users prefer to use other water sources⁵ for which they do not need to pay: *“It is difficult for the private sector in remote areas – it’s expensive – they can’t recover costs. How can they invest if they aren’t profitable?”*

An expectation for ‘free’ services remains in some locations

Vietnam carries a historical legacy of water provided by the state, or taken for free from the environment. In addition, the dominant ideology dictates that water should be affordable to all. In rural areas in particular, many people expect water to be provided free or at very low cost: *“The history was lower prices [in rural areas].”* In the past systems were constructed and handed over to communities or cooperatives without setting up fee collection or with very low fees (for example 500 Vietnamese Dong (VND), or USD \$0.02) /m³), and hence many systems have fallen to disrepair (MARD, 2013). Such environments are not conducive to enterprise involvement and hence enterprises have instead emerged in places where there is broad acceptance of user-pays principles.

Benefits and inadequacies in current tariff setting processes

Regulation is essential for sectors where there is a natural monopoly. Water service provision is such a sector, and in Vietnam the PPC is the de facto price regulator. Enterprise revenue is strongly influenced by tariffs set by these committees. In Dong Thap the PPC recently increased the minimum tariff price from 3,500VND/m³ to 4,500 VND/m³ (USD \$0.17–\$0.21): *“The provincial regulation says it must be between 4,500 and 5,500VN/m³.”* A collective of enterprises proposed an increase at the district level, and subsequent decisions were made at the provincial level resulting in this increase. Communities were given one month before the increase was implemented.

The enterprises noted that it was helpful to have tariffs set independently in this manner, since it was a sensitive point for them to negotiate directly with communities and having an independent decision legitimised the tariff with their customers: *“We don’t negotiate that. It is good to have it set [by the province].”*

However, enterprises reported that if an enterprise had higher costs and needed to increase the tariff, this would not be easy: *“The Provincial People’s Committee set up the tariff, with a band. I have to collect within this band. I need the Commune People’s Committee*

“It is difficult for the private sector in remote areas – it’s expensive – they can’t recover costs. How can they invest if they aren’t profitable?”

NOTES

4. A recent customer satisfaction survey conducted by East Meets West Foundation indicates average consumption in the Mekong Delta of 9–10m³/hh/month.

5. In Vietnam several other sources are frequently available, including dug wells, rainwater, river and pond water, that provide water of acceptable quality (to consumers) for many domestic purposes.

“
Sometimes the tariff is not enough for recovery of costs. This does not encourage private sector involvement.”

“
I don't get much profit because this is a rural area so [there is] not much profit.”

and people's agreement to change the tariff. This will be hard.” In addition, all enterprises were charging the lowest tariff within proposed bands, since service users expected their price to be at the lowest end of the band. The challenge here is that a blanket tariff set at the provincial level may not account for differences in the costs of running different water systems. The enterprises saw this as a barrier to greater enterprise engagement in the sector. Furthermore, whilst in theory, formal regulations developed by central government provide for the province to contribute financially to make up any difference between costs and revenue, in practice this does not happen: “Sometimes the tariff is not enough for recovery of costs. This does not encourage private sector involvement. If the tariff is lower than production costs, the provincial authority is supposed to cover the gap but they don't always do this. If the province wants involvement of private sector then they have to allocate the budget to cover the gap.” Lastly, PPCs were reported to rarely consider the capital cost incurred for private investment in new systems, whereas publicly run systems have capital subsidies of US\$300–\$400 per household connection that are usually not recovered.

Consumers expect rural tariffs to be lower than urban tariffs despite potentially higher production costs

Another dynamic concerning tariff setting was a perception that rural water tariffs should be cheaper than urban ones. For instance, one Commune People's Committee (CPC) member reported that: “The tariff imposed here is less for rural than urban – 6000 VND/m³ [USD \$0.28] for urban and 4000 VND/m³ [USD \$0.19] for rural, because poor people can't pay. Maybe if the province increases the urban tariff then the rural tariff can be increased.” At the same time, commune government officials recognised that in rural areas the costs of water production and distribution are higher: “They have to invest a lot in connections and maintenance due to the low density.” For these differences in cost and revenue between rural and urban areas to be recognised, the issue needs to receive appropriate attention in policy development, including the potential

for cross-subsidisation. However, this issue does not seem to feature in current debates, and enterprises do not generally work across both urban and rural areas, which might put them in a position to cross-subsidise internally. Enterprises simply seemed to accept this as a reality: “I don't get much profit because this is a rural area so [there is] not much profit.” Since they are small and disparate with no collective representative body, they don't have a voice or power to negotiate this area, though as discussed above, enterprises in Dong Thap were successful in negotiating a tariff increase with the PPC.

Service users see their water supply as a 'social' enterprise, and they expect low tariffs from small-scale providers

Even where consumers accept water charges, several interviewees expressed an expectation that enterprises tolerate a low profit margin because they are 'social' enterprises. For instance a commune leader said “the enterprise is working as a social enterprise and it is difficult to explain to the people why there is an increase in the tariff”. Another local government staff member said: “It [water supply service delivery] is like a social enterprise, so we are not able to increase the tariff. With the current tariff the enterprise still has profit, even if not so much.”

However, profits were clearly possible in some locations

Across the six enterprises interviewed in two provinces the Mekong, all were making some level of profit. Reported profits varied from 4 million VND/month [USD \$ 190/month] up to some 30 million VND/month [USD \$1,424/month], with a turnover of between 11m VND/month [USD \$522/month] and 40 million VND/month [USD \$1,898/month]. Several entrepreneurs were also gradually investing in additional water systems, which indicates they are satisfied with this type of work and expect to be successful in this business based on their current experience. Other stakeholders noted that enterprises were likely to respond in this manner due to the power of material incentives: “If there is profit, then they [private enterprise] will do the activity.”

Most enterprises were in a secure enough financial position to have permanent paid staff, usually for the roles of 'fee collectors' and 'technicians' or 'operators'.

“
If there is profit, then they [private enterprises] will do the activity.”



FIGURE 4 SMALL SCALE WATER ENTERPRISE IN THE MEKONG

In fact some enterprises that owned multiple water systems had many staff. For instance one company covering 20 water systems noted that: “I have 20 technicians and 10 collectors. The technicians are paid 3-5 million VND/month [USD \$142-\$237/month] and they receive three months’ training when they are hired.” Enterprises noted that newer systems required less technical work and therefore jobs could be split and hence an employee might play the role of both collector and technician for a water system. Enterprises appeared to choose local staff for these roles: “I hired a local person in each hamlet and trained them.”

Interviewees said electricity was one of the most significant costs, though that varied from case to case. For example, for one enterprise, electricity costs equalled 55–65% of the gross earnings, and for another, it was only about 15%. One entrepreneur was tackling this

issue by installing solar power, however this required significant loans and may not be within reach for all enterprises. Enterprises also reported paying taxes – VAT (5%) and natural resources tax (3%). Whilst tax reductions are supposed to be one of the incentives to attract enterprises to this business, only some enterprises reported that their taxes had been reduced or removed.

Motivators exist beyond profit

Beyond profit, other motivators were also visible amongst enterprise owners. Common motivators beyond the motivation for material benefits include solidary, status and purposive dimensions (Clark & Wilson, 1961; subsequently expanded in Wilson, 1989).

The first clear motive was to develop a stable business prospect for a family including for the next generation. This is an example both of a **solidary** motive, though limited to the family unit, and also of a likely cost-saving mechanism aimed at reducing labour costs. In several cases the businesses involved more than one family member, with parents reporting that they planned and guided their children and in-laws towards studies that would equip them to contribute to the business: “[I am] guiding all [two children and in-laws who are studying engineering and business management] to work in this business.” Another enterprise noted that their daughter has accountancy skills and was helping with that side of the business and their son had technical skills. In some cases, family members shared the ownership of different systems: “I am in charge of [several] systems, and my husband one, and my son one.” Yet another enterprise responded to questions of who would look after the water system 50 years into the future with “my son will”.

In general, enterprises did not voluntarily bring up examples of feeling rewarded by improved **status** in the community or prestige associated with their businesses. Only one enterprise said their work met the needs of the community and in return they were held in good esteem: “I saw the need of the people so I extended the water system. They thank me and respect me for that.” Some enterprises were also

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I saw the need of the people so I extended the water system. They thank me and respect me for that.

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expected to support community events or charitable activities and enjoyed playing these roles, partly due to the associated prestige and respect.

There were many examples of **purposive** motivation, where entrepreneurs appeared to be driven by the social cause and sense of responsibility to provide water, a daily need, and also to address water-borne illness in the community. One entrepreneur spoke about how the expansion of his system was in response to community need: *“We did everything, built the tower, drilled the wells. I drilled the first one for my business, and then people came and took the water to carry back home. So I thought, why don’t I provide water?”* When we asked another private enterprise why they bought a communal system that requires a lot of investment and work to rehabilitate, they responded: *“When I visited I saw people didn’t have clean water. We have the technique and management skills so thought we should.”* One enterprise said that their motivation came from seeing the prevalent diseases such as skin issues and diarrhoea. They knew that this was related to unclean water and hence wanted to invest in this.

Purposive motivation was also evident in the attitude of enterprises towards non-payment, an area in which significant leniency was given to customers with limited means. One enterprise said they accommodate non-payment *“because I provide a service to people: it is not totally about a business”*. Another reported that: *“We cut the water after 2–3 months, but there are not so many and it doesn’t happen much. We don’t want to cut water so we encourage paying in instalments. For those who are not able to pay, we don’t cut it, but deal with it on a case-by-case basis.”*

B) INVESTMENT AND OWNERSHIP **Lack of transparency and informal modes of selection of enterprises**

Personal relations appeared to influence who is given an opportunity to start a water company, though not in every case. Examples of how entrepreneurs came to be involved included prior relationships with the government organisation PCERWASS or with the CPC. For instance, one enterprise had a water system handed

over to them *“because he had previously worked for PCERWASS so CPC requested him to take it”*. In another instance, family relations with a government employee enabled an entrepreneur to see and take up the opportunity: *“We were thinking what we could do for a business. At that time the socialisation policy [supporting enterprise roles in water management] came and we could jump in.”* We also observed that family groups were able to share out who ‘owned’ different water systems among them.

In another case the CPC had ‘suggested’ who should run the water system and the relevant enterprise reported that: *“The regulations and policy conditions are favourable. I have good support from the CPC. I am investing in other systems, just bought one close by that I am upgrading.”* In yet another case, an enterprise indicated that commune representatives were pleased to support this enterprise’s proposition to expand its system, since commune officials receive recognition for improving the commune’s water supply coverage: *“I had to get approval to extend the system from the provincial water centre and CPC – they were very appreciative.”* Only one of the six enterprises interviewed reported that they had responded to an advertisement concerning the potential to invest in a water system. It appeared rare that there was a transparent tender process in the form of a publicised plan, investment options or operations model to which potential enterprises could respond.

Government cost norms appear to be rigid and high

Interviewees reported that the cost norms for building water systems that government and also public-private partnership arrangements must use are higher than the market prices for materials and labour. Private enterprises have been able to build water systems far more cheaply than the figures that consulting companies have cited in formal submissions for water construction projects. This demonstrates that prices are inflated. The formal tender may be up to three or four times the cost, suggesting that undue benefits may be flowing to government employees or to companies involved in such transactions. Hence, at

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the moment, the informal practices for selecting enterprises described above also serve to reduce the costs of water systems and reduce the potential for exploitation. This issue highlights the incentives and pressures on a certain set of contractors, as has been highlighted elsewhere in different sectors (see Booth and Golooba-Mutebi 2009). It also links to the previously raised questions about the independence of ‘private’ enterprises, which may have state officials as majority shareholders (Gainsborough 2009).

Unclear valuation processes presents uncertainty for enterprises

The valuation process in instances where a private enterprise takes over ownership of an existing system was unclear. Enterprises reported that valuation was a negotiated process between communities who may have invested in such a system, the commune, and the enterprise: *“There are group meetings with people in that commune. If commune people agree, then [they] had to have a price evaluation of the system’s worth and how much people [in the relevant community] should be reimbursed, for example 30% of what people paid. This is then approved by the Provincial People’s Committee.”* It was not clear how formal valuation processes of the water system were included or used in such processes. This ties in with issues discussed below concerning lack of knowledge and recognition of the value of water systems as an asset. This limits the ability of enterprises to use these systems as collateral to access finance.

Formal rules on ownership of assets and land are disputed and unclear

It appeared that formal rules around ownership of water system assets were unclear, except in Tien Giang Province, where such rules were instituted more than a decade ago: *“Ownership of assets is only possible in Tien Giang. They were the first and the most active and innovative in water systems. A decree promulgated in 2000 said that people should own resources and invest in water supply.”* However, even in Tien Giang Province, ownership by enterprises of the land on which water towers are built is not always acknowledged, which becomes important for accessing loans and for using the land as collateral.

Varied experience of transfers of ownership

Overall, enterprises seemed to be reluctant to take on ownership of water systems, for a variety of reasons. In some cases, although commune planned transfer of ownership of assets to the enterprise, this did not go ahead due to the prohibitive expense for the enterprise and inability to secure capital through their earnings. For instance, one enterprise reported that: *“It was decided in 2006 that the current value of the system [handed over from government to me] should be evaluated, for example a 10 million VND [USD \$475] system might now be worth 3 million, so in five years the enterprise may need to pay back the 3 million capital. But the water price is not high enough to cover this.”* Another enterprise simply noted that they were very happy operating the government-owned systems, as this cost them less and did not involve the risks associated with making an investment: *“We prefer just operating. Because a [to own a] private system you must invest a lot of money.”*

Some enterprises took over ownership of assets, however, and they reported that the process was relatively straightforward. One enterprise established a contract with the CPC that described the number of households to be connected and the tariff, and stipulated that the enterprise was responsible for distribution on the main road, and that the household connection and meter was a household responsibility.

At times however, problems arose in the transfer of assets. For instance, one enterprise had purchased a communal system, and reported that they subsequently discovered almost every asset within it required replacement. The enterprise needed to dig another bore hole, build a new tower, install new meters, install new pipes, and was now working on changing pipes. This enterprise was under pressure to improve services but faced with significant investment costs: *“We need [financial] support [from government] otherwise it will take long time to make this new [water] system operate.”* This case appears to reflect inexperience and inadequate valuation processes as part of the transfer arrangements.

“Ownership of assets is only possible in Tien Giang. They were the first and the most active and innovative in water systems.”

“We prefer just operating. Because [to own a] private system you must invest a lot of money.”

“We need [financial] support [from government] otherwise take long time to make this new [water] system operate.”

TYPES OF PUBLIC PRIVATE PARTNERSHIP ARRANGEMENTS

Management contracts:

Usually contracts for 3-5 years where ownership and asset management remain with public authority, offering a low-risk and low-investment option for enterprises who are only expected to finance small investments (WSP, 2010a)

Lease and affermage contracts:

Longer term leases of 10-15 years operating in a similar manner to management contracts, but allowing a longer time to recoup investments (WSP, 2010b) and are usually awarded based on competitive tenders. The enterprise may have greater autonomy to make efficiency improvements, but also bears greater risk as revenue is shared with the public owner (Vietnam Multi-donor Technical Working Group, 2013))

Build-operate-transfer (BOT):

BOTs have been used in Vietnam for discrete infrastructure projects (Vietnam Multi-donor Technical Working Group, 2013). They have been employed internationally to assist central governments to build infrastructure that is subsequently handed over to local authorities (WSP, 2010b), and have been reported to provide advantages – for example: the operator has a better understanding of the viability of the system since they constructed it; equipment mobilised for construction can be used during operation to reduce costs; during the construction >

Lack of ownership can jeopardise appropriate investment in maintenance

Arrangements where enterprises do not take over ownership, but operate the system for a set period, for example 10 years, can create perverse incentives for enterprises to avoid investing appropriately in necessary repairs. For example one enterprise reported that amongst several water systems they operate, it is more expensive to operate the older National Target Program-funded systems, due to the limited lifetime of pipes. This enterprise reported that there was no incentive for them to use high quality materials when fixing a government-owned system, since the operating arrangement is only for 10 years.

Inadequate data on long-term maintenance and replacements costs

There seemed to be confidence at the national level that there is sufficient information about water provision costs to determine appropriate tariffs. However, international experience shows that the costs for rural water systems vary significantly across locations, and reliable data is rarely collected to enable accurate estimates of ongoing maintenance and capital maintenance expenditure requirements. Most enterprises were using a simple rule of thumb to make predictions about future requirements: “It is based on income. Every month we put 5% for savings”, and tariff setting does not appear to be informed by detailed analysis of life-cycle costs. Indeed most enterprises were not reporting their costs centrally and this was hindering the development of knowledge in this area. In future more detailed information on costs will need to be collected, analysed and used (particularly at the provincial level) to enable appropriate, fair arrangements to be negotiated in contracts with enterprises and with respect to tariff setting.

Cost-sharing with government: currently only in theory

On paper, governments are committed to bridging the gap between water production costs and income through affordable tariffs. However in practice the relevant policy has not been implemented at the provincial level. An interviewee said that at the national level:

“Support for government cost-sharing comes from Decision 131. In different areas, like Mekong Delta, or mountainous areas, there are different levels of subsidies. That’s what the decision says will be covered. It depends on the different geographic regions and different levels of subsidy from government. Decision 131 lays this out. In the mountainous areas it might be 60/40% ratio investment, it might even be 90/10% in terms of government investment. For private sector, they need to provide counterpart funding. If not, they can just get involved in operation and maintenance of the system. If they are strong enough they can share with the government from the beginning.”

Hurdles to the implementation of the policy reportedly include the attitudes of provincial officials. They are reluctant to use scarce discretionary funds and they also face challenges associated with the legal contracts needed to enable cost-sharing. Thanks to donor support (World Bank or NGOs) some enterprises have benefited from cost-sharing. For instance the NGO EMWF offered to cover 60% of investment costs on an output basis so that enterprises could extend existing water systems and increase connections.

Besides cost-sharing in terms of investment, national policy also includes other benefits to attract enterprises to the rural water market. It was reported at national level that: “Besides financial support from Government, also some land use and tax incentives for the owners. For example for land use: the investors can be use the land without paying any money.” Again, existing enterprises provided little evidence of the operationalisation of these benefits.

> phase sound relationships can be built with consumers and stakeholders; and finally, the transfer back of the asset at the end of the contract period maintains the public character of asset ownership (WSP, 2010a)

Build-own-operate (BOO):

Build and operate contracts have been found internationally to be helpful for attracting more competent enterprises to the market (Vietnam Multi-donor Technical Working Group, 2013), and usually involve regulation of the tariff structure. Several of the enterprises in Tien Giang Province operate under this arrangement.

C) ACCESS TO FINANCE

Enterprises lack the capital and collateral needed to borrow

Interviews at the national level indicated that there was notional support to enterprises for preferential loans and credit allowing money to be borrowed with a low interest rate, for instance from the Government Bank of Investment and Development. However, in practice, enterprises did not report access to such finance.

Lack of access to capital was the most commonly reported reason for not extending existing services. For example, one enterprise blamed the low tariff for their inability to build up additional capital: *“The tariff is still low. With the current tariff, it is not enough to further extend to more remote areas. For example in this commune 35% don’t have access. But the tariff is low so we are not able to invest more.”* Another enterprise had undertaken the calculations to extend their system to another 200 households, but found it would cost 4 million VND [USD \$190] per household and recognised that *“they can’t pay this much back”* and was not interested or willing to take a loan to partially fund this investment: *“I don’t want to borrow, I would need to borrow a lot and the fee collection is not enough to repay it. The other houses are far away.”*

A common barrier to accessing loans was the need for collateral, since water system assets or land were not eligible: *“You can’t deposit any water systems as deposit to get loan.”* This limited enterprises’ access to loans: *“If I got a loan [to extend the system] I would need collateral like my own land, so I don’t want to.”* Another enterprise, the largest of those interviewed, was also not willing to risk family land as collateral. And whilst the CPC said that they could ‘support’ enterprises to receive a loan, in practice this did not help enterprises to deal with issues of collateral or reduced interest rates, but simply meant that the CPC would assist by providing supporting documents or land valuations. A CPC member suggested that it was the province that should assist to secure a lower interest rate: *“The province should give more support to enterprises – for example if they want a loan to upgrade,*

the province should encourage the bank to give a lower rate.”

Some enterprises did take loans however, and interestingly, it was those enterprises that had a strong social motivation rather than just a financial one that were willing to take this step. One enterprise had already borrowed twice from the Bank of Rural and Agricultural Development and a private bank, and was preparing a new loan agreement, and was happy to use personal land as collateral. Another enterprise had borrowed 1.5 billion VND [USD \$71,191] and had so far repaid one-third of this debt.

D) RELATIONSHIPS WITH SERVICE USERS

A combination of formal contracts and local presence ensures good relations between enterprises and users

Enterprises were based locally within the communities that they served, which has strong implications for maintaining accountability relationships with service users. Formal contracts were in place between each user and the relevant enterprise, with one enterprise noting that *“the household contract started in 1999, and we had to create our own format, but now we use Department of Industry, Business and Commerce format and it is easy”*. Several enterprises said that their contact details (or those of their technician) were readily available to all customers, and that they received complaints or notices if there was a break in the service. For example one enterprise noted: *“The receipt I give people has my phone number on it. People call... if there is a problem with the supply.”* Another enterprise noted that a commitment to provide contact details and respond to calls from users was written into the formal contract between user and water supplier.

With regard to service users, one enterprise noted that *“they don’t complain about quality or the price”*, and as noted earlier in the discussion on tariffs, enterprises tended to locate their tariff at the lowest point on the allowable scale, and this eliminated the need for discussions with community members about the tariff.

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If I got a loan
[to extend the
system] I would
need collateral
like my own
land, so I don’t
want to.
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The household
contract
started in 1999,
and we had
to create our
own format...
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The receipt I
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has my phone
number on it.
People call if
there is an issue.
”

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First, come back to collect it again. After three months, we cut off the water supply. But there are very few cases.

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No enterprises complained of users who did not pay in a timely manner for services, and most enterprises were accommodating in this regard. For example one enterprise described their normal course of action as follows: *“First, come back to collect it again. After three months, we cut off the water supply. But there are very few cases. Usually threatening to cut is enough to make people pay.”* It was also noted by a CPC staff member that they occasionally mediated between an enterprise and a user: *“If household complains to the people’s committee that there is no water, then the people’s committee would convene a meeting to explain and discuss the problem. Or if a household hasn’t paid for 2-3 months and has had their water supply cut, then the people’s committee would meet with the household and the enterprise.”*

The only issues raised by enterprises concerning their relationships with users were to do with meters. One enterprise reported that meters had to be supplied by the household, and that there was a tendency to use old meters which reduced their bills: *“The meters are supplied by the household and sometimes they buy an old one and it may not be accurate.”* This enterprise reported that a large amount of water was used but not paid for. It believed this was due to faulty meters which understated the amount of water used. Another interviewee noted that meters, even if supplied by the enterprise, could be easily manipulated, leading to a similar problem.

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The meters are supplied by the household and sometimes they buy an old one and it may not be accurate.

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E) POLITICAL SUPPORT AND PRIORITY **Current views about appropriate management models**

NCERWASS, who were involved in all phases of NTP, are currently responsible for making recommendations concerning the appropriateness of different management models for water service provision. Their current view was that there should be a gradual reduction in inefficient CPC-managed systems and an increase in the number of privately operated systems. They believed community management should only be used for small schemes with simple technology, and that PCERWASS (the provincial counterpart of NCERWASS) should remain the manager of inter-

communal systems (as well as provide additional functions and technical guidance to other management modalities). PCERWASS believed that the state should maintain a focus on poor, mountainous regions where private enterprises are unlikely to gain profits. Other interviewees held contrasting views, with one respondent suggesting that the size of the scheme should determine the management model and another suggesting that private enterprises have demonstrated their capacity and should be considered first before other arrangements. All interviewers agreed that CPC-managed systems were not working. Under MARD, the government-funded Institute for Water Resources Economics and Management (IWREM) is also commissioned to research and advise on the role the private sector and public-private partnerships may play in the delivery of water services. IWREM is therefore a key advisory organisation for government in its attempts to engage more effectively with private enterprise in water services.

National policy is poorly implemented at the provincial level

Historically, water services were provided by the state. In 2000, Tien Giang Province introduced a provincial law to allow inefficient government communal water systems to be handed over to a private enterprise. It was the first province to do so. However, since 2009 there has been clear policy guidance from the national level that supports the entry of enterprises into the sector (see Box 1, page 18). At the provincial level, uptake of this policy direction has not been strong, with only a few provinces proactively implementing the proposed measures, and even then, only doing so in a piecemeal way. For instance, Mekong provinces did not always provide tax exemption and they varied in how they supervised and monitored enterprises. This reflects the dynamics of decentralisation in the country, and it reflects the strong autonomy of leadership at the provincial level. Donors and NGOs believed a champion for further policy development is needed at the national level, and that *“[national] policy on enterprise involvement needs to be well*

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[national] policy on enterprise involvement needs to be well pitched, not detailed and not too broad.
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If government doesn't have a strong incentive for private enterprise through the water tariff, tax or land exemption then the private enterprise won't participate.
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BOX 1: INCENTIVES FOR PRIVATE SECTOR PARTICIPATION UNDER DECISION 131/2009/QĐ-TTĐ

This decision encourages participation of private enterprises to:

- build and operate new systems
- invest in existing incomplete systems, then operate them
- operate existing systems.

Incentives to promote enterprise engagement include:

- allocation of land, no land rental and tax collection

- enterprise income tax preferences and exemptions
- central budget support and preferential credit
- supports to management and operation
- in the case that production costs are higher than the price, the PPC is to consider and apply price subsidies using the provincial budget.

pitched, not detailed and not too broad". However beyond policy development, significant other actions are probably needed to promote commitment and buy-in to such policies at the provincial level, including identification of the incentives that might drive such change.

There is also a broader dynamic at the provincial level that warrants attention. This is the lack of water infrastructure investment in provincial budgets. In one province in the Mekong the relevant staff from the Department of Agriculture and Rural Development reported that: *"Most of the investments are [central government investments through the] National Target Program. The province is too poor. Every year an annual budget is prepared by the province, and goes up to central government, where they divide the fund for national target program, and provide these funds to the provinces – 60% of funding is national and 40% must come from the province but this is usually mobilised through investments from enterprises, donors and very little from the provincial budget."*

Whether a province is actually 'too poor' to invest or whether the lack of funding is a reflection of its investment priorities remains an important question.

Lack of policy implementation limits enterprise engagement

As one interviewee said, *"if government doesn't provide a strong incentive for private enterprise through the water tariff, tax or land exemption then the private enterprise won't participate"*. In November 2013 presentations at a national forum on private sector engagement in the water and sanitation sector revealed that

proposed national government support had not been forthcoming, and this had affected enterprise engagement. The issues pointed out covered most of the areas for proposed incentives. For instance, they included improper or lack of execution of the water price subsidy mechanism (especially in remote and lower income areas), enterprises finding it difficult to access preferential loans and credit, overly complex processes for preferential land, water resources and tax procedures. Since enterprises are disparate and have no representative body, they do not have a collective mechanism to demand the incentives envisaged in national policy.

Lack of clarity in roles between relevant government entities and enterprises

At the abovementioned forum, inequitable treatment of state-owned enterprises (as opposed to private enterprises) was also raised as an issue, as was the lack of clarity in the division of responsibilities between them. Interviewees in the Mekong confirmed the existence of the latter problem, pointing out that PCERWASS's supervision and regulation of enterprises was inconsistent and sometimes non-existent. PCERWASS sometimes required enterprises to report all income and expenses, whereas in other provinces such direct supervision was not imposed: *"They don't directly supervise operations and finances of the various types of water operators."*

Motivators encouraging commune authorities to support enterprises

Some CPCs demonstrated an interest in involving enterprises in providing services, as they believed it furthered their own goals of achieving desired

status in government programs such as the New Rural Development program: *“The relationship with the CPC is good. Investing in water systems provides support to CPC reform – the 19 criteria for the ‘New’ Rural program include water supply, so the Commune People’s Committee are happy.”* As indicated in earlier parts of this paper, the processes CPCs use to choose enterprises often lack transparency. CPCs help resolve conflicts with users and they are involved in the tariff-setting process but their oversight in general appears to be limited: *“CPC doesn’t receive any financial statement (about private enterprise operation) because they already reach an agreement within the regulation of the province.”*

Examples of government support to other types of social enterprises

Beyond water service providers, there are also other forms of enterprise engagement

in the water sector in Vietnam. One example is the formation of a social enterprise to offer bulk bottled water in areas in the Mekong without piped water. This program was initiated by the NGO LienAid. The local government reportedly provided several forms of support to make this venture possible:

“This model is under PCERWASS – they are the ones who facilitate and help to deal with the legal procedures. They have been helpful and supportive. They play an important role. PCERWASS work with the local authority – getting access to free land. They also work with Chairman of the People’s Committee and other leaders of other communes to disseminate information about the [bottled water].”



FIGURE 5 WATER METER AT HOUSEHOLD SERVED BY SMALL WATER ENTERPRISE IN MEKONG

5. WHAT IS SHAPING ENTERPRISE ENGAGEMENT IN SANITATION SERVICES?

This section focuses on sanitation services, and once again we present the findings in terms of the key elements we identified as being important to the viability and success of enterprise development (Gero et al. 2013). These key elements are:

- a) demand and profitability
- b) access to capacity building opportunities
- c) enterprise access to finance
- d) customers' access to finance
- e) competition and innovation
- f) political support and priority
- g) gender issues.

A) DEMAND AND PROFITABILITY **The challenge of linking enterprise roles with demand for their products and services**

We found that household demand for the services and products of sanitation enterprises was limited in most of the locations covered in this research (i.e. selected districts in Nghe An Province, Hoa Binh Province and Dien Bien Province), and this was due to a number of reasons. We found some examples of local government and mass organisations creating demand for sanitation services through household education and awareness raising. For example, the Women's Union and Village Health Workers visit households to promote safe and hygienic sanitation practices, including the building of latrines. This role did not usually extend to the *promotion* of mason's services or sanitation suppliers (although this was the case in the Mekong), nor did they receive any benefits for persuading households to build latrines, as was the case in Indonesia (see Murta and Willetts 2014). One interviewee pointed out the lack of incentives for this role at the provincial level: *"If you want them [the 'communicators'] to go to every household to communicate to the communities, they need an incentive."* Furthermore, mass organisations and village health workers had other responsibilities aside from household sanitation so their capacity to perform this task was limited. The CPC's have authority to instruct and coordinate mass organisations. Mass organisations will not mobilise to support demand creation unless the CPC tells them to, and whether a CPC does so depends on its values and priorities.

Marketing of sanitation products was extremely limited and this is another reason household demand was low. Most supply shops and masons did not advertise their products or services, relying on street signs (in the case of shops), word of mouth and reputation for sales. A government interviewee noted that while Vietnamese culture was inherently entrepreneurial, marketing and advertising in rural areas (apart from street shop signs) was practically non-existent. In many locations we found that masons are also farmers and labourers, depending on the season and the amount of work available. This may be another reason why they don't promote themselves.

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They [Women's Union] are very active. They often do the communication. But the main factor is the household not the Women's Union...They go as far as households however they have other jobs to do as well as sanitation and hygiene, so they can't do it all the time.

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FIGURE 6 SUPPLY SHOP IN MUONG ANG TOWN, DIEN BIEN PROVINCE

Lack of recognition of the technical skills of masons

Limitations in household interest in paying masons to build their toilet can be linked to a lack of recognition of masons' technical skills, and the view that a toilet is a basic technology to construct. It was common for households to build their own latrines without training or advice from masons. Part of the reason for this was financial, with households wanting to save money, and also not recognising the skills required to build certain kinds of latrines, or the existence of different latrine technologies. In addition, masons themselves may often lack the required skills and knowledge. In one commune, all double vault latrines were reportedly built by masons, however none had training: *"They all learnt from each other."* The double vault latrine visited in this commune had been built incorrectly, with the concrete floor not built at suitable angles for good drainage. This shows a lack of awareness amongst both masons and households of technical skills needed, and also a lack of demand for or valuing of trained masons.

Affordability (or perceived lack of affordability) limits demand

Demand for new latrines depends on two things: being aware of the price for a low-cost latrine, and knowing why hygienic practices are important. Interviewees expressed a range of views about the affordability of hygienic latrines for the poor. Some felt that government support is needed for the poor in remote areas to access safe sanitation, and that NGOs, enterprises and government need to work together to increase coverage in these challenging locations.

The cost of transporting materials to remote areas was a primary reason for driving up the price of latrines. One interviewee noted that in remote areas: *"On paper, the latrine costs 1M VND [USD \$47]. When materials are transported – cost is three times what it is on paper."* Limited demand in remote areas, due to high transport costs and low density populations, was also associated with a lack of private enterprise engagement. For example, strong supply chains existed in lowland areas but they are limited in mountainous areas.

Other interviewees put forward a different view. They believed the affordability of latrines, even amongst the poor, was achievable. One noted that: *"People can build a toilet – if they can spend 1 million VND [USD \$47] on drinking or gambling. Even in remote places, they can have pit latrines: it's not expensive."* While another said: *"They [households] have cows, pigs, motor bikes – it costs US\$2500 for a big buffalo. Toilets are 1 million VND [USD \$47] or less."* However, cows, pigs and motorbikes are clearly productive assets, and priorities are likely to differ from household to household. Regardless, several households we visited in remote areas had unimproved, unhygienic pit latrines, whilst the house itself was large and household members possessed mobile phones, motor bikes and televisions.

Household aspirations for 'out-of-reach' luxury latrines

In-country research revealed numerous households aspired to expensive luxury latrines. The costs were well out of their reach, so they settled for either no latrine or an unimproved pit latrine. One reason for these aspirations was the lack of examples of low cost, desirable hygienic latrines at the commune and village level. In remote rural areas, the only examples villagers knew about were

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Most people either prefer the best or the worst. They don't want to invest their money unless it's the best.

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On paper, the latrine costs 1M VND [USD \$47]. When materials are transported – cost is three times what it is on paper.

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FIGURE 7 LUXURY BATHROOM IN QUYNH LONG COMMUNE, NGHE AN PROVINCE

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They told us they couldn't afford the latrine.

Sometimes they don't know about the low cost latrine and that's the reason they think they can't afford it.

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high cost latrines (often with a combined bathroom /shower), built by the very few who can afford them. Another reason is the belief that it is cheaper in the long run to build a toilet and a bathroom/shower at the same time, rather than to build them separately, as money becomes available. Masons often perpetuated this myth to maximise their own profits, and sometimes convinced customers to build expensive latrines. In recognition of this problem, VIHEMA is working with UNICEF to design low cost latrines for the poor, using local materials and guidelines for construction. While this does not directly address the drivers of the mason's behaviour, it may assist in informing households of the choices they have regarding affordable latrine types, placing them in a better position to negotiate.

Ethnicity plays a strong role in levels of demand

We found that ethnicity is a significant factor in demand for latrines and subsequent uptake. Particularly in the northwest of Vietnam, where mountainous regions are home to a high proportion of minority groups and in turn, some of the highest poverty rates in the country, interviewees said that the Thai minority can be “convinced” to adopt hygienic sanitation, while it is hard to convince the Hmong minority to use latrines at all. Unlike the Thai, the Hmong do not reuse waste for fertiliser and are averse to viewing their faeces in pit latrines so do not see any benefits of investing in such latrines. Interviewees also saw the language barrier between Kinh (Viet) people and Hmong people as an obstacle, more so than for other ethnic minorities as the Hmong live in the most remote and inaccessible areas. Additional issues such as different motivations, drivers and cultural beliefs probably also play a part, but the interviewees did not raise them as issues.

Profit sometimes the sole incentive of enterprises

When questioned about primary motivations and plans for their businesses, many private enterprises said profit was the sole incentive. For example one supply shop owner noted that “We don't offer discounts. No matter what, it's purely business.” Most businesses wanted

to expand their operations to increase profits. Supply shops and masons alike saw their work in a commercial manner – whether selling materials for, or building, houses as compared to latrines as one and the same – the primary concern was income. There was no indication of social motivators regarding health impacts or the social benefits of households having access to toilets.

Other interviewees also pointed out this focus on profit. For example, one interviewee said: “In our projects we train masons to advise households which type [of latrine] is appropriate. But sometimes they [masons] recommend the most expensive as they have vested interests in getting the most profit.” As noted above, masons were generally found to look for high margins, offering advice on higher cost materials, not giving low cost options and building luxury latrines where possible.

Other incentives were identified that extend beyond profits

Referring back to Clark and Wilson (1961) and Wilson (1989), additional motivations affecting the decisions and behaviour of individuals in organisations are discussed below.

Aside from profits of enterprises from selling products and services, additional **material** benefits associated with sanitation can include the financial incentives provided to village health workers and to the Women's Union for toilets built, in the case of the EMWF's program in the Mekong.

There was limited evidence of **solidary** benefits in the case of Vietnam, in contrast to Indonesia, where evidence of solidary benefits existed in the sanitation entrepreneur associations (see Murta and Willetts, 2014). As mentioned for water enterprises, a potential **solidary** incentive appeared to be the development of complementary businesses within the family – e.g. husband and wife, or father and son/daughter combinations. These may arise from a combination of having a shared purpose and the potential for greater profit. Examples were supply shop sellers (often women) and transport operators/truck drivers (often their husbands); supply shop sellers and masons; shop sellers and architects and family supply shops.

“

We don't offer discounts. No matter what: it's purely business.

”

“
Customers are not required to pay in cash. I offer credit and they [customers] can pay in rice, corn and cassava.”
”

We found some evidence concerning the motivations of obtaining improved **status**. For example, one supply shop owner expanded his business because he wanted his name to be known in the community: *“I would like to be well known by people – this is a reason besides the profit.”* Another mason said he was proud to be known for toilet construction. Finally, one producer of sanitation products was motivated by the tradition of his business, noting that *“this is the traditional business here in this village”*.

We found some evidence of **purposive** motivations amongst enterprises, particularly in relation to small-scale enterprises seeing themselves as ‘one of the rural community’, and being able to relate to their customers. For example one entrepreneurial business owner accepted agricultural products as payment: *“Customers are not required to pay in cash. I offer credit and they [customers] can pay in rice, corn and cassava.”* A supply shop owner provided another example of purposive motivation. The owner noted that: *“I really want to develop our business for two reasons: firstly, if I develop my business better, in the society people can construct more schemes [houses, latrines] better; and secondly for my family – I can get more benefit.”* We also found evidence of business owners offering discounts and free items to poor customers, indicating social awareness and potential motivators beyond profit.

B) ACCESS TO CAPACITY BUILDING OPPORTUNITIES

NGOs find it difficult to find people with the right mix of skills and aptitude to train

Some NGOs in Vietnam have recently been working to promote enterprises, usually individual masons, in part by providing training and capacity building activities. However, one NGO noted it was difficult to find individuals with the aptitude to develop the right mix of business and marketing skills. The NGO said that in rural locations, a “leader” is needed, e.g. a mason who takes the leading role. Without this leader to act as a motivator for others, progress regarding enterprise engagement in sanitation can stall.

Capacity building opportunities for businesses are limited

While some NGOs are pursuing capacity building programs for masons in the building of latrines and in business development, opportunities for enterprises (or interested entrepreneurs) at a large scale in Vietnam are limited. Interviewees noted that VCCI, who support enterprise development, do not offer any training and did not appear to prioritise WASH enterprises on a broad scale.

VIHEMA described their current initial efforts to offer Training of Trainer (ToT) courses on sanitation marketing in conjunction with their work with UNICEF on low cost latrines, which also includes guidance material for government staff. The training was for district and commune government staff as well as for masons, however a government interviewee noted it was difficult to find masons interested in building latrines because it was more profitable to build houses. It was not permitted to use NTP funds to train masons, even though they often needed training (as noted above) to build latrines according to technical requirements. One locality found a way around this rule by including masons in training under the category of households, rather than as businesses.

VIHEMA provided an incentive for masons to participate in training, and to pursue work in the latrine building sector, in the form of moulds to make concrete rings and slabs. VIHEMA did this in mountainous areas to encourage masons to also run a supply shop business to meet the needs of people in remote locations, where transportation costs can be prohibitive and making components locally is more cost-effective.

Convincing enterprises to participate in training can be difficult

Participants in training usually received a financial incentive to attend, however this amount was less than a mason generally earns in a day. Therefore, convincing enterprises to participate in training can be difficult as the costs of doing so can be seen to outweigh benefits, as noted by a government interviewee: *“We still face difficulty when masons are invited. The amount provided to participants for training is 50,000 VND [USD \$2.37]. But*

“
We always have to find the leaders... They raise ideas about materials and people have trust in them. That’s the key/ model of the training.”
”

“
Master masons
never come to
the training
because they
don't think
they need the
training – they
are a Master!
”

150,000-200,000 VND [USD \$7.12 - \$9.49] is the amount earned by masons per day, so they don't want to participate in the training.” An additional obstacle in getting masons to participate in training is that many skilled and master masons do not believe they need training – they believe that if they know how to build a house, they do not need training to build a latrine. It is often the assistant masons who attend training, but they do not have local standing or respect which could translate to teaching others of a higher rank. A government representative explained: “In this commune, there are 3 masons trained by [an NGO] who know the technique. Other masons don't know the technique and don't listen to the trained ones. They are skilful masons but not the leaders of the team.” In contrast to this, we found that in another location assistant masons can sometimes share their skills with others: “If the mason assistant knows the technique, that knowledge can be shared with others.” This highlights the variation in views across the locations included in the research. Policies may therefore be needed to ensure certified masons build latrines so they conform to quality standards. Furthermore, some interviewees noted that government could support supply shops by providing guidelines on materials needed to build a latrine.

Finally, masons often did not see the benefit of training as there is no guarantee it will lead to more work. Much of the work for masons comes from trust and reputation, and being recommended by others. Households did not appear to care whether or not a mason had been trained to build a latrine.

C) ENTERPRISE ACCESS TO FINANCE

The differences in finance required for piped water systems (as discussed in Section 4) and household latrines are significant, and it is important to acknowledge these subsector distinctions. The discussion below relates to the latter – household sanitation – with relevant issues raised for this scale of investment and enterprises involved in sales of relevant products and components.

Access to finance was not a limiting factor for most enterprises

Enterprises need finance in two types of situations. First, a supply shop may require a loan from a bank to boost capital, and second, supply shops may require credit from wholesalers for the products and materials they on-sell. Our main finding was that access to finance did not constrain enterprise engagement at the district level. To promote easier access to materials at the commune level, it may be necessary to assist commune suppliers with business skills, market knowledge and linkages to potential customers. It is also worth noting that because households generally purchase materials for latrines directly from supply shops, masons do not require credit or loans. Instead they simply provide a service and use cheap and easily accessible tools and they are paid daily rates for their labour.

Some suppliers were able to access commercial bank loans

Suppliers tended to access commercial loans through banks, particularly at the district level, where they were in a better position to access finance. At the commune level this was sometimes possible (e.g. in Quynh Long) and sometimes not (e.g. Mai Ha) – depending on the scale of the enterprise, and correspondingly the amount of available capital, which links to the degree of credit provided to customers. Some suppliers noted the significant risk they took in taking out loans, and their fear of being unable to pay them back, particularly the first time they took a loan. Interest rates for business loans from the Vietnam Bank for Agriculture and Rural Development (at 9% p.a.) were reported to be lower than for households (at 10% p.a.). Suppliers sometimes borrowed from through relatives and friends. Access to loans was sometimes dependent on the use of the “Red Certificate”, which is for land ownership and is considered as a bank deposit.

One enterprise accessed a loan by mis-representing their business to the Vietnam Bank for Agriculture and Rural Development. The Bank granted a loan based on an agricultural business also owned by the same person, when in fact

“
At present
I have no link
to the bank.
I mobilise the
capital among
relatives...
”

“If we don’t offer credit, we can’t sell. It’s not like that in the town. In the community, rarely do people pay at the time of purchase.”

the capital was used for a sanitation-related business. The interest rate for the three-year loan was therefore lower than would have normally been the case.

Informal lending in the form of credit to customers was prevalent

Suppliers were able to receive credit from wholesalers for periods of up to around 10 days without any problems. Suppliers said that providing credit to customers was essential for business success, and many businesses, particularly at the commune level, felt they were obliged to offer customers credit despite the constraints this placed on their business. One commune supply shop owner said: *“If we don’t offer credit, we can’t sell. It’s not like that in the town. In the community, rarely do people pay at the time of purchase.”* One commune supply shop owner explained that lack of capital due to customers drawing on credit hindered business expansion: *“We would like to expand the business to sell sanitation products but [it is] too much of a risk as [we have a] small amount of capital and dependent on customers paying their credit back.”*

The PPC pointed out that it supported private enterprises with a view to enabling the poor to access sanitation in remote areas: *“There are two ways that the PPC can support the private sector in remote areas; 1) in terms of capital [interest] from the bank loan; 2) tax reductions to the private sector in the remote areas.”* Materials that are used to build toilets are mostly generic construction materials, so it would be difficult to specifically target sanitation by using a loan incentive, tax reduction or subsidy for these materials. This is an ongoing issue for those in government and NGOs wishing to somehow support enterprises operating in rural and remote areas.

D) CUSTOMERS’ ACCESS TO FINANCE

Customer’s access to finance for sanitation, in terms of loans and credit, affected their ability to draw on the products and services of private enterprises.

Customer access to loans from the social policy bank was generally difficult

In most instances, it was found that the Vietnam Bank for Social Policy (VBSP

– noted to be the main channel for credit for WASH) had a limited ability to offer accessible capital to the poor this constrained the poor’s engagement with the private sector. These findings echo those of SNV (2012), which found that the proportion of the poor that took out loans was lower than the equivalent proportion of the population. VBSP interest rates for WASH loans were reportedly higher than for loans for productive purposes and most poor people were too afraid to take out a loan for sanitation purposes, fearing they will be unable to repay it. Particularly in the northern provinces, VBSP offered only a few loans in each location we visited (i.e. demand for the loans exceeded supply). Some interviewees noted that VBSP loans were not serving the poor, with richer households borrowing more often, and others noted that local political alliances interfered with who gained access to loans. While a partial solution could be to offer loans at lower rates, interviewees felt that VBSP did do undertake enough planning and action to match their loans to demand. When asked whether district government could play a role in influencing VBSP budgeting, one stakeholder responded that *“we can’t interfere with that”*.

Findings from the southern provinces contrasted with the above findings, with VBSP operating in ways which enabled poorer customers to take out loans. In Trah Vinh Province, VBSP planned to increase its budget for 2014 and focus on water and sanitation loans. In this province VBSP allowed customers to borrow both small (2 million VND [USD \$94.9]) and larger (4 million VND [USD \$189.84]) amounts, advising the poor to remain within their capacity to repay. One interviewee noted that VBSP seemed committed to working with the poor.

A common finding across the provinces was that mass organisations, particularly the Women’s Union, played roles of facilitators and go-betweens for VBSP and households, as shown in Figure 8 (see page 26). Each district assigned a mass organisation to play the facilitator role (and this varied across locations). As one interviewee noted: *“For each channel [e.g. loan type], [the VBSP] works through a different mass organisation.”*

“The poor and near poor are afraid to get a [VBSP] loan. Only the rich get a loan.”

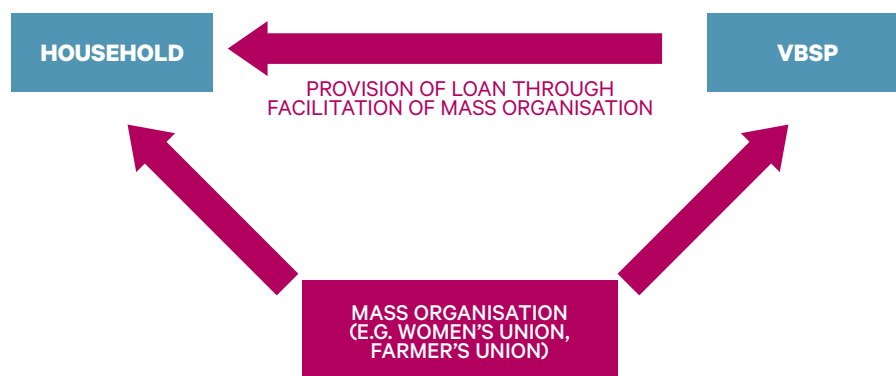


FIGURE 8 MASS ORGANISATIONS AS THE GO-BETWEENS FOR HOUSEHOLDS TO ACCESS LOANS FROM VBSP

For water it goes through Women's Union, sanitation through Farmer's Union." The capacity, awareness and motivation of the designated mass organisation were found to significantly influence the ability of households to access VBSP loans, and given interest in health and sanitation, several interviewees that the Women's Union's was the chosen intermediary for WASH due to its interest in health and sanitation, and that as a result, borrowing for water and sanitation was higher.

Other sources of loans included informal lending

Additional sources of funding for sanitation include Program 135 – "Program for Socio-Economic Development in Communes Faced with Extreme Difficulties", although in practice the reach of this program appeared to be limited and commune expenditure was not guided by any central policy (Harris et al. 2011a). Several households noted that for sanitation they borrowed not from banks, but from family and neighbours, with "no fixed time to pay back, no interest" although most Vietnamese prefer to have debts cleared by the end of the year: "In Vietnamese culture, no-one wants to be in debt at Tet. People want to pay off their debts and collect money before the end of the year." While it is ideal in Vietnamese culture to clear debts before Tet, the reality is many people are unable to do so due to the size of the loan.

Microfinance facilities were not common in the locations visited for this research. The one microfinance institution (MFI) interviewed offered small loans to

agriculturalists, with women their main customers. Loans were for 4–6 million VND [USD \$189.84 – \$284.77], depending on the borrower. The poor usually accessed loans for productive purposes rather than for sanitation, as noted by the MFI: "People are very poor with bad economic conditions. Their top priority is for productive loans to bring back income. As for sanitation and hygiene – it's not high in their priority. Therefore, the biggest tendency is for income creation, instead of for sanitation and hygiene." The relatively high interest rate of 18% p.a. that this MFI offered suggests that it would be uncommon for people to take out loans from this particular organisation for non-productive purposes such as sanitation.

Finally, there was a growing cohort of people who did not need a loan or

“ People are very poor with bad economic conditions. Their top priority is for productive loans to bring back income. As for sanitation and hygiene – it's not high in their priority. ”



FIGURE 7 SUPPLY SHOP IN QUYNH LUU, NGHE AN PROVINCE

“We know that for the poorest families it is not easy to pay back the money. We sympathise with them and try to help them.”

credit. The presence of seated toilets in district capitals demonstrates that there are customers who can pay for such products, particularly in areas close to district capitals.

The importance of relationships in determining customer access to credit

In general, as discussed above, supply shops in most of the locations included in this study provided access to credit for buying materials to build latrines. Business owners usually felt obliged to offer customers credit, recognising most customers' inability to pay at the time of purchase. They did this while knowing repayments may take years, and with no interest. Furthermore, some businesses acknowledged the hardship of some customers, as noted by one shop owner: *“There are many cases – poor families – we know that for the poorest families it is not easy to pay back the money. We sympathise with them and try to help them.”*

The length of time a customer has to pay back and the amount of credit offered was variable, and dependent on the customer's relationship with the shop seller. Shop sellers therefore aimed to understand the customer's situation before providing credit. In addition, shop sellers who were new to their business often started by offering credit very widely, but over time realised the challenges in recouping debts, and became more conservative about who they chose to offer credit. Some businesses felt that their ability to offer credit, and the terms under which it was offered, were the most important part of attracting customers, as noted by one interviewee from government: *“The most important thing is the price and how much credit can be given to the people – over what time to pay back. So they [shop sellers] never do that kind of marketing or communication.”*

E) COMPETITION AND INNOVATION **Private enterprise in Vietnam is in its early phase; competition and innovation in sanitation is limited**

While there were some examples of competition and innovation in the WASH sector, the role of private enterprise is limited in Vietnam, particularly in sanitation. Although local products in general are popular in Vietnam, the only bulk suppliers were for high-

end models and little innovation was visible concerning low-cost models. Some interviewees noted that this because private enterprise being a newly formalised sector in Vietnam, and sanitation is not looked to as an obvious choice for businesses. At the district and commune levels, however, there was some evidence of competition between the multiple supply shops as prices did not vary much. Shops sold materials as close to cost price as possible, meaning their profit margins were small.

Some examples of innovation were emerging in “flood-proof” latrines in the Mekong. Collaborations between NGOs, UN agencies, researchers and businesses – with government connections – have led to exhibitions of new models of latrines that have increased the uptake of latrines. In addition, the government has approved seven standardised latrine models, which may reduce competition and the development of new products, as they may not be approved as ‘hygienic’. VIHEMA was also found to be working on product development for low-cost versions of standard designs of latrines, which are likely to draw on the use of local materials to keep costs down.

Transport challenges stifle competition in rural and remote locations

Establishing enterprises in remote locations was hindered by, among other things, the costs of transporting materials. Difficult-to-access places required the use of motor bikes rather than trucks, meaning certain materials and products could not be transported, as noted by an NGO interviewee: *“We try with the cement ring but that totally failed. The road is bumpy... so we go with pour flush model [and bricks for beneath the ground] with the motor bikes – they can go anywhere!”* When government stakeholders were questioned about how to lower transportation costs to remote locations, one interviewee noted: *“To support transport costs – it's difficult... There's no policy to support these types of things... PPC can't issue different policy to different districts. Transportation costs are the same regardless of the need. The people who live in remote areas are poor. Only way to support them is VBSP.”* This reveals a challenge created

“To support transport costs – it's difficult... There's no policy to support these types of things... PPC can't issue different policy to different districts.”



FIGURE 9 TRUCKS TRANSPORTING CONSTRUCTION MATERIALS IN XUAN LAO COMMUNE, DIEN BIEN PROVINCE

“

...mostly, the household knows where they should go. Trust and scale of the business also come into the decision of where to buy supplies.

”

by a combination of two factors: the remoteness of some locations and limits to the capacity of the PPC to adapt its policies to different districts.

Relationships mean more than marketing

We found that shops relied on their customer service and on building relationships with customers to attract business. They hoped that people would become loyal customers. One commune supply shop noted that “*there are five others [construction supply shops]... we have our own customers and the price is similar*”. The price of materials was often not fixed; rather, it was dependent on relationships – for both customers and the wholesalers from whom supply shop purchased their materials. One private enterprise operator explained: “*The price cannot be fixed. It depends on the negotiations with each household... For this business, I never think of marketing. Mostly it's about trust building.*” When asked about the elements of a good business, another private enterprise replied: “*It is the kindness and responsibility and trust to the customer... Maybe first element is give more credit – so need more capital to invest in the business.*”

F) POLITICAL SUPPORT AND PRIORITY National government interest, yet limited action, to promote enterprise roles

There is a growing recognition of the potential role of private enterprise in sanitation at the national government

level, but supporting actions to date have only been limited. VIHEMA did report development of training in this area though, as a first step to strengthened roles by local CPM. As noted in Section 2, the national forum in 2013 focused on the role of private and social enterprise in WASH, signalling the government's growing interest in formally engaging with the private sector for WASH service delivery. Interviewees pointed out the following obstacles to government support for private enterprises:

- Lack of formalised government policy regarding the support of private enterprise, as noted by a government interviewee: “*So far we don't have the policy to support private sector in rural areas*”
- The difficulties government faces in directly supporting private enterprise (e.g. NTP funds cannot currently be used to train masons or to provide suppliers with business training)
- VIHEMA realises that the market-based approach is valid, but reported that they have limited experience in implementing it
- There are many elements of private enterprise engagement that the government could support, and it has to decide which is best e.g. technical support and training, enabling environment, tax incentives etc.
- Decentralised government means that provincial- and district-level governments must also be convinced to support the private sector, as many decisions are made at sub-national level
- Some communities are unwilling to pay for previously subsidised or free services.

National government agencies were cognisant of the challenges associated with engaging with the private sector, and are partnering with NGOs, UNICEF and others (e.g. WSP) to pilot approaches and learn by trialling a range of approaches.

Committed CPCs can make a difference

Subnational government commitment to sanitation access and to supporting private enterprise was variable. Interviews with several highly motivated and

“

There is no policy or support with the private sector who work on sanitation and hygiene.

”



FIGURE 10 SANITATION PROMOTION AT A GOVERNMENT HEALTH CENTRE, MAI CHAU DISTRICT, HOA BINH PROVINCE

committed sub-national government staff, particularly in places where NGOs have recently been working, highlighted varied incentives that had inspired their actions.

In one example CPC leadership was motivated by previous major health issues in the commune. This example demonstrated that when the CPC is actively involved and makes sanitation a priority, other government structures and mass organisations follow their lead. In this commune CPM and mass organisations worked collaboratively to improve sanitation coverage: *“Raising the awareness and knowledge of people, also the leaders of the CPC to mobilise the people and establish and carry out campaigns on sanitation and hygiene. Also set up targets for sanitation and hygiene. Every mass organisation is involved.”*

In another example a CPC has led local regulations to promote safe sanitation: *“Whenever there’s a household that builds a new house, they have to make a commitment to include the building a latrine. This is a local regulation.”* This highlights the CPC’s ability to use formal systems to create change, through regulations which require a latrine for each new house that is built.

Participation in NGO programs can also result in CPC staff recognition of the need to support and upskill the private sector in general and masons in particular: *“Supporting the private enterprise*

especially the mason is very useful... We now have group of trained staff down to the village level. This contributes a big part to the latrine coverage.” NGOs often have limited reach, however, and this finding was limited to one commune only.

But overall there is limited promotion of sanitation and of sanitation enterprises at local level

Despite the above examples, many subnational government staff tended to prioritise other local issues over sanitation. As noted in Section 2, the PPC decides how NTP funds are allocated in water and sanitation budgets, with some provinces prioritising water over sanitation. The 2012 NTP budget only directed an average of 1–10% to sanitation across all provinces, with most of these funds allocated to toilet subsidies (Alvarez-Sala pers. comm.). MPI’s circulars provide guidance on the split between ‘investment’ – meaning water, and ‘recurrent’, which relates to sanitation spending, and as noted by CPM: *“CPM has no voice in budget allocation... CPM has to cry or shout loudly but it may not make a difference.”* NGOs and donors called for this to be addressed at the national level and as a result NTP-3 Standing Office agreed to increase the sanitation budget in subsequent years. However the sanitation budget is still mostly allocated to subsidising toilets for the poor. In contrast, the available budget for communication and education about sanitation only represented 0.5% of NTP-3 budget in 2012 (Alvarez-Sala, pers.comm.). As one government interviewee noted, *“if [provincial authorities] still don’t value sanitation in their strategy, there’s still a lot of problems”.*

At local level, examples of barriers to promoting sanitation, and dynamics that work against commune government staff support to enterprise involvement include:

- Typical priorities of the CPC include economic development, security and other national target programs like electricity, education and infrastructure rather than sanitation.
- Health staff who are unaware of the potential benefits of engaging with the private sector at the district and provincial levels. If local health staff have not been exposed to any formal

“

CPM has no voice in budget allocation... CPM has to cry or shout loudly but it may not make a difference.

”

“

How can you convince the Department of Health and village health workers to work with masons? You need incentives...

”

drivers (e.g. government policy, directives) or informal drivers (e.g. observations of NGO working with enterprises) to engage with the private sector, it is not surprising that little such engagement exists, given the limited role of private enterprises historically.

- The absence of an ongoing budget for sanitation activities and limited human resources to support the promotion of sanitation. The low priority generally given to sanitation, and the reliance on health-based messaging as a motivator, has resulted in this barrier. The government's lack of spending in this area is perpetuated by: the local perception that water is a higher priority than sanitation; the view that water supply has to be led by the government while building toilets is more a household issue; and limited demand for sanitation at the community level.

The limited capacity of village health staff. Village Health Workers receive a small allowance of around US\$7/month rather than a salary. The low financial compensation for Village Health Workers is unlikely to provide sufficient motivation (or allow for sufficient accountability) for them to play a more active role, unless additional incentives are provided, for example in the form of status and recognition for achievements in increased sanitation coverage. An approach was trialled by an NGO in one province to overcome this barrier, where Village Health Workers act as sales people for masons, receiving a small payment for each sale the mason attracted.

The 'New Rural Program' has had mixed success in prioritising sanitation

In some locations, the government's 'New Rural Development' program acted as a driver to focus on sanitation. Sanitation is one of 19 priority areas in this program, and communities must meet certain criteria for each area to be recognised. As a result, one commune reportedly held a competition was to promote sanitation, with positive effects. However, in other communes it appeared that the New Rural Development program did not provide an incentive to galvanise commitment for household sanitation. Instead interviewees reported that awards were often provided to communes despite the

criteria not being met, thus undermining the potential leverage such a program might be expected to exert.

Mobilising mass organisations to create an enabling environment for enterprise

Many stakeholders highlighted the role that mass organisations can play in promoting sanitation, and the strength of this, when supported by the CPC and recognised for their role. One interviewee noted:

"We will need to work with civil society – Women's Union, Youth Union, Farmer's Union, Veteran's Union. How can this system be in place – they need to see how they can benefit. Voluntary contributions can only go for so long – we need a more sustainable system. They need to be rewarded for their part."

We found that in areas where NGOs were working, the involvement of mass organisations in sanitation, and subsequent engagement with enterprises, were high. In other places, we found that mass organisations were not engaged. Furthermore, mass organisations participated at the request of the CPC. The CPC therefore needs to value the input mass organisations and invite them to be involved. In one commune, this was the case. High population density, combined with annual flooding and high rates of open defecation posed significant health challenges to the local people, and motivated the CPC to address the issue. Yet the CPC recognised its limited capacity to address these sanitation challenges alone and therefore enlisted the mass organisations to assist, giving public recognition to their role.

In another location, an NGO had been active in CLTS, and through development of a close working relationship, the Women's Union became highly committed and motivated. In addition, the national Women's Union's own program "5-0 and 3 clean" provided additional motivation and mobilisation of Women's Union representatives for WASH. In locations where NGO support had not been active, the difference in mass organisation involvement, and their lack of engagement with enterprises, was stark. One CPM staff member noted: *"They [Women's Union] don't know the value of the sanitation and hygiene. That's*

why it's of no interest to them." Given the limited reach of NGOs, this raises the question of whether enterprises might consider playing a role in facilitating engagement with the CPC to promote mass organisation involvement, which is in turn helpful for assisting enterprises to succeed. While NGOs are able to play this role now, it will be interesting to see if enterprises enter this space.

Government and private enterprise objectives – aligned or misaligned?

The degree of alignment of government and private sector objectives also plays a role in how sanitation enterprises are able to operate. We encountered a range of views on this issue, ranging from those who believed that government and business could have similar objectives, through to those who saw the objectives of the two sectors as very different to one another. There were also different views on the role of government in this area: different contributors saw government as a facilitator, a trainer, an enabler or a regulator. Despite national government support for private enterprise, sub-national government was not always willing to engage with businesses. This has strong implications for how enterprises can operate at the local level. It also raises the issue once again of historical perceptions of the private sector. Given that private enterprise engagement remains a relatively new concept in Vietnam, it may be unreasonable to expect people at all levels to endorse diminishing roles of state-run enterprises and the increasing role of private enterprises.

An example of the mixed views on this issue was noted in a meeting where a local government representative said: *"We don't have the same objectives. The shop sellers and masons – they don't think of the health of the community, just think of the profit."* In the same meeting, the Women's Union representative disagreed, noting that: *"More or less, they [private enterprise] also think of community health but this is not very visible or clear to see. Never do they offer lower price, but they can offer longer [terms of] credit."*

G) GENDER ISSUES

Views about gender roles in Vietnam affect the degree to which women are engaging or are visible in enterprises in the sanitation subsector. For example, family businesses are often registered in the husband's name, making women's involvement less visible. Several interviewees noted that women cannot be skilled or master masons, and *"it is the culture that decides this"*. In one location a government interviewee said that while women can be trained as mason assistants, they cannot practice their skills. We noted a range of views in one commune, where a female supply shop owner noted that: *"Women can become skilled masons – it's socially acceptable. It's just their capacity."* We interviewed one female mason (trained under SNV's previous program), and she saw her seemingly unique position as a drawback, as she could understand the needs of

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Women can become skilled masons – it's socially acceptable. It's just their capacity.

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FIGURE 11 A FEMALE SUPPLY SHOP OWNER IN MAI CHAU DISTRICT, HOA BINH PROVINCE

households from women's perspectives, and she could develop a relationship with the Women's Union to her advantage in terms of business development. In addition, she filled a gap because she was interested in smaller jobs, whereas other masons focused on larger ones.

Building toilets is considered an easy job that can be done by anyone, so skilled masons, especially in more developed areas, orient their business towards house construction. The NGO programmes that have successfully involved local masons engaged mid- to low-skilled masons (sometimes mason assistants), who were interested in managing their own businesses and viewed building toilets as profitable. Conversely, master trainers understood that it was more profitable to orient their business towards bigger and more complex infrastructures. This offers a big opportunity for women who have an entrepreneurial attitude. In Vietnam women are active in the construction sector, but usually as masons' assistants. Providing women masons with the opportunity to develop a niche market (toilet construction) offers a way to change this situation and for women to operate individual businesses.



FIGURE 12 WATER ENTERPRISE OWNER AND PROVINCIAL GOVERNMENT STAFF MEMBER IN MEKONG

6. WHAT FACTORS SHAPE NGO ENGAGEMENT WITH ENTERPRISES?

NGOs grasp the 'idea' of the need to connect demand and supply. After undertaking demand creation activities and CLTS, NGOs recognise the need to support supply, however they are often working at different scales on the two areas. For example, they may work more on demand and less on supply. Also making the link between the two (and creating change) is much harder than it might initially appear. This section describes the influence of NGOs, the relationship of their development approach to enterprise engagement. It also reflects on how political support and regulations affect how NGOs work with WASH-related enterprise in Vietnam.

A) INFLUENCE OF NGOS

Views of the influence of NGOs in shaping enterprise engagement in WASH in Vietnam were varied. Interviewees within the NGO sector see the work NGOs do as influential, while those in other sectors (government, donors, private sector) generally see them as being less influential. The government's attitude towards the value of NGOs is changing. Vietnam's status as a middle income country has led to a withdrawal of some donors and therefore reduced financial and technical support for development issues that still pose significant challenges to Vietnam. This is discussed further in Section 6D.

The Rural Water Supply and Sanitation Partnership (RWSSP) coordinates with NGOs regarding private sector involvement, and collaboration between the NGO and government sectors appears to be improving, and this is helping to create a more coordinated approach and improving the understanding of the roles of each sector. Some government representatives noted the good work NGOs undertake, with one recognising the benefits of NGOs being small, flexible and able to change where and how they work without too much bureaucracy. NGOs are still in the emerging phase in Vietnam, and licences for NGO operations can be administered by either provincial or national government ministries.

Interviewees (mostly from the NGO sector) provided the following examples of how NGOs have influenced private enterprise engagement in WASH:

In the water subsector:

- Influencing government policy (e.g. creating a shift from focusing predominantly on water in NTP). NGOs' influence on government could therefore lead to increased demand for sanitation products by households, thus greater potential for sanitation enterprises to operate. Government focus on sanitation to create household demand could occur through the CPC thinking about mass organisation involvement, which in turn facilitates demand creation.

For the sanitation subsector:

- NGOs have been a source of innovation, new techniques and new approaches. One interviewee pointed to: results-based approaches, CLTS, sanitation marketing and training of masons with a view to connect households with affordable latrines, while concurrently developing supply chains for sanitation. The outcome may be new approaches that can be translated and expanded to new areas, as has occurred in the past.
- NGOs have increased the awareness that sanitation can be market based, in part through shifting the traditional belief among service users and government that the private sector cannot be trusted to deliver services. This, over time, may overcome the historically held view that state-run enterprises can be trusted more than private enterprises. Government incentives for enterprises may speed this process.
- Developing and analysing supply chains and markets. Stronger supply chains for businesses would improve their ability to operate and make a profit.

Across both water and sanitation:

- NGO investments, providing equitable services in WASH for the poor where Vietnam still has high levels of inequality. Participants noted that a key strength of NGOs is their ability to work in rural and remote locations with ethnic minorities and in areas where water and sanitation coverage is low and poverty is high. One government interviewee said "we have high appreciation for their [NGO's] efforts in rural WASH". Investing in these locations may lead

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We have high appreciation for their [NGO's] efforts in rural WASH.
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I don't think
NGOs involve
government
from the design
stage. They
just design
and introduce
to the local
counterpart.”
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to innovative approaches that are context-specific and able to harness opportunities in particular conditions (e.g. geography, climate, ethnicity, population density, levels of education, value placed of WASH).

- NGOs can act as go-betweens for private operators and donors. To play this role, NGOs need to understand the opportunities, challenges, strengths and weaknesses of enterprises, in order to ensure they understand the formal and informal contexts in which they operate.
- Provision of good evidence for what can work in certain contexts. Examples of what works provide a continued sharing and learning across sectors, potentially leading to implementation of improved approaches in new locations. This may also build trust in NGO-enterprise partnerships, leading to a range of new collaborative arrangements.

Some interviewees were unconvinced about the degree of influence NGOs had in facilitating enterprise engagement in WASH, or in influencing government's approach to WASH. These views failed to acknowledge the creative examples of NGOs working with government and private enterprise in project activities that draw on incentives and motivations of various actors, as described in Sections 4 and 5, including evidence of an influence on the sector in a range of ways. One reason for the perceived lack of influence was that NGOs do not work *close enough* with government, from project inception through to implementation with a local counterpart, as noted by an interviewee: *“I don't think NGOs involve government from the design stage. They just design and introduce to the local counterpart.”* Another view was that NGOs are seen by government as being on the ‘sidelines’, and not as main actor in WASH. Another view was that NGOs, particularly local organisations, are more like family enterprises, and donors prefer to work with INGOs for credibility and experience.

B) DEVELOPMENT APPROACH AND UNDERLYING PHILOSOPHY

Most NGOs had a core commitment to reach the poorest communities through

various programs and approaches. This involved a keen understanding of the opportunities and challenges involved in reaching the poorest people in the rural, remote and mountainous regions. Also part of NGOs' development approaches was an understanding of local and national context, and willingness to shift and change in line with emerging opportunities. This flexibility is limited to some degree by donor or institutional requirements (e.g. log frames, monitoring and evaluation approaches). NGOs also need to understand how government reform translates to actual changed practices. Therefore, while NGO willingness to change is applaudable, as Andrews et al. (2012:1) highlight, *“governments and organisations pretend to reform by changing what policies or organisations look like rather than what they actually do”*. NGOs are well placed to tell the difference between bogus and actual reforms, given they are embedded in local communities. Through flexible, adaptive approaches and commitment to their core philosophy to serve the poor, they have been able to influence government (e.g. increasing the budget allocation to sanitation, and the government's uptake of CLTS after introduction by an NGO).

NGOs mostly work from ‘project’ funds. This means they can be driven by targets set in their project designs, and CLTS open defecation-free (ODF) community targets don't necessarily require durable latrines to be built. This has clear implications for sustainability and long term change regarding sanitation practice. An alternate view is that a focus on counting toilets is part of the government's monitoring system and NGOs are advocating a different approach, one which incorporates approaches to bringing about effective behaviour change. The dynamics associated with how NGOs operate is important to understand here, and requires further study beyond this research.

The 11 NGOs interviewed for this research had a variety of approaches and views on working with private enterprise.

- four out of the 11 NGOs currently worked with enterprises relating to water
- five out of the 11 currently worked with enterprises relating to sanitation.

NGO engagement with private enterprise occurred to varying degrees, and was found to be the result of several factors including the NGO's underlying philosophy, its views on trialling new and innovative approaches, and the demands of donors and their own corporate agendas. Most NGOs had clear reasons for their underlying approaches, and many had strategic plans and visions of where they wanted to work in the future. Although many were experienced in implementing innovative approaches (e.g. through pilot projects), many were still risk averse, for example one participant said: *"The interest in involving the private sector has increased. It hasn't made sufficient progress. An example is the recent attempt of [an NGO] to participate in a PPP project. The final decision was not to go ahead. And this was for a number of reasons including [the NGO's] capacity in this area."* These issues are discussed further below.

Varied commitment to market-based approaches

Of all the NGOs interviewed in Vietnam, iDE stood out as being fully committed to a market-based approach. iDE has a long history of using this approach, and it stresses the importance of viewing the 'Bottom of the Pyramid' (BoP) as customers. iDE sees its role as providing private sector enterprises with information, and helping enterprises to see BoP as customers: *"At first we need to test product development and market design to see if it works for the poor, if the poor could invest with their own money if options are made available."* However, iDE has learned from past experience and recognises that the poorest segment of the population cannot be reached by purely market-based approaches. If any kind of subsidy is provided, iDE believes it should be provided in terms of the financing rather than the hardware, so customers are empowered to choose their preferred product.

iDE introduced sanitation marketing – 'San Mark' in Vietnam. San Mark is different to their regular approach as unlike investing in the purchase of a production tool or other hardware, buying a toilet does not lead to a financial return. It is therefore harder to convince them to invest: *"For the San Mark approach, our take is to make*

sure the house has a latrine for any reason and then the hygienic behaviour will follow as a result. Find out why they do / don't want a latrine and go from there." In order to convince households to buy a toilet to achieve hygienic behaviour change, instead of pressing on hygiene benefits (which are often perceived by practitioners as a driver to toilet purchases) iDE focused on whatever reasons (which may not be necessary hygiene at all) a household would buy a toilet.

iDE's approach to working with the private sector is to target businesses with a high need for capacity building and a preparedness to accept lower profits. Selection of successful rural private entrepreneurs (often with higher opportunity costs than emerging entrepreneurs) leads to higher dropout rates, thus iDE's selection of 'lousy businesses' often leads to higher retention rates in the program.

Other NGOs supported the idea of the market-based approach, but with less belief in a complete 'hands off' approach. One example is an NGO who saw the value of developing the value chain and engaging with masons already working in construction, providing training (in the building of latrines) and marketing of latrines and then working with mass organisations to encourage people to build latrines and in turn, receive a commission. Other NGOs were found to be testing innovative approaches with enterprises including capacity building activities for government, private enterprises and masons.

Some NGOs were not interested in working with enterprises, instead focusing on traditional community development, for example through community management of small water systems.

Innovation and a willingness to try new approaches

There were many examples of NGOs developing and piloting new and innovative approaches in the WASH sector. SNV's introduction of the CLTS approach and EMWF's introduction of the Output Based Aid / Results Based Aid are examples of approaches that have been influential in shaping the direction of WASH in Vietnam. New approaches which

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At first we need to test product development and market design to see if it works for the poor.

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NGOs say the poor can't pay so we should subsidise... You can't have any subsidy mindset - that would kill the market based approach.

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We have to understand their [enterprise's] approach etc... we also want to make it self-reliant and sustainable.



harness the influence and reach of mass organisations like the Women's Union, and using incentives for promoters, are also being tested, with some indication of success in some locations, as explained by an interviewee: *"One [enterprise] leader stood up and explained how he paid to the Women's Union 40,000 VND [USD \$1.90] per latrine and 20,000 VND [USD \$0.95] per improved cooking stove. This promoter coordinated several households at the same time. Equally – in one day his wage is higher than the others. Everybody sees how that is good and beneficial."*

NGOs demonstrated a willingness to learn from each other, seen in their quick uptake of other NGOs' approaches. There was some evidence of NGOs wanting to 'brand' their approach, but not in ways which reduced the uptake of ideas by other NGOs or by government. For example, CLTS was originally introduced by SNV and is now a common approach amongst NGOs and government, and Sanitation Marketing, originally introduced by iDE, is gaining traction. Engaging with private and social enterprises is also being tested and trialled. While challenges in many of the new approaches remain, lessons are being learned and approaches are being refined so that they can be locally appropriate, improving both government and NGO practice. A limiting factor is always long term funding to continue approaches that work well – an ongoing difficulty voiced by NGOs, given donor withdrawal from Vietnam, and current appetite for funding WASH in some donor programming (e.g. DFID, Danida).

A focus on sustainability

Some NGOs' development approaches had a firm focus on sustainability; they realise that real change takes time to gain traction. One NGO interviewee believed engaging with enterprise was important for sustainability: *"The local enterprise stay in the location, so we work with them."* Another noted that: *"We have to understand their [enterprise's] approach etc... we also want to make it self-reliant and sustainable."*

Some NGO interviewees were resistant to output-based approaches, as the focus is on building toilets (that may or may not last) rather than on sustainable behaviour

change. Having the ability to revise and change approaches is beneficial, as noted by one NGO interviewee: *"We try to move forward and move with innovation... We revise the activities and make a bit lighter and easier to be introduced by the government."* This quote also highlights the importance placed on relationships with the government. This emphasis has its grounding in the desire for sustainable change. One NGO recognised that the community management approach wasn't working, and felt that a social or private enterprise approach may be better as there needs to be a fee for management.

Keeping an eye on poverty goals while working with enterprise

Much has changed over recent times in how NGOs view the private sector. The NGOs interviewed in this research all appear to be balancing their desire to work with the private sector (in recognition of the potential long term benefits) with their understanding that traditionally, businesses have profits as their core objective. Various approaches were used by NGOs to ensure they were not sacrificing their core objectives (i.e. to serve the poor) when working with the private sector. Several NGOs used some kind of 'screening process' for enterprises was one way to avoid working with those who do not respect the rights of workers or who try to promote their own image: *"We can't work with any corporate – we select who shares our mission or objectives. Find like-minded enterprises. And we have a screening process."*

NGOs also explained that although their objectives may not always align with those of enterprises, there may be mutual benefits and a willingness to cooperate. So long as the poor were viewed as customers (or employees, clients or providers), it was generally accepted that NGOs and private sector operators could work together. A government interviewee also recognised the potential mutual benefits of NGOs and private enterprises, however noted that in reality, such partnerships are rare: *"The private sector – they need income as a benefit. NGOs mainly are non-benefit. Their purpose is to help people. They have different objectives. Still very few that work [in] complementary [ways]."*



We try to move forward and move with innovation... We revise the activities and make a bit lighter and easier to be introduced by the government.



We can't work with any corporate – we select who shares our mission or objectives. Find like-minded enterprises. And we have a screening process.





We get bogged down trying to reach our own targets.



C) BUSINESS EXPERIENCE

NGOs interviewed in this research spanned the full spectrum of business experience, ranging from having none at all (and having no interest in pursuing it), through to high capacity with many years of experience and fully believing in the ability of the market approach to improve WASH coverage.

Most NGOs were in the middle of the spectrum, being convinced of the potential of the private sector to have a role in WASH, but with NGOs' WASH teams having no experience engaging with private enterprise or the wider enabling environment in which they operate. Many appeared stuck at this point: *"The trend and intention is there [to work with private enterprise], but in concrete terms, the progress is challenging."* An NGO interviewee recognised they did not have the skills or experience within their WASH team to work in sanitation marketing, and voiced interest in partnering with other NGOs that specialise in this area. This was followed by a comment that other parts of their organisation had experience engaging with business (e.g. microfinance teams), however, their programs did not cross-fertilise each other (*"we get bogged down trying to reach our own targets"*). This represents a clear gap, and an opportunity for cross-learning within an organisation that could benefit WASH teams seeking to embark on sanitation marketing approaches.

The NGOs with slightly more business experience appeared to be already thinking in terms of mutual benefits for the enterprise, the NGO (or their beneficiaries) and the government. They recognised the need for a supportive policy environment, the existence of demand, and a level of motivation (potentially incentivised) within stakeholder organisations. NGOs see their role and bringing these elements together so that each of the stakeholders is incentivised to play their role. As these examples become more prevalent, lessons can be shared so as to inform new partnerships between government, the private sector and NGOs with a view to improving access to WASH services.

D) POLITICAL SUPPORT AND REGULATIONS

The policy environment in which NGOs operate in Vietnam requires organisations to be registered under one of two national government bodies: the Vietnam Union of Scientific and Technology Association (VUSTA – managing civil society organisations (CSOs) and NGOs) or the People's Aid Co-ordinating Committee (PACCOM), which is responsible for managing international NGOs and mobilising aid funding. One INGO interviewed noted the lengthy timeframes required to obtain approval of programs from these government bodies: *"A five-year project needs three years of prep and two years of implementation."* The policy environment in which NGOs operate is important for how they then engage with enterprises. The private sector in Vietnam is able to respond to the needs of customers using entrepreneurship, innovation and quick thinking. Although previously noted as agile and adaptable, NGOs are also tied to some degree to requirements from government counterparts, donors, their head offices or their own internal structures. If NGOs are to collaborate and partner with enterprises, they too may need to operate in this quickly changing environment – something that may be a challenge given the requirements they face in obtaining government approval of their programs.

The current economic climate in Vietnam is also playing a role in shaping how the government perceives the work of NGOs. Given Vietnam's status as a middle income country and the subsequent withdrawal of some donors and the reduction in ODA, the government is beginning to recognise the benefits of having NGOs and INGOs in Vietnam. The Prime Minister responded with a decision to promote foreign organisations working in Vietnam until 2017. This may provide NGOs with more support than they previously received when the government was less supportive of foreign organisations working in Vietnam, as noted by an NGO interviewee: *"We previously thought that INGOs would be kicked out of the country, now they are more supported as they [government] recognise the contribution of NGOs."*



Since Vietnam is now an emerging economy, they [government] are recognising that donors might be pulling out. Government recognises the good work that NGOs do.



From the government's perspective, NGOs should aim to collaborate and partner with government (at the ministry level) and with mass organisations (at the sub-national level) when working with the private sector, if they want to succeed and have sustainable outcomes. A government interviewee told of an example

of an unsuccessful NGO–private sector partnership for the production of a low cost toilet component. The reason why the venture was unsuccessful was put down to the failure to include a health sector government partner, who could have provided knowledge of the health system.



FIGURE 13 COMMUNITY-LEVEL TOILET REBATE CEREMONY IN TRA VINH PROVINCE
IN THE MEKONG

7. CONCLUSIONS & IMPLICATIONS

This paper provides an analysis of private enterprise engagement in Vietnam, with a focus on the dynamics that shape how, where and why they operate in the WASH sector. It documents the growing political recognition of and support for the role of private enterprise in WASH and other sectors as Vietnam moves along towards a market-based economy and middle income country.

Our research found that authorities at the provincial level can exert a major influence on enterprise engagement in water and sanitation services. Decentralisation, whereby authority and decision-making powers are shifted to sub-national levels of government, commonly leads to gaps in implementation of national policies and a loss of coherence within a country, and this was found to be the case in enterprise roles in WASH in Vietnam. In the water sector, there was evidence that some enterprises faced difficulties when negotiating tariffs with provincial government and in other matters involving provincial government (e.g. land ownership and ownership of assets). Furthermore, in theory, formal regulations developed by central government enable provinces to contribute financially to make up for differences in costs and revenue. However this practice was not observed, and relates to the politics of decentralisation and how power is distributed across levels of administration, with provincial authorities reluctant to focus on water services and provide funding for them. In sanitation, there was little interaction between the private and the provincial authorities under NTP-3 programmes and at the local level, most health staff workers did not see any benefits in engaging with the private sector. At the local level the commitment of CPCs to making advances in WASH was mixed, and highly dependent on demand and the potential success of enterprises in their communes. These examples highlight the power of sub-national governments over how enterprises function, charge their customers and provide services. This finding points to the need for engagement, particularly at the provincial level, to address constraints to enterprise roles.

Our research also found that policy guidance on how the government will support private enterprise needs to be

further developed. This will help formalise the government's approach; however the historical legacy of the role of the state as the provider of important services is likely to remain a challenge enterprises face. In the water subsector, issues around asset management, ownership and transparency of selection processes for small-scale enterprise in water all require ongoing work, and as described above, they require engagement at the provincial as well as the national level.

There are no representative bodies for WASH-related enterprises, so these types of enterprises remain disparate, without a collective body to demand the incentives envisaged in national policy. Their ability to exert influence is therefore limited, and they rely instead on opportunistic or ad hoc approaches, or for other actors (e.g. NGOs who see benefits of WASH engagement) to advocate for them. Related to the absence of well-implemented policy to support WASH-related enterprises is the finding that informal rules, in terms of relationships and trust between suppliers and customers, are very important for the sustainability of businesses.

Our research revealed considerable variation in the potential space for enterprise engagement across rural and remote, and coastal and urban regions. Much inequality still exists in parts of Vietnam, particularly in rural remote areas with a high proportion of ethnic minorities where WASH coverage remains low. At the same time, although toilet coverage has increased dramatically in recent decades, most toilets do not meet government hygiene standards. Enterprises are seen to have a key role to play in improving the quality of those toilets. However, demand for sanitation in many rural remote locations is low. This is in part linked to ethnicity, and when coupled with extremely high transport costs, forms a significant barrier to private enterprise engagement. Transport costs to rural and remote areas may require additional support; however current policy disallows differential treatment of communities based on location. In the water sector, by contrast, variations in approach are at least accounted for in policy (with

direction to provincial governments to contribute differently depending on the costs of service provision and ability to pay). However implementation of varied support models across different locations and situations was not evident in practice.

Approximately half the NGOs interviewed were engaged in enterprise development in WASH. NGOs' desires and abilities to influence enterprise engagement varied. Some NGOs believed in a completely market-based approach, while others believed in the central (and sole) role of government intervention to reach 'bottom of the pyramid' customers. In the Mekong an NGO approach which provided incentives for all stakeholders produced good results in terms of improving sanitation coverage and enterprise involvement. However, some actors questioned the sustainability of this initiative once the economic incentives no longer applied.

The research leaves some unresolved issues requiring further research. A better understanding is needed of the incentives that operate within provincial governments and of how these may be built upon to increase practical support for enterprises. To inform policy decisions on cost sharing between enterprises and government, a greater understanding is needed of the costs of the operation and maintenance (including capital maintenance) of water systems. Lastly, while this research did not find many social enterprises operating in the WASH sector, it would nonetheless be interesting to understand whether the lack of guidance in the social enterprise policy landscape helps or hinders social enterprises in Vietnam, and more research on this issue would be of value.

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9. APPENDICES

APPENDIX 1

The guiding methodology for this paper was a political economy analysis. We took a ‘problem-driven’ approach, in line with recent trends in the application of political economy analysis to the development sector (Fritz et al., 2009 and Harris, 2013). The central problem was taken to be *‘how CSO engagement with enterprise could better lead to equitable, sustainable service delivery for the poor’*. The two central research questions addressed were:

- How is enterprise involvement in WASH shaped by sector dynamics, and informal and formal links to other organisations and agencies?
- What shapes CSO engagement with enterprises in WASH?

Balance was sought between a focus on broader political economy factors, important service delivery subsector dynamics (McLoughlin with Batley, 2012; Harris et al., 2011:25) and the narrower ‘problem’ of concern. The priorities given to these three areas were as follows:

- the macro political economy context (including relevant regional and international dynamics) (minor attention)
- sector-level dynamics, including key distinctions between relevant sub-sectors (some attention)
- organisation-level dynamics, focusing on civil society organisations, and private and social enterprises and the interface between these two types of organisations (central focus).

A review of recent literature was used primarily to address the first of the levels above, whereas the empirical qualitative research was used primarily to address the second two levels of analysis. Semi-structured interviews were undertaken with representatives from forty-four organisations in Hanoi, Nghe An Province (Anh Son and Quynh Luu Districts) and Hoa Binh Province (Mai Chau District). These locations were chosen due to the recent attention given by development partners to the role of enterprise in water and sanitation services. Interviewees represented private enterprises, national and international CSOs, donor organisations, mass organisations (e.g. Women’s Union) and

different government agencies from relevant areas (finance, health, WASH, enterprise development) and local leaders from Provincial, District and Commune level. Households were also interviewed to provide insight into local dynamics. In particular, the relationships between the different organisation types were interrogated (see Figure A1 below). An ethical research protocol was followed, including provisions which protected the privacy of research participants and allowed for member-checking with participants where organisation names were been included.

The following question areas were used to develop sub-questions used during interviews with CSO, enterprise, civil society and government participants (see Table A1 on page 42). The groupings are drawn from Ostrom’s (2011) institutional analysis and development framework which suggests focusing on (Ostrom: 2011; p11):

“(i) the set of actors; (ii) the specific positions to be filled by participants; (iii) the set of allowable actions and their linkage to outcomes; (iv) the potential outcomes that are linked to individual sequence of outcomes; (v) the level of control each participant has over choice; (vi) the information available to participants about the structure of the action situation and (vii) the costs and benefits—which serve as incentives and deterrents—assigned to actions and outcomes”

FIGURE A1 ORGANISATIONAL RELATIONSHIPS INTERROGATED IN THE RESEARCH

	ENTERPRISES	CSOs	GOVERNMENT
ENTERPRISES		✓	✓
CSOs	✓		✓
GOVERNMENT	✓	✓	

TABLE A1 QUESTION GUIDE FOR SEMI-STRUCTURED INTERVIEWS

**A) Assessing some of the broader features of the context:
How is the behaviour of CSOs and private enterprises shaped by relevant features of the (country/local) context?**

- How have factors such as historical practices, political ideology, type of government, state–society relations or social inequalities influenced the way that WASH services are delivered within the context, and the role of private enterprise and CSOs in that delivery?
- How is ‘private enterprise’ understood by different actors in this context? Who does this include/exclude?
- How is ‘civil society’ understood by different actors in this context? Who does this include/exclude?
- How do relevant actors view service users (e.g. as ‘rights holders’, customers, etc.)?

B) How is each organisation structured internally? What are the implications of this structure for the way in which it functions?

- Who are the actors involved? What are the set of positions to be filled by those actors?
- What options does the firm or CSO have with respect to its role in the WASH sector?
- Before working in a particular context or with a particular firm, and before adopting a particular strategy, does the individual/organisation require approval (e.g. from government, superiors within the organisation, a central authority, a funding agency)? Do they confer or negotiate with others over their planned activities?
- What are the objectives of the various actors involved?
- What are the major sources of funding?

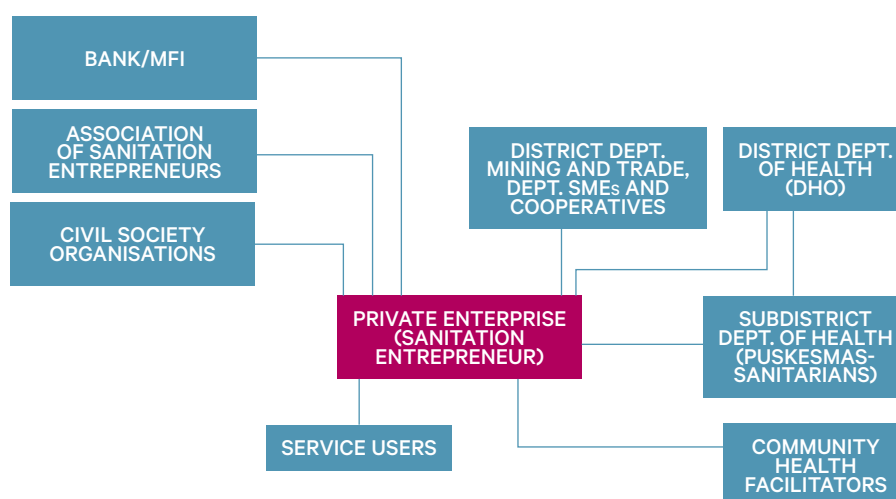
**C) Assessing particular action situations:
A set of questions regarding interactions specifically related to CSO support to private enterprises:**

- What do firms, CSOs, government and service users see as the ultimate aim of interaction between CSOs and private enterprises? Are these shared by all actors involved? Do the objectives of the various actors complement or compete with each other?
- What do CSO–PE interactions look like/involve? What is the set of allowable actions for each actor?
- What are the theories of change at play (on the part of CSOs, private enterprise, government (national or local) and donors)? i.e., what chains of events link different potential actions to outcomes? How are these actions expected to lead to particular outcomes? How are these likely to affect prospects for sustainable service provision (the desired outcome for the project, other evaluative criteria might be applied)?
- What information is available to actors about their interaction?
- Costs and benefits: Has the CSO–private enterprise collaboration led to improved WASH service delivery? According to whom?
- What benefits (to the firm, to the CSO, or to others) can be achieved as a result of various group outcomes?
- Is CSO–private sector engagement viewed as effective and efficient by service users?

Detailed interview notes, including direct quotes, were analysed using a 'node' analysis approach using node diagrams (see example in Figure A2 below) which promoted systematic interrogation of each formal linkage between organisations and relevant informal institutions, as well as a focus on the node itself and internal drivers, where a node represents the key organisational actor considered in the analysis.

A combination of this analysis and literature on critical aspects of enterprise development in WASH (Gero et al., 2013) then shaped the thematic areas against which the narrative in this paper was constructed. Peer review with partner organisations and member-checking with participants was undertaken to verify the interpretations presented in this paper.

FIGURE A2 EXAMPLE OF A NODE DIAGRAM



BoP	Bottom of the Pyramid
CLTS	Community Led Total Sanitation
CPC	Commune People's Committee
CPM	Centre of Preventative Medicine
CSIP	Centre for Social Initiatives Promotion
CSO	Civil Society Organisation
DARD	Department of Agriculture and Rural Development
DoH	Department of Health
EMWF	East Meets West Foundation
INGO	international non-governmental organisation
IWREM	Institute for Water Resources Economics and Management
MDG	Millennium Development Goal
MARD	Ministry of Agriculture and Rural Development
MFI	microfinance institution
MoH	Ministry of Health
MPI	Ministry for Planning and Investment
NCERWASS	National Centre for Rural Water Supply and Environmental Sanitation
NGOs	non-governmental organisations
NTP	National Target Program for Rural Water Supply and Sanitation
ODA	Overseas Development Assistance
ODF	open defecation free
ODI	Overseas Development Institute
PACCOM	People's Aid Co-ordinating Committee
PCERWASS	Provincial Centre for Rural Water Supply and Environmental Sanitation
PPC	Provincial People's Committee
RWSSP	Rural Water Supply and Sanitation Partnership
ToT	Training of Trainer
VBSP	Vietnam Bank for Social Policy
VCCI	Vietnam Chamber of Commerce and Industry
VIHEMA	Vietnam Health Environment Management Agency
VND	Vietnamese Dong
VUSTA	Vietnam Union of Scientific and Technology Association
WASH	water, sanitation and hygiene

Note Currency conversion: 1 USD = 21,070.00 Vietnamese Dong (VND)