PRIVATE AND SOCIAL ENTERPRISE ENGAGEMENT IN WATER AND SANITATION FOR THE POOR

INCENTIVES SHAPING ENTERPRISE ENGAGEMENT IN TIMOR-LESTE

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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.

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This document presents findings from a qualitative study into the involvement of small-scale private and social enterprises in water and sanitation services in Timor-Leste, with a core focus on rural areas. The empirical research for the study was conducted in March 2014 with support from WaterAid and the Australian aid-funded rural water supply and sanitation initiative ‘Bee, Saneamentu no ljiene iha Komunidade (BESIK). This research examines the role played by small enterprises in the water and sanitation services sector, and the incentives that support or undermine their role. It also addresses how and why civil society organisations (CSOs), in this case mostly international non-governmental organisations (INGOs), choose to support the development of such enterprises.

The detailed methodology, based on a political economy analysis, is described in Appendix 1. This 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, the focus was on: incentives provided by formal and informal rules operating within and between organisations; issues of power; control over choice; and access to information.

Semi-structured interviews were undertaken with representatives from 19 organisations in Dili and Liquiçá. Research participants represented private enterprises, international and local NGOs, donor organisations, and water, sanitation and hygiene (WASH) sector government agencies at the national and local levels. The study aims to provide insights into the ways in which enterprises are engaging in the Timor-Leste WASH sector. It does not constitute a comprehensive study of all possible enterprise roles, nor does it cover the breadth of Timor-Leste geographically. Lastly, the focus is on water and sanitation services, and to maintain this scope, the roles played by participating enterprises in hygiene promotion are not included.
One of the newest nations in the world, Timor-Leste has been on a path of slow socio-economic recovery and democratisation since it was declared independent in 2002 (UNDP n.d.). With about 50% of the country’s population below the international poverty line and most of its population living in rural areas, it ranks as one of the poorest nations in Asia (UNDP n.d.; UNDP 2012).

Prior to its independence Timor-Leste was occupied for 500 years, first by Portugal and then Indonesia. Its history has been plagued by political conflict. Reconstruction has been challenging as the country moves from its inherited Indonesian legal and institutional structures to a new lusophone-based system.

Decentralisation is mandated by the country’s constitution, however state resources and decision-making so far remain centralised. Within the current government structure, staff to deliver decentralised public services at the district level are appointed by their respective line ministries (Hindson et al. 2010), with centralised disbursement of funds and no horizontal integration across sectors.

This situation is expected to change soon. For some time, plans have been in place to transfer services to district municipalities governed by mayors and municipal managers (Dale and Butterworth 2010) and a trial of new decentralised structures in a subset of districts is likely to take place during 2014.

A number of challenges remain to be addressed however. Efforts to work in a decentralised manner are likely to be handicapped by low capacity at local levels (MoED & UNDP 2012) as decades of top-down governance approaches under foreign occupation have left the country with low social capital and policy development, and “a centralist political culture among political leaders in the country’s capital” (Shoesmith 2010, p.5).

2.1) Wash Sector Context

Timor-Leste’s WASH sector has seen increased investment from the government, reflecting an important shift from the dominance of donor finance over the past decade. The country’s Strategic Development Plan (SDP) has a sector target of implementing an additional 400 water systems for 25,000 rural households in the next five years. Although in 2014 the national budget did not include any allocation for rural water infrastructure, in the past few years approximately $5-8m p.a. have been allocated for this purpose (Keryn Clark, pers. comm., 29 May 2014).

There have been no parallel budget allocations for sanitation, however. Funding for sanitation has been almost non-existent, mainly because sanitation is largely based on on-site technologies and capital spending for these is expected to come from households rather than government (DNSB et al. 2014).

Despite increased financial commitment for the sector in general, there is a shortfall in administrative and human resource capacity for implementing WASH policies and programs (ISF-UTS 2011).

Improving the sustainability of WASH infrastructure is a critical area of need in Timor-Leste (ISF-UTS 2011). Clarification of institutional arrangements for ongoing management and maintenance of water and sanitation systems is currently being given attention, as well as broader reform to ensure dedicated investment in sustainable service provision (Willetts 2012). In 2009 more than 50% of existing water and sanitation systems were known to be non-functioning (Whiteside et al. 2009). Past studies have also found that in two districts, 70% of the water systems were not functioning one year after construction (Hamel 2009) and sustainability concerns concerning sanitation have been noted in a recent review (Crawford and Willetts 2012).

Responsibility for water supply services falls under the National Directorate of Water Supply (DNSA) and the National Directorate for Basic Sanitation (DNSB) is responsible for sanitation. Both are housed under the Ministry of Public Works (MOP).

Provision of water services is devolved to the district level through District Water Supply Departments (DAAs). The key role of the District Manager is to oversee

NOTES
1. Team Leader of the first phase of BESIK (2009-2012) and Program Manager of the second phase of BESIK (2012-2013).
2. DWSD used to be known as District Water and Sanitation Services (SAS)
and monitor the implementation of water supply projects at the district and sub-district level, in both urban and rural areas. These projects are carried out by the DNSA or other agencies.

As part of the ongoing decentralisation process and the government’s plans to transfer services to district municipalities, in the future DAAs are likely to become departments in such a local government structure (K. Clark\textsuperscript{3}, pers. comm., 29 May 2014), although the details of such changes remain uncertain.

**Water supply services**

The Water Supply Decree-law (4/2004) establishes that communities in rural areas have responsibility for the operation and maintenance (O&M) of water supply systems through water management committees (known as Grupu Manejamento Fasilidade – GMFs).

It also states that DNSA will support the formation of GMFs and can provide them with technical support. The Rural Water Guidelines (2010, p. 5) elaborate on this arrangement, and clarify the division of roles and responsibilities between GMFs and the DNSA's district-level agencies (DAAs) for different system types (Willetts 2012).

However, the largest focus of the DAAs has been in urban areas, with insufficient human resources left to oversee rural areas (DFAT 2011). In addition, the lack of clear and efficient financial management systems within the MOP “restricts DAAs’ managers from efficiently accessing and spending funds”, further limiting their capacity to provide support to GMFs (DFAT 2011, p.5). This, coupled with a lack of capacity within GMFs to undertake tasks such as regular maintenance and small repairs, contributes to the low sustainability of water supply systems.

Additionally, poor access to spare parts in rural areas further impacts on GMFs’ capacity to make repairs. Another problem has been the lack of clarity around the role and authority of the GMFs within formalised structures of community governance.

The Water Supply Decree-law 04/2004 does not clearly define the GMFs, and the Decree-law 05/2004, which defines the village-level governance structures for the delivery of essential services makes no reference to these community management groups (Whalen 2013). Further, as the Decree-law 04/2004 specifies, these groups don’t have a legal status. Thus, they exist as informal management groups, and as Whalen (2013) highlights, their recognition as part of the formal structures of community governance is largely dependent on the extent to which the Decree-law 04/2004 is explained to communities, and the respect and authority that the members of the GMF have within their communities.

An important development in the sector has been the addition of 88 sub-district facilitators (SDFs) to the government payroll system to support the DAAs non-urban team at the community level. This has been done by DNSA with the support of the Australian Government bilateral programme BESIK. A key role of the SDFs is to assist communities in the development and O&M of water systems (Willetts 2012). According to a recent independent evaluation, this initiative appears to have contributed to a dramatic improvement in local service delivery both in terms of reach and quality (Crawford and Willetts 2012). Remaining challenges around this role include making it a permanent government position, strengthening SDFs’ technical skills through ongoing capacity building support, and improving accountability mechanisms (Willetts 2012).

In efforts to improve the sustainability of rural water supplies, there has been an increased focus on a service delivery approach. An intention to move towards a service delivery approach is reflected in the draft national policy on water supply currently in development. As Whalen (2013, p.5) notes, a recent draft of this document “recognises the GMF as an important service provider for rural water systems” but “does not stipulate a community management model for rural water systems.”

Further, DNSA and BESIK have collaborated to outline a pathway to transition to a service delivery approach – ‘A pathway to sustained rural water supply services in Timor-Leste’. This has

\textsuperscript{3} Team Leader of the first phase of BESIK (2009-2012) and Program Manager of the second phase of BESIK (2012-2013)
involved trialling an approach where, for more complex water systems, a service provider is contracted to provide direct post-construction support to the GMF. This service provider is either an NGO or a private enterprise. The development of four large multi-village water systems has been identified as the first step in the trial. Under this initiative, responsibility for maintenance and repair tasks would be shared between GMFs and external service providers, based on clear delegation of responsibilities for different tasks. This is in line with Article 25 of Decree-law 04/2004. The DAA team will be responsible for performance management of the service providers. SDFs will continue performing their roles of supporting GMFs, and will act as intermediaries between these groups and players at the sub-district and district levels (BESIK 2014).

WaterAid is also looking at strengthening the sustainability of water systems through the establishment of a GMF association based in Liquiçá sub-district. This consists of a forum of 86 GMFs across the district (A. Grumbley*, pers. comm., 23 July 2014), and aims to provide O&M peer support and encouragement to individual GMFs, and to strengthen their lobbying and advocacy capacity (Willetts 2012). There is some evidence of progress towards achieving this goal. This type of support could also be an opportunity to strengthen understanding among GMFs of the importance of regular maintenance and small-scale repairs, and of the need for improvements in other areas. Within this O&M model the idea is that the SDFs continue to work with the GMFs and the GMF association.

In an effort to address poor spare parts supply in rural areas, WaterAid has also been supporting rural kiosks to sell these products, as discussed further below.

Sanitation services
Historically, subsidisation of sanitation infrastructure has been the dominant approach by both government and donor agencies. However, there has been a growing trend towards supporting households to invest in sanitation. Community Total Led Sanitation (CLTS) was first introduced in the country in 2007 by WaterAid through a pilot project in five villages (WEDC 2009), and it has since been adopted by various development agencies. Several variations of this methodology have been trialled by BESIK, and this has led to a locally adapted version known as Community Action Plan for Sanitation & Hygiene (PAKSI), which

NOTES
4. Country representative of WaterAid Timor-Leste
5. CLTS is an approach to address sanitation behavior that relies on disgust (rather than health messages) to stimulate behavior change towards use of toilet facilities in place of open defecation.
is endorsed in the recently developed National Basic Sanitation Policy (NBSP) (Crawford and Willetts 2012).

With the spread of this approach, there has been increased recognition within the sector of the need to go beyond demand creation to address the supply side and to assist households to upgrade their sanitation facilities to more permanent systems. Some NGOs have been supporting sanitation marketing initiatives by training and supporting local entrepreneurs to produce and sell sanitation products. This is discussed in more detail below.

While the NBSP provides clear guidance on subsidies, there continues to be an uncoordinated approach within the sector regarding their use. In line with the NBSP, the government maintains a commitment to assisting vulnerable households (Crawford & Willetts 2012). However, this has not yet been carried out as it has been difficult to find ways to target subsidies so that they do not undermine progress using PAKSI. Given the lack of supporting infrastructure to underpin an operational private sector, recent analysis points to the need to subsidise and support the supply chain if it is to deliver affordable, durable latrines in rural areas (Empreza Diak 2014).

2.2) THE PRIVATE SECTOR CONTEXT

Timor-Leste’s private sector is in a development phase. The most prevalent businesses are small and medium enterprises in construction and retail concentrated in the capital Dili (Peace Dividend Trust 2009; UNDP n.d.). A significantly centralised government, a lack of delegated authority and inadequate distribution of resources at the district level mean that the ability of local government agencies to play a meaningful role in the development of local businesses is limited (UNDP n.d.).

The country’s low score (172 out of 189 countries) on the World Bank’s “doing business” indicators attests to the fact that Timor-Leste remains a challenging environment for businesses (Empreza Diak, 2014). The sector is poorly regulated, and has poor roads, power supply and communication systems. This affects transportation and distribution systems, as well as market-related information flows (UNDP n.d.). There is also a lack of production and business skills, meaning poor standards are prevalent. Initiatives that link entrepreneurs and business support services – for example networking opportunities and industry groups – are also missing. Also lacking is “knowledge about targeted markets and product development” (UNDP n.d., p.11).

Businesses are reported to be “in need of vital market research to target their products and services to the market” (UNDP n.d., p.13). Access to credit also remains a constraint to private sector development. According to UNDP (n.d.) a factor contributing to this has been high interest rates. According to one interviewee from a development agency, prior to 2009, bank interest rates were in the order of 20% but have since dropped to around 11%, whereas loans available in the informal/non-commercial market are in the order of 21%. This same key informant believed that a greater challenge to businesses’ access to credit from banks is the difficulty they experience in meeting bank loan requirements such as access to collateral. If they fail to meet these requirements, businesses have to turn to the informal/non-commercial market, which offers rates that may not be affordable.

As the Banking with the Poor Network (BWTP 2010) explains, businesses’ access to collateral assets is constrained by the absence of land laws and an inability to legally enforce agreements.

Entrepreneurial aptitude, experience and incentives

Multiple variables shape a country’s level of entrepreneurial activity. These can include cultural aspects and historical legacies, as well as whether there are opportunities and incentives for income generation through business development and innovation.

To make sense of Timor’s private sector, it is useful to consider the recent development of NGOs and businesses. Because of its long history of occupation, first under a Portuguese colonial administration and subsequently under an Indonesian dictatorship, the country
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Carries a legacy of civil service as the dominant form of employment, and there is a lack of experience in market-driven businesses. After independence, a great number of aid agencies started operating in the country. This led to the formation of local NGOs, and a culture of donor-driven employment. This perpetuated the lack of exposure to a market-driven business culture. As one participant pointed out: “At the time UN was still here, there were [many] NGOs. After that donors are still here. So local NGOs think better before becoming a business.”

More recently, as the country gradually shifted from an emergency situation to development programming, and with infrastructure development remaining a government priority, there has been a boom in the construction sector: “In the past five years there has been a shift from providing services to the malai [foreigners] to more of a construction focus.” However, many stakeholders reported that the private sector is largely dominated by pop-up construction companies that focus solely on responding to government civil works tenders and are not interested in reinvesting in market-driven products or services. One participant reported: “Most businesses perform contracted work but don’t invest in products or services, even in the construction culture.”

Amongst stakeholders interviewed, there were mixed perceptions about Timor’s entrepreneurial culture, and about whether the country is characterised by a lack of entrepreneurial drive, or whether Timorese people really are entrepreneurial and whether, given the right conditions, they are likely to succeed in developing businesses. For instance, one stakeholder saw the Timorese people as having a limited interest in business and as having a risk-averse attitude that limited investment: “I don’t see an urge to maximise income generation, looking for business opportunities... people are risk averse.” This informant suggested that this may be due to a lack of exposure to the market and that the development of a more entrepreneurial culture is a matter of time: “There is a big layer of trauma, no exposure to market... ten years ago Bangladesh was known for being a country of accountants, a risk averse country, but now people see it as a country of entrepreneurship, of micro-finance.” Another interviewee proposed that “most entrepreneurs have been diverted into being government contractors”, and pointed to the strong influence of government investment on the development of the economy.

On the other hand, another stakeholder suggested that entrepreneurship exists but that the right incentives need to be in place to stimulate entrepreneurial activity. One interviewee suggested that improved financial opportunities could provide such an incentive: “my experience is that people are open to innovation... if it can be demonstrated effectively, if they can see the returns...” Another respondent suggested that such characteristics existed and could be tapped: “There are entrepreneurs throughout the country. What they need in terms of incentives... I don’t know. Some people say they are lazy, Timorese won’t innovate, but no, if the opportunity is there they will go for it. If there is money, they’ll go. We just need to engage in the right way. You just have to do it right.” Yet another noted that with respect to agricultural development they had observed the presence of entrepreneurs: “In some cases, [we]... saw the real entrepreneur, making three times more than the average entrepreneur, doing sub-contracting. The bottom line is some humans are entrepreneurs and others aren’t. Human nature varies.”

Beyond these positive views about the potential for entrepreneurism in Timor-Leste, it is also important to note the importance of family relationships as another cultural dynamic reported by more than one interviewee to be relevant to entrepreneurial activity. One of the impacts of family relationships is on the ability of entrepreneurs to reinvest accumulated funds in their businesses: “One of the things is jealousy. Social jealousy and family jealousy of earning too much. Incentives to earn money aren’t there as the extended family pounce on it.”

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2. Sector & Contextual Background

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Private sector development initiatives and limitations
Private sector development features strongly in the Timor-Leste Strategic Development Plan (SDP). As a result, government has a strong focus on strengthening the capacity of businesses. Emphasis has been placed on improving the quality of the business services provided by the construction sector, which is affected by a general lack of technical and business management skills: “Many [construction contractors] didn’t have technical skills but also business skills, particularly cash-flow management [and] couldn’t finish construction... ran out of cash.”

The Institute for Business Development Support (IADE) under the Secretary of State for the Support and Promotion of the Private Sector (SEAPSP) provides training and counselling/ mentoring to registered businesses. Through its expanded network of business development centres (CDEs), IADE also extends these services to the district level, although findings suggest they are in the early stages of development and there are issues around availability and quality that may still need to be addressed.

Another method to address the quality of services provided by the construction sector has been the establishment of a pre-qualification and competitive process for construction contracts, and only contractors registered as businesses can bid for government civil works tenders. However, some interviewees reported weaknesses in the selection processes for contractors, suggesting that well-connected, sub-standard contractors may receive preferred status in these processes: “There is a bit of political influence... procurement has to follow the regulation but there are pressures.” Another interviewee noted: “Unless they have a reputation that can be damaged then they have an incentive. [The] government’s list of contractors, I don’t know how that list is made, who gets to be included. But not a lot of attention given to those kinds of processes, how government selects the list.”

There have also been recent strong efforts to streamline business registration processes. Through work by IADE and others, businesses now have access to a one-stop shop business registration and verification service which has reduced the time required to formally open a business from more than three months to one week, which represents a major improvement to efficiency. This is a recent development and the effect on the numbers of registered small businesses remains to be seen but could be expected to be positive.

Despite the above changes, private sector organisations face many obstacles, and some interviewees were critical to the point of saying that “there’s not much explicit private sector development. NGOs work at a tiny scale with some businesses, and work with farmers is focused on food security rather than markets. People grow, the government buys.”

Amongst the constraints, poor coordination and access to credit were key issues pointed out by interviewees. These are discussed below.

Some interviewees reported that poor coordination between government agencies responsible for private sector development constrains progress: “[the] different government departments relevant to private sector development somehow don’t talk to each other. Coordination is very poor.”

External agencies such as the United Nations Development Programme (UNDP) have given attention to this area, and a recent success has been a signed memorandum of understanding between government agencies with roles in private sector development.

The International Finance Corporation (IFC), a member of the World Bank Group, has through its ‘Better Business Initiative’ been supporting coordination on the side of private sector organisations. For example in 2010, it assisted in the formation of a national chamber of commerce, creating a private sector counterpart to the government and improving the capacity of the business community to lobby the government (IFC 2014). However, according to Willetts (2012, p.19) there is some evidence that “it has not adequately fulfilled this role as yet.”
Businesses’ access to credit is another major challenge within the sector. The government recently transformed its quasi-bank ‘Instituto de Microfinanças de Timor-Leste’ (IMFTL) into the National Commercial Bank of Timor-Leste (BCTL) (UNDP n.d.), but at the time of this research the BCTL was still in the process of developing its financial products. In addition to the BCTL and foreign-owned banks, financial services are also provided by two micro-finance institutions (MFIs): Moris Rasik and Tuba Rai Metin. These organisations are registered as NGOs and therefore are not regulated by the Banking and Payment Authority (BPA), the financial regulatory body in Timor-Leste (BWTP 2010; DFAT 2011). They do not specifically target small businesses and tend to focus on community groups and self-help groups, using group lending methodologies based on the Grameen Bank model (DFAT 2011). IFC has been working with MFIs, providing technical assistance and supporting them to transform from NGOs to private companies (IFC 2014).

Cooperatives have a long tradition in Timor-Leste, and financial cooperatives in particular play an important role in providing access to credit to communities. Their growth is largely a result of a government program that provides equipment and means of production to cooperatives (UNDP n.d.). However, according to Conroy (2006) in the past they had constraints due to low levels of membership, and limited capital and technical capacity, and their accountability is questionable. The Government’s SDP 2011–2013 considers cooperatives as important providers of financial services to support the development of small enterprises in the non-farm sector in rural areas (UNDP n.d.). The National Directorate for Cooperatives (DNC) under the Minister for Commerce, Industry and Environment, is responsible for the policies governing cooperatives and the promotion of cooperatives, and has the mandate to operationalise the cooperative law, which regulates the governance and operation of cooperatives (UNDP; n.d.). However, according to UNDP (n.d), this agency is limited in its resources and its capacity to effectively support the development of cooperatives.

Social enterprise
Our research found the concept of social enterprise to be relatively new in Timor-Leste. Although initiatives that have the characteristics of a social business may exist, ‘social enterprise’ and ‘social business’ were not common descriptors. However cooperatives, as defined by the national cooperative law, have a social goal, and so viable businesses run by cooperatives can be considered social businesses (UNDP n.d.). Several interviewees believed that the Timor-Leste culture fits well with the idea of social enterprise: “my personal feeling is that Timorese have a tight community focus, and there is a natural fit for social enterprise here.” However, research conducted on GMFs as collective, community-based enterprises (Willetts, 2012) indicates that the leadership upon which community cohesiveness depends was not always adequate. Further, one interviewee mentioned that the success of cooperatives was dependent on trust relationships and that these tend to extend only to the level of the extended family, and so successful cooperatives end up functioning more as family businesses rather than cooperatives: “I think there is a trust element... people are quite happy to go into cooperatives with their extended family but are not so happy to go with people they don’t really know... in my past work) cooperatives that were the most successful were the ones that were just extended family, which is more of a family business and not really a cooperative... some broke down because of lack of trust around money but also trust around effort too... who puts the most work... who’s pulling their weight and who isn’t... and maybe you can be more flexible when it’s family because you understand the challenges they are facing.”

This was also emphasised by another interviewee who felt that the cooperative model of organisation does not align with traditional power structures in the country: “usually cooperatives end up...
…[typically] a leader thinks about his group of [ethnic] proximity, his uma kain, and not of peers [who] are all together on this [collective goal].

The interviews also revealed different understandings of the cooperative concept among stakeholders. For example, according to UNDP (n.d.) in their ‘Mobilise Social Business to Accelerate Achievement of Timor-Leste MDGs (2012–2015)’ initiative, there are two different prototypes. One consists of a business “providing a product and/or service with a specific social, ethical or environmental goal”, and other consists of a “profit-oriented business that is owned by the poor or other underprivileged parts of the society, who can gain through receiving direct dividends or by indirect benefits” (UNDP n.d., p. 14). An understanding of social businesses based on the second prototype also seemed to be shared by one NGO whose work was focused in supporting and setting up micro or small enterprises. However, some interviewees did not see these prototypes as social businesses: “Businesses that are run by poor people or involve poor people. I’m not sure if this is social business or private sector development. For me it is just micro-enterprise development.” Suffice to say, the concept is new and evolving in the Timorese context, and is yet to be formalised in terms of any related policy framework that would differentiate a social enterprise from other types of enterprises.

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NOTES
6. Nuclear family or household
7. The definition of social enterprise used in this research, presented in Section 3, is different from this as it does not include the second prototype described.
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).

Our research revealed that engagement of enterprises in the provision of water and sanitation products and services beyond the construction and rehabilitation of water and sanitation infrastructure is in its early stages, and has come into play largely through development partners such as Australian aid programs, UNICEF and NGOs.

To date private sector involvement in the WASH sector has been largely dominated by construction contracting firms responding to government civil work tenders to build or rehabilitate water and sanitation infrastructure, such as the ‘pop-up’ companies described in the previous section.

The line between NGOs and private contractors is often blurred. According to one participant “there isn’t a difference between NGO and private entrepreneur.” Local NGOs often operate as providers to government, donors or INGOs in WASH projects.

Certain types of government funding have required bidding organisations to be legally registered as businesses, so some NGOs have developed parallel or associated enterprises to position themselves to continue to bid for such projects.

Emerging enterprise roles in the WASH sector revealed by our research include:

- **Manufacturing and selling sanitation products and installation services**: International development agencies have supported masons, entrepreneurs and small formally registered enterprises to manufacture and sell sanitation products (see Box 1). Some entrepreneurs offer installation services upon request. According to Empreza Diak (2014), locally made products represent less than 5% of the sales of sanitation products in the country.

- **Retailers of construction materials in urban centres or district capitals**: These are construction materials shops located in Dili or in urban centres such as Liquíçá that offer imported water and sanitation products as part of the wider range of construction products. Sanitation products are a minor part of their target construction market.

- **Retail of water spare parts in rural areas**: these are small kiosks in rural areas supported by an INGO offering imported water spare parts as part of the wider range of kiosk-type products (Figure 3).

- **Organisations providing support to service provision**: These include the case of a local WASH NGO that has been contracted by BESIK to provide post-rehabilitation support to GMFs (see Box 1) as part of an O&M trial to inform the recently proposed initiative ‘A pathway to sustained rural water supply services in Timor-Leste’

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discussed in Section 2 above. In another case a private company has been contracted to provide a similar service.

- **Specific technical assistance:** These are independent individuals paid a monthly allowance or a service-based fee by GMFs to fix certain components of the water system. A slightly different example is a boundary rider (currently supported through an INGO) who is a private individual paid to oversee and support a group of GMFs.

- **Extension services of government training institution:** the National Centre for Professional Training and Employment of Tibar (CNFPE) is a training organisation focused on vocational education for the development of technical skills in civil construction. It has been delivering technical training to the construction sector financed by government and INGOs, as well as to GMFs, and has expressed an interest in extending its services to include auditing of water systems’ functionality and O&M assistance to GMFs or community groups on a fee-for-service basis.

- **Collective social enterprise in the form of an association of GMFs:** The association of GMFs is registered as an association and was not referred to as an ‘enterprise’ by research participants, and is currently financially supported by an INGO. However it has some of the characteristics of a social enterprise. For example, a nominal membership fee is charged in exchange for access to support services that contribute to the social goal of improved water access to communities. Besides technical assistance, these services include procurement, storage and delivery of spare parts. In addition, it runs a parallel business by selling soap and toilet closets to promote hygiene and sanitation. This contributes to a social outcome in itself, in addition to the association’s social goal of improved water access to communities.

It is important to emphasise that many of these roles are highly dependent on the support of development agencies, and thus remain very fragile. This raises questions about their sustainability which are further explored in subsequent sections.
4. FACTORS SHAPING ENTERPRISE ENGAGEMENT IN WATER & SANITATION SERVICES

This section explores the incentives that support or constrain enterprise roles in WASH generated by the institutional structures, power distribution and formal and informal institutions in Timor-Leste’s WASH sector.

The findings are presented in four key areas identified as important to the viability and success of enterprise development in relation to the WASH sector (Gero et al. 2013). These areas are:

a) demand, cost recovery and profitability
b) entrepreneurial outlook, skills and capacity
c) business support services: capacity building and access to finance
d) government support.

It is important to note that findings in these areas are not equally distributed across the different types of emerging private sector roles described in Section 3. For example, the findings provided in this research regarding the elements of ‘demand, cost recovery and profitability’ relate primarily to sanitation entrepreneurs and spare parts kiosks, whereas findings regarding the other elements relate to a broader range of private sector roles in WASH covered during the research process.

A) DEMAND, COST RECOVERY AND PROFITABILITY

Low levels of sanitation coverage offer a promise of profit

Most sanitation entrepreneurs were encouraged to engage in the production and retailing of toilets by international development agencies on the prospect of profits because of high potential demand for toilets due to low sanitation coverage levels: “We thought it was going to be a good thing but no income... they said there would be sales of those goods to all sucos [villages].”

In other cases the awareness of the opportunity of profit from potential demand due to low coverage levels may have also been prompted by the sanitation businesses’ pre-exposure to the WASH sector, as according to our research and WaterAid (2011), both of the sanitation enterprises interviewed had formed out of pre-existing local NGOs that provided contracting services to INGOs or donor WASH programs (see Box 1, page 15).

In such cases, engaging in a business was expected to supplement the income of the associated NGO and render it less dependent on INGO or donor funding. As one interviewee from an NGO noted: “NGOs should promote some of the groups [within the NGO] for business. These can raise funds for NGO to sustain NGO in the future. Otherwise when donors stop NGO can be closed.”

In the case of rural kiosks selling water spare parts, some pre-existing kiosks have been encouraged and supported by an international development agency to add spare parts to their ranges of products, with the agency covering the initial risk for the business by funding the purchase of the initial stock. With the prospect of making additional profit at a very low risk and investment, these businesses may be attracted to this type of initiative. This was the case for a rural kiosk which noted: “we thought of opening because we got support”, and later added that they expected to “earn an extra income to buy other things.”

However, views expressed by one kiosk concerning the role of the supporting INGO suggest that businesses’ motivations to engage in this type of initiative may be more complex, and they may have unrealistic expectations of what INGOs could or should provide: “if it was done properly he should receive a salary. The person [or organisation] who comes and puts the goods here should pay him [the shop-owner] a salary.”

Other motivations beyond profit may be at play

In some cases profit may have been the only motivator for starting a business. For example one participant said: “we started with a purely profit purpose.” In other cases purposive goals around a social cause were found to be at play. This was the case for one sanitation business which emerged from a local WASH NGO involved in CLTS work and which realised that there was a market for affordable and accessible products to address the demand generated by CLTS processes: “After reaching open defecation-free status, people need to...”
HTO is a local WASH NGO contracted by the development agency BESIK to provide post-rehabilitation support to the GMFs managing a water system in Lete Foho, Ermera district. Established in 1999, HTO has a long history of implementing donor-funded projects.

Under its umbrella sit two for-profit businesses that are led by the same person. One provides contracting services to government projects and consultancy services to other organisations. The second sells water supply system construction products. A percentage of the profits are channelled to HTO, ensuring its financial viability, integrity and ability to continue its social mission (see Figure 4).

Another common motivation beyond profit, besides purposive goals, is status (Clark & Wilson 1961; subsequently expanded in Wilson 1989). Research findings indicate that the sanitation sector in Timor-Leste is not associated with prestige and status: “who wants to try and sell a product they are not very sure about it, and not very prestigious?” However, incentives can be created to counteract this attitude. For example, in Indonesia, invitations to sanitation entrepreneurs to share their experiences in other locations and countries have contributed to a sense of prestige and status.

We wanted to make products available at [an] accessible price.

...who wants to try and sell a product they are not very sure about it, and not very prestigious?

4. FACTORS SHAPING ENTERPRISE ENGAGEMENT IN WATER & SANITATION SERVICES

Prolink and Gasis are two formally registered sanitation businesses located in Liquiçá and Dili respectively. They manufacture and sell sanitation products to individual households or government and INGO subsidised sanitation programs.

Both have emerged from pre-existing local NGOs that provided contracting services to INGOs or donor water and sanitation programs. Prolink is owned by the same people as the local NGO Malaedoi, which is WaterAid’s local implementing partner for water and sanitation projects such as CLTS. Gasis is linked to the local NGO Bee Matan Wallia (BMW) which is contracted by the government of Japan to rehabilitate the Atauro island water supply system.

Both businesses have also received various types of support from development agencies. For example, both have been provided with the toilet pan mould, and have received financial and technical training support.

BOX 1: SANITATION BUSINESSES

Box 2: amalgamation of organisational types for the possibility of social enterprise

FIGURE 4 AMALGAMATION OF ORGANISATIONAL TYPES
However, low demand compromises business viability

Low levels of sanitation coverage in rural areas of Timor-Leste indicate that there is a large potential market for sanitation products and services, but our findings indicate that actual demand remains very low. This is clear from the lack of sales for most sanitation businesses and masons, and the low levels of interest found by some entrepreneurs looking to operate in rural communities: “I have six friends, they went to three sucos [villages], they tried promotion but nobody said when are you going to bring it [toilet products] to us?”

In some cases, this has led people who have received training in sanitation marketing to focus on other types of businesses instead: “Men attended training but now doing something else, like transport assistant. Another now works cutting recycled metals, as a blacksmith. This is easy to sell.” Cases of entrepreneurs who had reached a saturation point were also reported: “there are two successful cases in Los Palos but [their businesses] reached a saturation point. Couldn’t find more households interested.”

Low demand for water spare parts also appeared to be a challenge faced by rural kiosks. One INGO voiced an interest in engaging with more established kiosks but was unclear as to whether such kiosks would see water spare parts as worthwhile compared to their current products, since currently few GMFs regularly invest in maintaining water systems and purchasing such spare parts. GMFs typically struggle to cope with water system breakages, fund collection and spending (Willetts 2012), and there is a tendency to “repair systems with rubber bands and stop-gap measures” due to a lack of technical experience and a fear of breaking something, and a “reluctance to spend saved GMF funds on small or large system repairs.” (Willetts 2012: p.7). This is in line with kiosks reporting that purchases of spare parts were sporadic: “people are not coming to buy every day, only when it [water system] breaks.” In fact it is likely that people do not buy new parts even when their systems break.

Product development remains a key challenge to raising consumer interest in sanitation products

Various factors seem to contribute to low demand for toilets but product development was repeatedly noted by various stakeholders as a key issue. Although progress has been made, toilet products and services currently offered by sanitation entrepreneurs and retailers do not yet meet the potential market’s needs and aspirations. As Empreza Diak (2014, p.13) notes, toilet products that are “tailor made, affordable, with low water consumption and easy to transport” are missing.

Installation services are only offered by some entrepreneurs at an added cost upon request, and thus are seen by the consumer to increase the cost. Further, the sanitation superstructure is not included in the package of products and services offered by most sanitation businesses, and this also represents a significant additional cost to the consumer.
householder as emphasised by one entrepreneur. As the study conducted by Empreza Diak (2014, p.32) reveals, “even using local materials, the impact of the superstructure in the cost of building a toilet is extremely significant”. For example, one sanitation business offered toilet packages for between $500 and $750. These included a brick based superstructure and installation services. Much cheaper constructions than these are possible, but unless made from locally available materials, they are also costly.

Our research found that sanitation entrepreneurs have not ventured into product development/design themselves and tend to be reliant on international development agencies for product innovation, as noted by one interviewee: “We haven’t gone into product development. Just trying what [the INGO] exposed us to.” Given that many international agencies also do not have significant experience or expertise in product development and design, this area has been challenging. The incentives for such agencies lead them to focus on aid delivery to provide tangible outcomes for beneficiaries, whereas product development is an in-depth research and development process without such immediate outcomes. Given the broader nascent status of Timor-Leste’s private sector, it may therefore make sense to focus on imported products.

**High transportation costs affect product affordability**

The country’s hilly geography, combined with poor road infrastructure and limited transport services substantially increase the transport costs of toilet products. As one interviewee said: “The product is expensive. Clients say ‘we will pay in instalment’ but this is a problem for us. Transport of materials using existent transport is a high cost... [we] need to calculate distance versus number of toilets ordered, and period of payment clients will payback with credits. Sometimes sums don’t add up.”

Enabling groups of customers to purchase latrines in a coordinated fashion could help reduce the cost of transport. However, currently the potential for economies of scale is not being realised, since the purchase of latrines takes place on an individual basis.

Transport costs also have a major impact on the profit margin rural kiosks are able to make from selling spare parts normally sourced from Dili. In the case of one kiosk, this cost has been subsidised by an international development agency.

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**Figure 6: Truck transporting construction materials**

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The product is expensive. Clients say ‘we will pay in instalment’ but this is a problem for us. Transport of materials using existent transport is a high cost.
Our research findings suggest that there is little price diversification in transport services. As explained by a spare parts kiosk: “Anguna drivers all maintain the same price. They know each other. They are not really competing for passengers. When they are full they can go. Wait for people to fill in car.” This may be a reflection of a lack of competition in the market or of collusion, in which case there may be no incentive to reduce transportation costs. Or transportation may simply be expensive due to fuel costs and poor quality roads.

**Location, location, location**
The location of businesses was mentioned as an important factor influencing sales and business operations. For example, one sanitation entrepreneur expressed dissatisfaction with the current location his business, not only in terms of visibility to potential clients but also in terms of storage: “This place is not strategic to run a business. [You] can’t even bring a car here.”

Another kiosk owner selling water spare parts mentioned that having his business next to a school was an advantage as it provided more visibility for his products to potential clients such as school staff and parents coming to drop off or pick their children. As the school served four villages, the kiosk targeted potential clients from a wide geographical area.

**Promotion of products, another barrier to consumer demand**
Lack of promotion or poor promotion of sanitation products was another factor impacting the level of sales of these products. As WaterAid (2011, p. 2) noted, “communities lack information as to where they can get toilet pans and how much it cost.”

The same type of challenge was found with water products, with a lack of information potentially leading to misperceptions about the costs of products. Our findings indicate that the profit margin kiosks are making from selling spare parts is very low. In cases where their transport costs are subsidised by an INGO, they are able to sell at cheaper prices than in their closest urban centre. However, as one interviewee noted: “there is a perception that those [spare parts] are expensive, buyers think ‘I can get those [spare parts] in Dili for half price next time I go there’.”

**Promoters or sales agents, hard to find**
Finding people interested in forming partnerships with sanitation businesses to promote their products and services and/or act as sales agents appeared to be difficult, as noted by one INGO supporting sanitation entrepreneurs: “[I] can’t find anyone that seems to want to work on a commission base.” This is not surprising given the low manifested demand for sanitation products discussed earlier, and does not appear to arise from a lack of familiarity in Timor-Leste of working on a commission basis. As one interviewee noted, “there are people in Dili working on commission for other types of products such as herbal remedies and teas, and mobile phone SIM cards.”

One entrepreneur found there was little interest from village heads in promoting his products to their communities: “We met with chefe suco [village leader], got together with the chefe aldeias [sub-village/hamlet leaders]. They said you can put these to the community but we can’t force the community to buy them.”

In the cases where sanitation businesses had emerged from local NGOs, the findings revealed that some rely largely on staff from the parent NGO. Given that they already receive a salary from the NGO, the low profit margins from toilet sales may not provide sufficient incentive for NGO staff to act as sales agents on a commission basis: “There is a base salary, and on top the commission... but the businesses are still linked to an NGO. [Staff] don’t seem to really see it as the way forward.”

**A legacy of subsidies has left an expectation of ‘free’ water and toilets**
Timor-Leste has a history of subsidised toilets by government and development aid agencies, extending up to recent times. Water has also been available freely in the environment or service costs subsidised in urban areas. This means there is an expectation of free water and toilets from rural communities which hinders willingness to pay for the products and services offered by water and sanitation enterprises: “there
There is a mentality within communities that everything is for free. Why should I pay for a toilet if government can provide?

Sanitation businesses interviewed were faced with this challenge when trying to promote their products to communities: “I tried to sell in two sucos [villages]. They asked ‘why are you bringing these things to us?’ They even got mad... [and said] ‘these things, if we wait government will give it to us.’” One interviewee reported: “I did promotion in a certain suco [village], they said ‘you are bringing things from the government and selling it back to us.’” Such accusations can have the effect of further discouraging potential entrepreneurs.

Entrepreneurs cannot rely on local government institutions to link them to customers

Perceptions around engagement between government and businesses, influenced by a long history of subsidies, may limit potentially viable partnerships between these two actors. It was noted that in rural communities government is sometimes perceived to be wealthy, and partnerships between government and businesses can be associated with government corruption: “We encouraged chefe suco [village leader] to be a sales agent and get a commission. But sometimes it’s difficult. People will think chefe suco [village leader] is manipulating money... if sanitation goes with government clothes, people say no. Government has lot of money... if you really want to achieve ODF, maybe an NGO, community leader, not a direct line of government. That’s because of the history of subsidy.” Therefore, village leaders may be hesitant to act as promoters or sales agents of toilet products sold by sanitation entrepreneurs.

B) ENTREPRENEURIAL OUTLOOK, SKILLS AND CAPACITY

There are few incentives for construction contractors to invest in market-driven business opportunities

With government and some donors focused on infrastructure development there have been significant business opportunities for construction companies. As long as such opportunities exist, there is little incentive for these companies to invest in market-driven opportunities. Such opportunities are unattractive as they involve uncertainty with respect to products and sales and thus include an element of risk-taking, particularly given the low level of the market economy outside Dili. As explained earlier and emphasised by one interviewee, the construction sector is dominated by pop-up companies whose objective is to “win [government] contracts and make some money... having to sell toilets to households is hard work. There are a lot of opportunities in contracting.”

Retailers have little awareness of, or interest in, investing in the rural sanitation market

According to research on Timor-Leste’s rural sanitation market (Empreza Diak 2014) the lack of interest in becoming involved extends to construction retailers. Although these enterprises sell toilet products, these products are a minor part of a larger market and are not part of their core business. Empreza Diak (2014) found that even though installation services are sought by people buying sanitation products from them, retailers were not interested in providing such services. As the Empreza Diak study explains, construction retailers have very limited awareness of the market potential for sanitation products and services. Further, they “work and prosper in a government driven market, feeding existing demand from Dili with imported goods.” Therefore, they have little experience in “promotion, product development, sales and distribution to rural areas” which limits their capacity to expand to the rural sanitation market (Empreza Diak 2014, p.56).
A culture of employees versus entrepreneurs

The prevalence of government- and donor-led sources of employment discussed in Section 2.2 has implications for the availability of the entrepreneurial skills and drive needed to establish viable sanitation businesses.

For example, government- and donor-led employment is likely to provide little opportunity to develop the financial management skills needed to address the cash-flow challenges that the sanitation businesses interviewed were facing: “we have 25 packets of toilets already installed. People have not paid yet… we have cash-flow issues. Our group goes to collect money but they say wait for the coffee harvest.”

This can be a particular challenge in the case of sanitation businesses that rely largely on staff from a parent NGO from which they emerged. Given their history of employment, the NGO staff may lack the entrepreneurial skills to support such businesses, or to succeed in business themselves. As one interviewee put it: “They are employees but not entrepreneurs… they don’t have what it takes. They are not businesses, they are staff.”

C) BUSINESS SUPPORT SERVICES: CAPACITY BUILDING AND ACCESS TO FINANCE

Current capacity building is not geared towards small-scale WASH-related enterprises

As mentioned earlier, as part of government initiatives to improve services, IADE works to develop support services to businesses. These services include business management training, counselling and mentoring.

However, it appears that IADE retains a strong focus on large-scale contractors, and does not tailor its support services to the needs of small sanitation businesses: “IADE is geared towards that kind of company [big construction contractors].” Infrastructure development is one of the government’s investment priorities and IADE’s focus on construction contractors is consistent with this focus.

In terms of support to smaller enterprises, our findings suggest that although IADE is able to provide its services at the district level through its expanded network of Business Development Centres (CDEs), these are in the early stages of development and there may be some districts where such services are not yet available: “IADE has CDEs [business development centres] but are just rolling them out. [These are] to be [available] in each district but not yet, in process.” One interviewee also indicated that there may be issues around reliability that need to be addressed: “they are supposed to do mentoring but sometimes they call and say they are busy.”

Finally, MFIs have announced their intention to provide training opportunities in financial literacy for enterprises and community groups (such as GMFs). However, this appears to be planned rather than practised at any scale, and requires a sustainable financing model to function.

Enterprises don’t yet value training opportunities

On the other hand, improvement of business skills within the private sector depends also on enterprises recognising the value of the capacity building opportunities available, and actually taking these up and applying the new skills they acquire to their businesses. Our research revealed that in Timor-Leste’s private sector, this remains a challenge. For example, a government employee noted that the pop-up contractor companies who currently dominate the construction sector, and whose focus is to respond to government civil work tenders or donor aid projects, often fail to recognise the value of these training opportunities: “There is a project mentality, only the real entrepreneur values the training.” This perception within the private sector may only change as a result of great exposure to, and strengthening of, a market-based economy and business competition.

Further, with a long history of donor aid assistance, including assistance for training, it was noted that some businesses, particularly micro-businesses, may be resistant to the idea of paying for business support services or training: “Electricity and water for free, all is for free. Part of mind-set of people in rural
areas... it’s very difficult to tell people to pay... during time of UN mission, NGOs give things and training for free.”

Although IADE’s support services rely on funding from the government, these are provided to businesses on a fee-for-service basis, except for start-up enterprises that are eligible for free training support. This approach is based on the belief that enterprises need to be educated about the need to make financial investments to improve their businesses, and that requiring them to make a financial contribution for this training encourages trainees to be more committed to their businesses: “We want to educate them [enterprises] to pay something. If they pay something they will attend to their responsibility.”

**Ability to invest is constrained by access to credit**

As discussed earlier, the inability of small businesses to obtain finance remains a major obstacle to private sector development. Financial institutions, including national banks and MFIs, are failing to provide affordable loans to small businesses. This was clear from the responses of the sanitation businesses interviewed. A typical comment was: “We don’t want to borrow money because of the interest rate.”

One MFI interviewed mentioned the extensive range of financial products offered: loans ranged from $50 to $10,000, and interest rates ranged from 1.5% per month (for $50-$300 loans) and 2% per month (for $400-$5000 loans). Lower interest rates could only be offered if donor funds were also involved. This MFI had provided loans for energy products (solar lamps) in a pilot scheme with 1.5% interest, but had to raise this rate to 2% to cover costs.

Lending intuitions can be unsure about the commercial viability of sanitation businesses and this influences their responses to loan requests for this type of businesses. For example, a WASH-related business was considered by UNDP for financial support from its social fund as part of the initiative to ‘Mobilise Social Business to Accelerate Achievement of Timor-Leste MDGs’. Funding from this initiative is intended to provide credit to households for purchasing toilet products through an MFI as illustrated in the Figure 7. However, UNDP has found that one particular MFI was not interested in providing this service: “When we talked with the MFI, they are not interested, say it doesn’t work because the mentality of communities is everything is free. Plus all difficulties with transport, etc. Latrines are very difficult to promote as sustainable business at this stage.”

**FIGURE 7 FINANCING MECHANISM TO SUPPORT A SANITATION BUSINESS**
D) GOVERNMENT SUPPORT

We found that government has not been proactive in supporting enterprise engagement in WASH services beyond the construction of water infrastructure. As discussed in Section 2, private sector development initiatives have had a strong focus in improving the quality of the services provided by construction contractors, and thus the link between WASH agencies and private sector development agencies such as IADE, has been limited to this construction stage.

Our findings revealed two main factors that help to explain this. With the private sector still in an early phase of development, government is not yet convinced that the private sector has the capacity to deliver public services, including WASH services: “if you ask if companies exist, companies exist, but if appropriate to provide service... quality not reliable. Risky to contract these.”

One government staff member also voiced concerns around communities’ expectations and willingness to pay for these services. This reluctance to pay has implications for the commercial viability of the enterprises that provide these types of services: “The problem depends on our communities. There needs to be a stronger regulation to regulate community to follow and to pay. If not, then small businesses can’t function with no money coming in. People are not yet accustomed to paying, [they] expect the state to provide.”

An additional issue shaping how enterprises engage specifically in water services relates to the capacity of government to oversee private sector performance in water services at the local level. Such oversight needs to involve government staff at the sub-district level, namely the SDFs. Engagement with enterprise would add a new dimension to the SDFs’ current role and attention would need to be directed to ensuring SDF capacity to perform any new duties.
Our research revealed growing interest from CSOs and development partners in the potential role enterprises may play in WASH services. A common perspective amongst CSOs was that engaging with or supporting enterprises could help avoid dependency of communities on CSOs and could also address sustainability issues in the sector. Of the CSOs and development partners interviewed, some were experimenting with different ways to engage with enterprises. Others had not attempted to do so, and were either still broadly supportive of the idea, or were quite cautious and concerned about the low level of overall private sector development. Yet others were open to engaging with enterprises, but hadn’t given the issue much consideration: “it is a good idea... [we] don’t have anything against that... for us here, [we] haven’t given that a thought as a strategic thinking.”

Examples of CSOs support for enterprise development included:
- training of entrepreneurs and assisting in setting-up businesses
- providing seed funding or small loans
- linking GMFs with spare parts shops or retailers
- assisting with promotion of products (e.g., using publicity mechanisms, such as radio and canvassing village markets or sales events)
- supporting product development and design
- subsidising transport of materials to rural areas.

A wide range of factors and incentive structures influenced if and how CSOs engaged with private enterprises. They included:
- stage of development of the private sector
- historical perceptions of businesses
- perceptions of the alignment between business aims and social aims
- evidence of the effectiveness of market-based approaches in the WASH sector
- business expertise within CSOs
- donor policy and reporting requirements
- sources of funding/funding models
- development approaches
- government support and coordination within the sector.

Each of these factors is discussed below.

Early stage of development of the private sector

Although CSOs supported the idea of the private sector playing a role in WASH services, we found that some were cautious about engaging with private enterprises due the lack of private sector development and the lack of skills and competition within the market: “[The] private sector doesn’t exist. There will be some contractors but I’m not convinced there are the skills. Also there are budget implications... no competition, so no drive for competence. There are construction companies, but these are focused on urban not rural.” This was further emphasised by another CSO: “In this country, the idea of entrepreneurial skills, just to understand how business works is lacking.”

A lack of trust for private construction contractors was also noted amongst the CSOs interviewed: “Private sector can get away with poor quality... enterprise objective is mostly to make money. Any contractor here is only doing it for money. Quality is not highest in their agenda.”

This also means that CSOs with an interest in engaging with private enterprises may lack suitable firms to rely on or engage with. For instance the lack of existing enterprises means that CSOs who were supporting enterprise development have instead relied on small businesses formed by local WASH NGOs. As discussed earlier, these may lack the entrepreneurial drive and skills to succeed as businesses.

Negative perceptions of businesses

Historical perceptions of businesses influence how they are currently regarded by communities and by the traditional owners of water sources used in water supply systems. One interviewee noted for example that “a company getting money from government to support a GMF may impact willingness to pay tariffs” as traditionally, community culture is based on concepts of solidarity and sharing, and therefore profiting from others is not well regarded: “NGO is good. Business is bad... everyone is employed by NGOs. People aspire to form an NGO not a business.”
5. FACTORS SHAPING CSO ENGAGEMENT WITH ENTERPRISES

Keeping ‘business’ and ‘development’ work separate
Following on from this, and from perceptions by CSOs and others that “enterprise objective is mostly to make money”, a lack of alignment between business aims and social aims has ramifications for how CSOs engage with enterprises. One CSO mentioned the importance of separating the business activities of the organisation from other work: “NGO will provide technical support, training but people providing business should be separate... support from donors should also consider this, people working for NGO... people working for business should earn as much as they sell, no fixed salary like NGO.” This is an important point with respect to the hybrid NGO-business model. In this model, the entity is a social enterprise, and yet in practice it combines two differently functioning organisations, raising complex and difficult questions around employee conditions.

By contrast, another interviewee suggested that fluid arrangements between an identity as a CSO or an identity as a business is both possible and useful, but suggested that the existing models of combining the two organisational types have missed the mark: “What’s wrong about providing good service [as an enterprise] and [to] stop being NGO. Or set up side business and still keep NGO. But maybe many [local CSOs] haven’t done because [they are not] not exposed, [there is no] training to do that. The ones that are doing that haven’t been doing with right arrangement.”

Limited evidence of the effectiveness of market-based approaches in the WASH sector
Some CSOs demonstrated a cautiousness concerning market-based approaches, due to limits in the available evidence base on its success in other countries, and particular concerns about its place in the current context of Timor-Leste.

As such, some CSOs preferred to continue following community-based models instead, despite uncertainty around its sustainability: “our ethos is based on the community management model. But whether this is the best option is not clear. There is some evidence from Africa of private sector involvement working well but not many examples.

Community ownership model will play along [in] the game for the time being.”
Another CSO reported that they intended to follow a market-based approach to sanitation but were reluctant to initiate such a process due to uncertainty in the commercial viability of toilet products available in the market: “we’re late at starting this because we’re not sure what it will do. [We’re] trying to get around the transport issue...[but] can’t at the moment see past that. [Also we are] having problem in finding products... we would like to see them [communities] with a choice, to have that affordable toilet that would last seven years rather than six months, clean it and use it regularly. But it’s the choices we’re struggling with.” Another CSO voiced similar concerns: “Our perception is that we don’t think there is good business prospect. We would support the proposition [of supporting enterprise] if it was really sustainable – but we don’t see it happen.”

Lack of business expertise within CSOs
Lack of business expertise within the CSO sector was well recognised by various stakeholders as a key constraint to the sector’s ability to implement or support market-based approaches. This is emphasised by Empreza Diak (2014), who notes that this expertise gap extends to a wider range of development stakeholders, including government agencies. As one interviewee noted: “it is not in their [CSO’s] DNA to deal with a business and marketing focused problems that require intensive market and business expertise and vision.”

Most INGOs interviewed were quick to recognise this themselves: “we don’t know what we’re doing in terms of market development. We’re an NGO... market development, value chains, product development, it’s not NGOs’ bread and butter.”

There was a view that to address this, stakeholders in the development sector needed to establish “partnerships with entities that have [business] skills.”

One interviewee was particularly critical of CSOs working to support enterprises within livelihood programs: “There is some arrogance in actually looking at...
On the other hand, it was noted that CSOs’ strengths in community development and facilitation skills have an important role to play in the development of markets in rural areas and in ensuring the poor are reached. For example, community development and facilitation skills are important for conducting the “resource and wealth ranking exercises amongst communities and households” that are needed to inform government financing and the development of target subsidies.

**Vicious cycles of funding models**

Some CSOs’ funding models are largely driven by donors and so they are subject to limitations imposed by donor agendas and preferences. Consequently they may not have much flexibility to design projects or programs based on their own field experience and observation of problems. As one interviewee put it “there is a funding line available and then they [CSOs] come here and see how to use it ... they [CSOs] have the money before the problem. [Their work is therefore] structured by the grant.”

This contrasts with CSOs who rely on other sources of funding such as fundraising. These CSOs may be less subject to external influences from donors but are subject to other limitations. For example, one CSO who drew on sponsorship funds noted that their development approach hasn’t been subject to “any large influence from outside” and that instead, government policy had a greater influence on what they did. However, this NGO pointed out that under this type of funding it is harder to cover overheads and office expenses. If we have a grant, government or donor, we can negotiate... sometimes it’s not enough to bring in technical people. When have grant, it brings in more capacity, more technical capacity.”

**Donor policies and expectations**

Donor’s focus on targets and reporting, and CSO perceptions of donor expectations, were found to significantly influence CSOs interest and motivation to innovate and engage with enterprises. Several CSOs felt that donors are focused on tangible results or targets (e.g. number of new systems installed) rather than on the long-term sustainability of interventions: “Donors, they want new systems, [they are] not worried about the O&M model. [They] don’t incorporate capacity building side for O&M. They want to know they installed twelve new systems and not six [new ones] and renovated six.” As one CSO put it: “You mostly can’t get away from that. It’s the donors’ game, [the] numbers game. [We] still have to meet those targets or at least justify why not.”

In such an environment, many CSOs reported that development of enterprises, with its uncertain results, was difficult. For example one CSO had innovative ideas about how to address the spare parts supply chain for water systems – by working with all the actors along the chain, including customs and importers, and by incorporating technical advice into sales of spare parts. However this CSO considered such work difficult to fund, since it represented such an atypical project approach.

Other CSOs suggested that CSOs haven’t been proactive enough to question donor requirements and push back against them. For instance one interviewee felt that CSOs should challenge this situation and that CSOs needed to contribute to a more sophisticated dialogue about aid with donor agencies: “NGOs are too passive, don’t want to question.... we need to get to a way more mature position. [NGOs] should openly discuss and not have funding compromised.”

There is also evidence to suggest that donors might not be as rigid as some CSOs perceived. For instance, one...
marketing as an approach used by CSOs to increasing coverage: “[we] thought about commercialisation as a model to increase coverage.” Government recognises the challenges involved in ensuring the viability of sanitation enterprises and is working with BESIK to follow up on recent research on how to increase the scale and effectiveness of the use of private enterprises to improve sanitation.

It is important to note however, that whilst the national basic sanitation policy focuses on non-subsidy approaches, government is committed to providing subsidies to vulnerable households. In the past subsidies were not well targeted and therefore undermined the outcomes of demand-creation initiatives by CSOs and government. More recent work has aimed at addressing issues around the identification and targeting of beneficiaries. This has involved coordination with other ministries looking after social issues, such as the Ministry of Social Solidarity, in the implementation of these subsidies, in order to ensure such subsidies do not undermine either PAKSI or market-based approaches. Clarification of a targeted subsidy approach may serve to reduce uncertainty for CSOs in enabling environment for successful sanitation marketing approaches.

Another aspect to government’s influence on CSO support to enterprise is visible in CSO’s conscious effort to present palatable solutions to government. In relation to the social enterprise constituted by the GMF association (discussed in Section 2), CSOs perceived it important that government did not see the GMF association as an advocacy organisation lobbying government for services, and that the association should instead be seen as a useful organisation providing support to its members “that could potentially in the future earn government support including financial support to keep it running.” It was due to concerns such as these that the organisation removed the word “federation” from its name and called itself a ‘GMF association’.

CSO’s also pointed out ways in which public sector funding could be used...
strategically to assist enterprise development, but that innovation in this area was not yet apparent. There was also a view within CSOs that some kind of support to avoid enterprises carrying risk is necessary: “For people to risk a lot of stuff without even seeing the future is very hard. You [have to] get the person to try without risking a lot.” Some CSOs assumed that reducing enterprise risk could only be achieved through directly subsidising initial investment costs. However, other possibilities such as some form of insurance could also be explored, and both could potentially be supported through public funding investments.

Current levels of coordination within the WASH sector also affect CSO engagement with enterprise. Some research participants noted weak coordination and lack of collaboration within the sector. Although there is some level of coordination between CSOs, this appears to be limited to exchanges of information and is not necessarily focused on joint policy engagement and alignment. For example, one CSO noted that there is a tension within the sector between a humanitarian approach focused on delivering rapid solutions that improve the availability of infrastructure to communities through the use of subsidies, and a development approach that draws on the enterprise or private sector roles and is focused on generating long-lasting solutions.

Direct coordination between CSOs and government was particularly weak, as government is not always engaged in the programs carried out by some CSOs, and is not always informed about these programs: “there are some NGOs doing work we don’t know about.” As explained by another interviewee, “NGOs are very siloed. [They are] not generally about partnership with government, by nature.” This has implications for trust building between government agencies and CSOs and for the commitment of different levels of government to supporting new initiatives proposed by CSOs.
6. CONCLUSIONS & IMPLICATIONS

This research found that the current social and political economic context in Timor-Leste presents a challenge to organisations and donors supporting market-based approaches to WASH, and that a more favourable environment for enterprise involvement in WASH service delivery may not evolve for some time. Nevertheless, government's increased investment in WASH sector service delivery and its increased interest in private sector development, as well as evolving community demand, provide space and impetus for steps to be taken to address the constraints identified in this paper.

This research found examples of emerging enterprise roles in WASH service delivery. These included enterprises manufacturing, selling and installing sanitation products, selling construction materials and spare parts for water systems, providing technical and social support to service provision, and providing targeted technical assistance. However, these roles have been largely initiated through external development agencies experimenting with responses to sustainability issues in the sector. Most of these enterprise roles were found to be highly dependent on external support from these agencies and thus remain fragile. This raises questions about their viability if such support is withdrawn.

Low demand for products and services offered by enterprises has resulted from a history of subsidised toilet and other services from government, CSOs and donor agencies. There is an expectation that services will continue to be free. In addition, the civil service is the main employer in Timor-Leste. This means that entrepreneurial characteristics, whilst they do exist, are a new and latent potential. Lastly, whilst in other countries links between government and enterprises have assisted enterprise development, in Timor-Leste such links are problematic as they are perceived to be associated with corruption.

Timor-Leste's early stage of private sector development is a difficult starting point for the involvement of enterprises in WASH service delivery. Much of the supportive infrastructure that underpins private sector development, including roads and transport, is not yet developed in rural areas of the country. Other factors affecting enterprise viability include low access to credit and limited capacity building opportunities to improve skills in product and market development. Although private sector development features strongly in the government's Strategic Development Plan, current efforts have focused largely on the construction industry, and there is limited coordination across different government departments responsible for private sector development. In addition, contradictions arise from government's efforts to improve the enabling environment for the private sector while at the same time continuing to provide free and subsidised goods, including in the WASH sector.

Investigation into the incentives shaping CSO engagement with enterprises demonstrated that CSOs were exercising caution due to limited evidence of the effectiveness of market-based approaches for the WASH in Timor-Leste so far. Other factors affecting if and how CSOs choose to work with enterprises included perceived limitations imposed by donor agendas and preferences, including a focus on tangible results, which has given some CSOs the sense that they have little room to experiment with this type of approach.

A range of different types of enterprises are involved in the WASH sector. They include private and for-profit enterprises, and hybrids of NGOs and companies. These hybrids fulfil a social purpose as well as livelihood development and consisted either of individuals or of collectives. These hybrid organisation types are a response to availability of and conditions on government contracts and donor funding and early attempts at market-based development. There is a need to examine how hybrid organisation types might provide access to and inspiration for new business models that could service the WASH sector. Harnessing combined social and economic goals provides a new approach to enterprise development and a path forward for WASH as a social sector. Emergent literature in the business sector provides examples, models and design processes to support the development of
innovative business models (Osterwalder and Pigneur 2010).

More broadly, the challenge going forward is to identify the points of support, both technical and financial, that will enable enterprise-related solutions to contribute to WASH challenges in Timor-Leste, and enable a lifting of the constraints that exist in the enabling environment. There is a clear need for donors or government to invest in sanitation product development, since there is currently little incentive for existing actors to make significant investments in the current climate of low demand and high transport costs. Another area requiring attention is analysis of the transport sector and strategies to address systemic issues that affect not only the WASH sector, but other areas of development. Lastly, ongoing government interest, support and monitoring of innovative approaches to test and trial enterprise involvement in WASH will remain important in shaping enterprise roles into the future.
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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 33). 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”

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<th>ENTERPRISES</th>
<th>CSOs</th>
<th>GOVERNMENT</th>
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FIGURE A1 ORGANISATIONAL RELATIONSHIPS INTERROGATED IN THE RESEARCH
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/invoke? 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?

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<tr>
<th>TABLE A1 QUESTION GUIDE FOR SEMI-STRUCTURED INTERVIEWS</th>
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<td><strong>A)</strong> Assessing some of the broader features of the context:</td>
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<tr>
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<td>- What are the objectives of the various actors involved?</td>
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<td>- What are the major sources of funding?</td>
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<td><strong>C)</strong> Assessing particular action situations:</td>
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<td>- What do CSO–PE interactions look like/invoke? What is the set of allowable actions for each actor?</td>
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<td>- 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)?</td>
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<td>- What information is available to actors about their interaction?</td>
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<td>- Costs and benefits: Has the CSO–private enterprise collaboration led to improved WASH service delivery? According to whom?</td>
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<td>- What benefits (to the firm, to the CSO, or to others) can be achieved as a result of various group outcomes?</td>
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<tr>
<td>- Is CSO–private sector engagement viewed as effective and efficient by service users?</td>
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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**

- **Bank/MFI**
- **Association of Sanitation Entrepreneurs**
- **Civil Society Organisations**
- **Private Enterprise (Sanitation Entrepreneur)**
- **District Dept. of Health (DHO)**
- **District Dept. of Health (Puskesmas-Sanitarians)**
- **Subdistrict Dept. of Health (Puskesmas-Sanitarians)**
- **Community Health Facilitators**
- **Service Users**
<table>
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<tr>
<th>Acronym</th>
<th>Description</th>
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<tr>
<td>ADB</td>
<td>Asian Development Bank</td>
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<tr>
<td>BCTL</td>
<td>Commercial Bank of Timor Leste (Banco Comercial de Timor Leste)</td>
</tr>
<tr>
<td>BESIK</td>
<td>Bee, Saneamentu no Ijiene iha Komunidade (Australian Government bilateral programme of support to water, sanitation and hygiene)</td>
</tr>
<tr>
<td>BWTP</td>
<td>Banking with the poor network</td>
</tr>
<tr>
<td>CDE</td>
<td>Business development centre (Centro de Desenvolvimento Empresarial)</td>
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<tr>
<td>CLTS</td>
<td>Community Total Led Sanitation</td>
</tr>
<tr>
<td>CSO</td>
<td>Civil Society Organisation</td>
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<tr>
<td>DAA</td>
<td>District Water Supply Departments (Departamento de Abastecimento de Água)</td>
</tr>
<tr>
<td>DFAT</td>
<td>Department of Foreign Affairs and Trade</td>
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<tr>
<td>DNC</td>
<td>National Directorate for Cooperatives (Direcção Nacional de Cooperativas)</td>
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<tr>
<td>DNSA</td>
<td>National Directorate of Water Supply (Direcção Nacional dos Servicos Água)</td>
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<tr>
<td>DNSB</td>
<td>National Directorate of Basic Sanitation (Direcção Nacional de Saneamento Basico)</td>
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<tr>
<td>GMF</td>
<td>Grupu Manejamento Fasilidade (community water management committee)</td>
</tr>
<tr>
<td>IADE</td>
<td>Institute for Business Development Support (Instituto de Apoio ao Desenvolvimento Empresarial)</td>
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<tr>
<td>IFC</td>
<td>International Finance Corporation</td>
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<tr>
<td>IMFTL</td>
<td>Institute of Micro finance of Timor Leste (Instituto de Microfinanças de Timor Leste)</td>
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<tr>
<td>INGOs</td>
<td>International Non Governmental Organisations</td>
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<td>MDGs</td>
<td>Millennium Development Goals</td>
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<td>MFIs</td>
<td>Micro finance institutions</td>
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<td>MoED</td>
<td>Ministry of Economy and Development</td>
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<td>MoH</td>
<td>Ministry of Health</td>
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<td>MOP</td>
<td>Ministry of Public Works (Ministério das Obras Publicas)</td>
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<tr>
<td>NBSP</td>
<td>National Basic Sanitation Policy</td>
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<tr>
<td>O&amp;M</td>
<td>Operation and maintenance</td>
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<tr>
<td>ODI</td>
<td>Overseas Development Institute</td>
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<tr>
<td>PAKSI</td>
<td>Community Action Plan for Sanitation &amp; Hygiene</td>
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<tr>
<td>RWSSP</td>
<td>Rural Water Supply and Sanitation Program</td>
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<tr>
<td>SAS</td>
<td>District Water and Sanitation Services (Servicos de Água e Saneamento)</td>
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<td>SDFs</td>
<td>Sub district facilitators</td>
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<tr>
<td>SDP</td>
<td>Strategic Development Plan</td>
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<tr>
<td>SEAPSP</td>
<td>Secretary of State for the Support and Promotion of the Private Sector (Secretário de Estado para o Apoio e Promoção do Sector Privado)</td>
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<tr>
<td>UNDP</td>
<td>United Nations Development Program</td>
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<tr>
<td>UNICEF</td>
<td>United Nations International Children's Emergency Fund</td>
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<tr>
<td>WASH</td>
<td>Water, Sanitation and Hygiene</td>
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<tr>
<td>WEDC</td>
<td>Water, Engineering and Development Centre</td>
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