



Financing the Informal Entrepreneur: Recognizing Business Opportunities in Sanitation

This paper provides information about risks and opportunities of financing informal entrepreneurs in the sanitation sector, based on experiences from a workshop organized in Nairobi in February 2010.

Authors: Aat van der Wel, Emeline Bereziat, Gert de Bruijne, Jaqueline Barendse

Abstract

Within the framework of the ROSA project a workshop about risks and opportunities of financing informal entrepreneurs in the sanitation sector was organized. The aim was to improve the situation of small businesses in this sector and to bridge the gap between the entrepreneurs and local money institutions. Three examples show that success is possible and people can sustain their living from working in the sanitation sector. In many cases informal entrepreneurs replace the work of local municipalities actually responsible for these issues. From a business perspective there is a need for better equipment to provide sufficient service, therefore money is needed. From an environmental point of view better disposal mechanisms need to be established as often faeces are dumped just outside the city boundaries. From a health perspective regulations and monitoring are most important.

The invisible entrepreneur

The idea for the workshop arose from the ROSA (Resource-Oriented Sanitation concepts for peri-urban areas in Africa; Langergraber et al., 2010), project, an EU-supported activity aiming to study sustainable resource-oriented (ecological) sanitation systems in four pilot-cities in Eastern Africa. The project took place in Arba-Minch (Ethiopia), Kitgum (Uganda), Nakuru (Kenya) and Arusha (Tanzania) between local municipal councils and institutes of higher learning, supported by a number of West European knowledge institutes. Studying locally sustainable financing of sanitation was an explicit part of the project.

The project proved once more that sanitation can provide an attractive source of income to many entrepreneurs, for example to masons or to cesspit emptiers. Most of these entrepreneurs have a one-man business or work with their families. Because usually their business is unregistered, it is not on the radar screen of municipalities. In fact, when asked often municipal staff even flatly deny the existence of such entrepreneurs. But they do exist and their existence is evidence that there is a demand: many, apparently, are willing to pay for their services. The question arose: How can we help these 'invisible entrepreneurs' to develop and expand their business?

Key messages:

- Informal entrepreneurs play an important role in the sanitation sector in peri-urban areas in Africa and often carry out the work for which the municipalities would be responsible
- To support small businesses in this sector new business opportunities have to be explored and informal entrepreneurs and local money institutions have to be brought together
- Examples show that entrepreneurs in the sanitation business can be successful and provide better living conditions to the communities
- The success of the entrepreneurs could be strongly enhanced by micro-loans given to informal entrepreneurs by local banks
- Up to now, only few banks see the sanitation sector as new and untapped market

What can local financing mean to them? As part of the ROSA project, in February 2010, a workshop was organized in Nairobi with the objective to explore 'Business Opportunities in Sanitation'. A less explicit objective was to encourage local bank to finance small initiatives in sanitation, including households and entrepreneurs. Stakeholders present were entrepreneurs in sanitation, local bankers, municipalities, and ROSA

partners. In the next sections some of their views are presented.



Photo: George Kasiano is watching one of his colleagues swiping the floor

"My name is George Kasiano, and I am a public toilet manager in Nairobi. For many years, we have had problems in this community, the public toilets were managed by the City Council and neglected. Community representatives decided to take over the management and we now have a group of 25 youngsters. They didn't have job and it gave them something to do. They get paid for what they do and the community benefits from it too: The community is happy and appreciates our work and it helped us to improve our lives".

"I am Michael Njoroge, and I provide exhauster services. People call me and I come with my truck to empty their sewage. Then I dump the sludge at the authorized draining point. I started this business in 2008, and my clients mostly come from the slums where they don't have an in-house sewer connection. "I am content with my life, I have gained a lot since I started this work. I have built my own house". The challenges remain in the transport of the sludge to the sludge disposal site, which is far. If we could get a slab fixed to a sewer at the closest sewer line, to empty the trucks, it would save us time and I could do more trips. If I could get a loan, I would buy another truck for my business".



Photo: Michael Njoroge at the back of his truck demonstrating the emptying of a pit latrine



Photo: Josephat Irungu (front) emptying the human waste he and his younger colleague (back) collected from their clients.

"My name is Josephat Irungu, and I have done my work of manual pit-emptying for more than 30 years, it has fed my family and many others'. When pit latrines overflow, people call us to empty their latrines: we scoop the shit into buckets and then into drums on a wheel-cart. We push the wheel-cart manually to the closest draining point, pour sludge in and go back to the clients for more. The people we meet in the street are rude, sometimes spitting at us. I wonder why they despise us while it is their shit that we are removing. The exhauster truck cannot empty like us, because we remove everything including solid stuff. I have many clients, my telephone is constantly ringing. If I could access a loan, I would buy a pump' to improve my working conditions and business opportunities".

Meet the invisible entrepreneur

The informal entrepreneur in sanitation is mostly invisible to people not living in the areas where they offer their services, the slums (in development parlance: ,peri-urban' areas) Policymakers, civil servants, and bankers usually do not live in such ,peri-urban' areas. A workshop about informal entrepreneurs, without most of the participants have a basic understanding of their business, would have been like organizing a swimming lesson in the desert. Therefore informal entrepreneurs were invited and attended. Not in person, but through their video messages. A team consisting of a self-employed Kenian interviewer and cameraman found and interviewed the three entrepreneurs in Kibera, one of the largest peri-urban areas (slum) in Kenya. In the text boxes in this article, the informal entrepreneurs are introduced. Hear and see them yourself: ,These guys are extremely liquid' on:
<http://www.youtube.com/watch?v=bOOjQp6KgVI>

Informal entrepreneurs meet other participants

A vivid discussion started after the introduction of the three entrepreneurs. Participants widely acknowledged that informal entrepreneurs have a crucial role in sanitation management and often substitute the services that municipal councils and governments are supposed to offer, but fail to deliver. It was noted that these entrepreneurs spot the opportunities and take the initiative to meet a demand and that, despite their useful contribution, they face the crude reality of negative perceptions as powerfully phrased by the entrepreneur Mr Irungu: ,... people in the street are rude, sometimes spitting at us ...'.

The participants agreed that there is ample room to improve the activities of these entrepreneurs in sanitation. From a business perspective they have a need for better equipment, not only to serve more clients per day, but also to improve service. From an environmental perspective there is a need for better disposal mechanisms, as now often the waste is taken outside the community and then dumped. And from a health perspective there is a need for regulation (and monitoring) the handling of waste. Also entrepreneurs need protective gear to reduce their own health risk.

Invisible entrepreneur meets banker – risks and opportunities

Lack of visibility of informal entrepreneurs means that they are largely unnoticed by financing

institutions. At the same time entrepreneurs themselves are not aware of financing opportunities. The many financiers / bankers present during the workshop frankly expressed their first thoughts with respect to the financing of informal entrepreneurs in sanitation. And, not surprisingly for bankers, the first remarks addressed their perceived risks.

Registration: Financiers pointed out that informal entrepreneurs in sanitation are not registered. However, to obtain micro-loans registration often is not a prerequisite. On the other hand, especially in sanitation, registration may be even more important than for micro-entrepreneurs in other sectors. Many people look upon these sanitation entrepreneurs in disdain, and the municipality may consider them a health hazard rather than a contributor to their ,keep the city clean' activities. Entrepreneurs in sanitation that are not registered, risk to be chased away and thus lose their livelihood. Even more than in other sectors, registration is important as it symbolizes recognition by the municipality and provides confidence to financiers in the viability of the business..

Cashflow: Does the business generate sufficient funds, to allow for payment of interest and repayment of the borrowed sum? And, can the entrepreneur provide sufficient collateral in case of default?

Collateral: Lack of collateral is always a major challenge when providing loans. Some bankers pointed out that small businesses that join in groups often are not able to provide sufficient assets as security for the requested loans.

The bankers in the workshop were properly informed on the topic of the workshop beforehand, therefore it could be assumed that they were there because they were interested in the opportunities, rather than only in the risks. Representatives of Kenya's K-Rep and Family Bank point out that sanitation financing could offer them access to the otherwise ,unbankable propositions' Both banks noted that they already have developed programs for such groups and that sanitation may well fit in.

On one issue all bankers readily agreed: sanitation is a new and untapped market.

Mr Kiranga, SME / retail assistant manager of K-Rep Bank proposed Mr Irungu to deposit Ksh 1000 per week for a duration of 10 weeks as a proof of cash flow. After this initial deposit, K-rep bank will provide him with a loan of Ksh 50.000 (480 Euros) to cater for a sludge pump, while the initial deposit will be kept as a liquid collateral.



Photo: Mr Kiranga meets Mr Irungu to discuss a loan



Photo: Mr Irungu riding his barrel to the dumpsite

(Invisible) entrepreneur meets banker – the transaction

The objective of the workshop was not only to discuss the issues of the informal entrepreneurs, there was hope that the (video) meeting with the entrepreneurs would trigger banks to take concrete action.

K-Rep Bank took up the challenge. During the workshop Mr Hillary Wachinga, project manager, visited entrepreneur Mr Irungu. The discussion evolved in such a positive way that one week later a next visit followed.

What is next?

The relationship established between informal entrepreneur Mr Irungu and Mr Kiranga from K-Rep Bank is an indication of the success of the workshop. The transaction illustrates that the point was made: there are business opportunities in sanitation.

Obviously, as the participants came from various African countries, they were not in the position to demonstrate their enthusiasm as K-Rep did by closing a 'deal'. WASTE, a Dutch NGO working on the improvement of sanitation in southern countries, will follow up on the activities as initiated in the ROSA project. WASTE will continue to work with entrepreneurs, banks, and governments to further develop local ways of working such that citizens (governments), entrepreneurs and financial institutions take up the responsibility for a clean environment. Without WASTE.

The workshop was more than a success. K-Rep bank from Kenya felt challenged and already

during the workshop visited together with the camerateam one of the entrepreneurs, Mr Kiranga to discuss financing. As noted above a relationship was established.

References

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Name: Aat van der Wel
Organisation: WASTE
Town, Country: Gouda, Netherlands
eMail: avdwel@waste.nl

Name: Emeline Berezziat
Organisation: WASTE

Name: Gert de Bruijne
Organisation: WASTE
Town, Country: Gouda, Netherlands
eMail: gdebruijne@waste.nl

Name: Jaqueline Barendse
Organisation: WASTE
Town, Country: Gouda, Netherlands
eMail: jbarendse@waste.nl