

4. Practical Background Information

This Toolkit provides many different tools, instruments, examples, case studies, practical experiences and background information. They are by no means exhaustive, but will equip many starting entrepreneurs with essential instruments.

This section of the Toolkit presents an overview of all the information that might be useful:

- Info Sheets; practical, theoretical and Q&As
- Tools
- Attachments
- References

The Toolkit will be regularly updated and new experiences and tools will be added to it.



Info Sheet 1: BOP strategies

Theoretical info sheet about several successfully tested Base of the Pyramid (BOP) strategies

Who should read this info sheet?

Entrepreneurs who would like to find an answer to the question “Why are some enterprises successful in meeting BOP needs, and others are not?” should read this info sheet.

Key topics

Successful enterprises operating in these markets use six broad strategies that appear to be critical.

Engage first, design second

Engagement (the practice of meeting local people and asking for their feedback and help in developing a product) opens up the possibility of identifying the real needs from the point of view of the local people themselves. It also helps to focus and direct the technology and product development required to become truly native to a place. It often requires significant investment of money and management talent.

Co-invent with local partners

Unconventional partnering with governments, NGOs or groups of multiple stakeholders can bring the necessary capabilities to the table. Nontraditional partners like women’s self help groups, local communities, and small entrepreneurs provide intelligence on the local context, local legitimacy, and access to needed resources, none of which is available to Western organizations attempting to go it alone.

Focus on improving affordability

Purchasing a product is often the first hurdle a person at the BOP has to take. Improving affordability means working on financial and technical aspects. Lowering the initial price depends on the possibility of producing locally, on the expectation of future (cheaper) mass or on adapting the product so that it needs fewer or less expensive resources to make. Another approach is to allow “loss leaders”, where you expect future sales to a customer to help you recoup losses on the initial sale. Apart from affordability, accessibility might also improve if a product is combined with a smart financial structure like leasing or a microcredit.

Offer a fair added value proposition to local partners

To reach the poor you need a broad distribution network, which can only be set up with local partners who understand the market well. Localizing value creation through franchising and agent strategies that involve building local ecosystems of vendors or suppliers can be very effective, but require substantial investment in capacity building and training. A business model should be in place that allocates added value to all partners in the supply chain, making it attractive to anyone to “stay in business” while keeping the product affordable to end users.

Plan to scale up, but start small

Try to “fly under the radar”. Immediate engagement with a large governmental program might put the lucrative business model in the spotlight of all kind of officials or others who would like to benefit from either derailing the project or from currying favor before it is allowed to move forward. Bypassing the need to deal with central government avoids complexity and corruption. On the other hand, prepare yourself to scale up immediately when the concept and product have proven to be successful.

Build social, not legal, contracts

Reaching the BOP requires entry strategies that move past preoccupation with Western-style rule of law and intellectual property protection, because these do not exist in the BOP.

Business models based on trust, fairness, mutual benefits and respect have proven to be more effective than formal agreements between seller and buyer.

People at the BOP can be approached as either consumers or equal business partners. Designing business models that include small entrepreneurs at the BOP in the value chain can increase the chances of a well-planned market launch, create jobs at the BOP and lift people out of poverty.

Further reading:

Capitalism at the Crossroads: The Unlimited Business Opportunities in Solving the World's Most Difficult Problems, Steward Hart, 2005

The Next 4 Billion: Market Size and Business Strategy at the Base of the Pyramid, WRI and IFC

http://en.wikipedia.org/wiki/Bottom_of_the_Pyramid

www.nextbillion.net

<http://bop-protocol.org>



Info Sheet 2: Do I have what it takes?

Q&A info sheet on what it takes to start a business

Who should read this info sheet?

This info sheet is very useful to entrepreneurs who want to check whether they are ready to start a business.

Key questions

Do you have what it takes to join those thousands of people who start their own businesses every year? Do you have the determination, persistence and ability to do thorough research? If you can answer the following questions you'll know you properly equipped to run your own company.

1. Have you spent enough time researching your new business and its market?

Many new businesses fail because the business owner (that's you) didn't do enough research. Make sure that your business idea can work. Investigate the market carefully to see who the primary players are and how your new company fits in.

2. Do you have enough money to get your company up and running?

Don't underestimate how much it will cost to get your company through its startup phase. If you didn't do enough research or were too optimistic about your product, you could find yourself underfunded. Be critical on your own projections and make sure that you have money set aside for unforeseen events.

3. Are you wasting money on facilities?

While it might be nice to have your own office with a fancy desk in a nice new building, such comforts can eat into your startup budget. Begin as simply and as cheaply as you can. Start the business in your garage if you have to, and don't spend too much on offices until you've actually sold some products or services.

4. Do you have a backup plan?

Murphy's Law states that if anything can go wrong, it will. Believe it. Nothing ever goes according to plan, and so you must always have a backup plan. Even if your research was perfect, something or someone will certainly throw a wrench – even if it is just a small one – in the works. But if you have done your homework and created a backup plan, you'll be able to stop, make adjustments and move forward again.

5. Do you have partners you don't need?

Before you take on a partner, think the decision over carefully. Have you chosen someone who will work as hard as you do? Partners should earn the privilege of owning a portion of the business. If they bring money to your operation, that's a convincing reason to keep them.

6. Are you hiring the right people?

When you hire people, you want to choose those with the right skills and the right attitude to help your business grow. Especially with a small business, you can't afford to employ someone who won't be a good fit.

As a general rule, don't bring friends or family into the business – unless, maybe, your niece just graduated with an MBA from Stanford or INSEAD at the top of her class. Of course, if it's a family business, exceptions to the rule can be made.

7. Can you see the big picture?

Too often new business owners get caught up in the day-to-day running of the business and don't look at the big picture. You need to have both long- and short-term goals and you should review them every month to make sure that you and your company are on track. No matter what stage your business is in, you must have an idea of where you and the company are going.

8. Do you take "no" for an answer?

Successful entrepreneurs don't take no for an answer. When others tell them that "it can't be done" or "nobody's ever tried it that way before," entrepreneurs set out to prove those people wrong. As an enterprising businessperson, you must achieve a comfortable balance between stubbornly sticking to your ideas no matter what and accepting limitations that others would like to put on you. In other words, if people declare "it's not possible," don't accept their word for it. Be critical and do your own research and come to your own conclusions. After all, it's your company.

9. Are you looking for validation, or are you looking for the truth?

Even wildly successful business owners can occasionally be uncertain about what to do next. In those cases, the ones who continue down the path of success are not interested in simply having their ideas validated by people they turn to. They want the truth. So if you are going to run your own business and go it alone, find an impartial third party – an executive coach, a mentor or a trust advisor – to talk to about your concerns and your plans. Family members, employees and even your spouse may only tell you what they think you want to hear.

10. Do you know what you want out of the business?

Why are you starting a business in the first place and what do you want out of it? You have to know these answers before you can do long- and short-term planning. What is your exit strategy? It may seem an odd question to ask at the beginning of your startup process, but you need to know how you are going to get out of the business. Do you want to sell it and retire to the Greek Islands? Do you want to spin your first business off into another one?

Whether you want to work fewer hours, create a family legacy or do what you love to do, you need to know what you want out of the business before you can create goals and track them to fruition.

In the "Big Five model of psychology", entrepreneurs score highly on Openness to New Experience and above average on Conscientiousness and Extraversion (Ocean model). If you have honestly – and thoroughly – answered all the above mentioned ten questions, you should know now if you've got what it takes to start your own small business. But if you're still in an introspective, questioning mode, ponder these statements. Do they describe you?

Openness:

- ❖ When I'm interested in a project, I need less sleep.
- ❖ I examine mistakes and I learn from them.
- ❖ I have new and different ideas.
- ❖ I am curious.
- ❖ I like to learn something new and to explore unfamiliar subjects.
- ❖ I experiment with new ways to do things.

Conscientiousness:

- ❖ I am persistent.
- ❖ When there's something I want, I keep that goal clearly in mind.
- ❖ I keep New Year's resolutions.

- ❖ I have a strong personal need to succeed.
- ❖ If something can't be done, I find a way.
- ❖ I'm willing to make sacrifices for potential long-term rewards.
- ❖ I like to be in control.

Extraversion:

- ❖ I am intuitive.
- ❖ I see problems as challenges.
- ❖ I take chances.
- ❖ I'll gamble on a good idea even if it isn't a sure thing.
- ❖ I can recover from emotional setbacks.

Agreeableness:

- ❖ I am adaptable.
- ❖ I usually do things my own way (reverse).
- ❖ I tend to rebel against authority (reverse).
- ❖ I often enjoy being alone (reverse).
- ❖ I have a reputation for being stubborn (reverse).

Neuroticism:

- ❖ I'm a positive person (reverse).
- ❖ I feel sure of myself (reverse).

If you answered, "yes, that describes me" to most of the questions, the chances are good that you have the makings of a successful entrepreneur. If you answered "maybe" or "no" to any of the questions, those may be areas of weakness that you can work on.

But remember, these kinds of questions cannot truly mark out who will succeed in starting a business and who will not. That determination is in your hands, and under your control.

Further reading:

www.gaebler.com

Many web sites offer on line big 5 tests like www.outofservice.com/bigfive.



Info Sheet 3: Cross-subsidization models

Theoretical info sheet about cost prices and cross subsidization models

Who should read this info sheet?

If you start calculating cost prices, this is an interesting info sheet to read. This info sheet is about the dilemma of selling your product and covering all your costs while keeping your product affordable to your clients. To deal with this, entrepreneurs can use cross-subsidization models.

Key topics

As you can read in Info Sheet 1, “BOP Strategies,” product affordability is a critical aspect in catering to the Bottom of the Pyramid. The consequence is that often you have to produce your product or service at a very low cost price. This is often very hard to accomplish when you start your business because your sales volume will probably be low and you will have made high upfront investments in product development. You might decide to sell your product below cost price and subsidize your loss by profitable activities (from different products or client groups). This is “cross-subsidizing” (If you sell the product below cost price, but expect to make money from the same customer in the future, it is called a “loss leader”). Before we elaborate more on this, we give you two examples.

Examples of cross-subsidization models

A producer of water filters sells the same product to two different client groups: local (very poor) people and local NGOs. The local NGOs have deeper pockets so the entrepreneur charges them a higher price which covers the fully absorbed cost price, including development costs. At the same time the entrepreneur sells his products to local people at a price below the full cost price, but above marginal cost.

In 2005 the Grameen Bank started investing in healthcare. Four Grameen companies stepped forward to be the social investors. The eye care hospitals are based on a business plan that may become the simplest and most popular format for social business. To become sustainable while also achieving the social objective of delivering expensive eye care services to the poor, the hospitals employ a differentiated pricing policy. They charge the regular market price to patients who have no difficulty in paying the fee, while providing the same service to the poor at a highly discounted rate or token fee. The profit made on the market rate charges subsidizes the service provided to the poor.

Rather than distributing profits to shareholders, the entrepreneurs in these examples recapitalized profits and allocated the funds to socially-driven activities. This kind of policy can be applied in many social businesses. The only advice we want to give you is to stay in control and monitor this strategy carefully.

Cross-subsidizing in relation to cost prices

To calculate a cost price you must know the difference between two different types of costs calculation methods:

- ❖ Full costs calculation, taking all costs into account (total cost price).
- ❖ Marginal cost calculation, taking the marginal costs into account (marginal costs are sometimes called unit level costs as they vary with the number of units produced).

The traditional way to calculate a cost price is to include the total costs involved. However, if your sales volume exceeds your forecasts you have already covered your fixed costs (fixed costs are covered by a contribution margin included in the cost price based on your sales forecasts). If your fixed costs are being covered, you only have to “earn back” your marginal costs.

The relation between cross-subsidization and cost prices can be explained by describing three possible scenarios:

- ❖ Selling your product at or above the total cost price is a sustainable strategy, as all costs involved will be covered by your cost price. Cross-subsidization does not apply.
- ❖ Selling your product at or above marginal cost price is a sustainable strategy when your fixed costs are (or will be) covered. You are not making losses, but you will not contribute to the coverage of your fixed costs. Cross-subsidization only applies when your product should contribute to cover fixed costs and you need the contribution from other activities to fill in this gap.
- ❖ Selling your product below marginal cost price is not a sustainable strategy because you are making losses on a specific activity. However, an incentive to do this is when the social value of these activities offsets the financial loss. You subsidize the loss-giving activities by transferring money from profitable ones. This strategy should not jeopardize a company's sustainability; you must be sure that enough money remains available to invest, grow or cover unexpected losses.

Cross-subsidization and development costs

Development costs can be quite high. These costs must be covered as well in the end. When you start up and your sales volume is low, including these costs could increase the cost price to a high level, making the product less affordable to the BOP market. You might decide to cross-subsidize the development costs with profits made by other products or other client groups in a later stage.

Further reading:

Creating a World Without Poverty by Muhammad Yunus (2007) (chapter 8)



Info Sheet 4: Product development, the case of the Basic Water Needs Foundation

Practical info sheet about the development of a ceramic filter by Basic Water Needs Foundation

Who should read this info sheet?

Entrepreneurs and innovators who are starting to develop their water or sanitation product might find this information very useful. This storyline of Basic Water Needs Foundation (“BWNF”) shows that your product is never really finished, as bigger and smaller modifications are constantly made.

Practical experiences

Klaas van der Ven started to develop products in 2002 for the Basic Water Needs Foundation. Basic Water Needs B.V. (“BWN”) was founded by BWNF and Klaas van der Ven in 2007 to market a specific product. Assembly and production is organized in India through Basic Water Needs India Ltd. in Auroville, which is a city with a separate status in India within the area of the state of Tamil Nadu.

BWN has developed the Purator, an innovative small-scale device with a ceramic filter cartridge that effectively removes all pathogens from the source water. The Purator operates with a suction device and uses static hydraulic height to create a small pressure system that gives it a significantly greater capacity than traditional ceramic filtration units. The Purator HD filter is able to treat water sources with high turbidity.



Exhibit 28: The Purator

January 2007

BWN is active in Africa and received the first feedback from customers who experienced problems with frequent clogging of the filter. People had no means to describe how dirty their water actually was. Turbidity (NTU) values cannot be used as clogging is caused mainly by fine clay particles. At that time, BWNF was working on a pre-filter for a different purpose and decided to test this technique in Africa. It worked very well and it is now a part of the standard product, adding an extra unique selling point to the product. The filters were tested with this new pre-filter for eight months and all seemed to work well.

January 2008

BWN finished research on silver impregnation and this technique was ready to be incorporated into the product. A large number of lab reports made clear that the effect of silver impregnation on bacterial removal is substantial. The silver impregnation was introduced and the new filter put on sale. It was also offered to Waterlaboratorium Noord in the Netherlands for independent approval and qualification.

BWNF switched to a new supplier of ceramic filters and these filters function better. The new filters were introduced into the product when the stock of the old filter ran out a few months later.

February 2008

The choice for the transparent PET jar around the filter proved to be the wrong one. The transparent material becomes scratched when the material has been cleaned a few times and soon looks worn out. A new material was selected and unfortunately the mold for the jar also needed to be changed. This was all decided quickly and the new jar was ready to be

introduced within 4 to 6 weeks. The new colored material will look good, even after frequent cleaning.

One of the suppliers was not willing to bring his price down to an acceptable level and BWNF decided to go for in-house production of this item. It is not a critical item and after the molds were made, manufacture of the new pieces began in July under BWNF's own supervision at a local injection molding company. An additional benefit is that the color of the piece can now be matched properly to the rest of the product, improving the appeal of the final product and bringing down the cost price by €0.10.

The packaging was changed. Once a proper new product name has been chosen (still undecided at time of writing) the product will have changed almost completely within a period of 5 to 6 months, adding to its appeal and improving its performance.

The continued product improvement is paying off. The product has already been on the market for a full year and has sold in thousands.

Further reading:

This information was gathered from interviews with Klaas van der Ven, director of Basic Water Needs India Pvt Ltd.



Info Sheet 5: Market research Ecosan

Practical info sheet about the way Ecosan performed specific market research

Who should read this info sheet?

This info sheet contains an example of a specific market research effort (microenvironment) as part of Step 2 in the business development process. You might find this info sheet very useful as an example when you start to investigate the market.

Practical issues

In this example we describe the questionnaire and interview method used to study the market potential of an ecological sanitation solution called Ecosan.

The business

Ecosan is an ecological sanitation solution that allows the user to separate the urine from the feces. The urine and feces can each be used as a fertilizer. Urine diversion sanitation prevents the risk of contamination of groundwater aquifers. The Ecosan is also a dry toilet, so it reduces water consumption in the household.

The market

An Indian party wished to research the market for Ecosan toilets to identify the potential customer groups and target these in their marketing. From their experiences in testing and demonstration projects they learned that the following customer aspects can play a role in the customer's decision to buy an Ecosan toilet:

List 1

- ❖ Household income
- ❖ Setting (urban/rural)
- ❖ Possession of a toilet (yes/no)
- ❖ If yes, aspects of the toilet
- ❖ Soil type near their household (rocky, sandy, etc.)
- ❖ Water table under their household (high/low, level)
- ❖ Availability of water to the household (proximity of source, cost)
- ❖ Physically handicapped people in the household (yes/no)
- ❖ Senior members in the household (numbers and age)
- ❖ Size of their property
- ❖ Size of their household

This list of consumer aspects was used in the interviews with customer groups.

The product

Next, the marketing proposition of the Ecosan product was listed (see list 2). This proposition is important and was shared with the customer groups in the interviews to collect their response.

List 2

- ❖ Above-ground system with 2 pans, on-site composting
- ❖ Can be very efficiently used in rural and peri-urban settings
- ❖ In urban setting this can only be set up as a shared facility because of the space needed
- ❖ Price will be around Rs. 5,000 for a complete system
- ❖ Uses 2 pans, one of which is always in composting mode
- ❖ Typical sizes of the system are included, with a product sketch
- ❖ The product produces compost that can be used in the house garden as a fertilizer

- ❖ The system does not produce any smell
- ❖ The system uses no water

Using these two lists Scope/Fodra conducted their market research through interviews.

Interview setup: concept test by interview

The market acceptance of the Ecosan product concept (list 2) was judged by potential customers. This is usually done by interviewing focus groups, which are 1 to 2 hour sessions with a small number of people (6–8), led by a moderator. It is also possible to interview consumers individually if conditions require it, although this is of course more labor intensive. All the people interviewed were asked about the market aspects. A questionnaire (not included in this Info Sheet) was drawn up to guide the interviews. This questionnaire includes questions about how the consumer values the product, which aspects are valued most, whether the consumer intends to buy such a product, and why.

What information was obtained from this interview?

- ❖ Overall product diagnostic (uniqueness or differentiation from other products, believability, importance in solving a customer's problem or desire, inherent interest, value for money)
- ❖ Purchase intention per consumer group
- ❖ Attribute diagnostic (which benefits of the product appeal most to the customer and attribute to the purchase intention)

Respondent profiling attributes were used to analyze how different types of customers respond to the offered concept/product. This information can be used in targeting customer groups and deciding how to promote the product.



Info Sheet 6: Participatory Rural Appraisal

Theoretical background info sheet about the Participatory Rural Appraisal market research method

Who should read this info sheet?

Entrepreneurs who want to work together with NGOs and include social marketing methods in their marketing strategy might find the information in this info sheet useful.

Participatory Rural Appraisal (PRA) is an approach used by non-governmental organizations (NGOs) and other agencies involved in international development. The approach aims to incorporate the knowledge and opinions of local and often illiterate people in the planning and management of development projects and programs.

Key topics

Origins of participatory rural appraisal

The roots of PRA techniques can be traced to the activist adult education methods of Paulo Freire and the study clubs of the Antigonish Movement. In this view, an actively involved and empowered local population is essential for successful rural community development. Robert Chambers, a key exponent of PRA, argues that the approach owes much to “the Freirian theme that poor and exploited people can and should be enabled to analyze their own reality.”

By the early 1980s there was growing dissatisfaction among development experts with both the reductionism of formal surveys and the biases of typical field visits. In 1983, Robert Chambers, a Fellow at the Institute of Development Studies (UK), used the term Rapid Rural Appraisal to describe techniques that could bring about a “reversal of learning.” Two years later, the first international conference to share experiences relating to RRA was held in Thailand. This was followed by rapid growth in the development of methods that involved rural people in examining their own problems, setting their own goals, and monitoring their own achievements. By the mid 1990s, the term RRA had been replaced by a number of other terms, including Participatory Rural Appraisal (PRA) and Participatory Learning and Action (PLA).

Overview of PRA techniques and principles

Hundreds of participatory techniques and tools have been described in a variety of books or taught at training courses around the world. These techniques can be divided into four categories:

- ❖ Group dynamics: learning contracts, role reversals, feedback sessions, workshops
- ❖ Sampling: transect walks, wellbeing (or wealth) ranking, social mapping, preference ranking, modeling, seasonal and historical diagramming
- ❖ Interviewing: focus group discussions, semi-structured interviews, key informants, short simple questionnaires

Definitions

Participatory Rural Appraisal (PRA) is a label given to a growing family of participatory approaches and methods that emphasize local knowledge and enable local people to make their own appraisal, analysis and plans. The approach is often used by non-governmental organizations (NGOs) and other agencies involved in international development.

PRA evolved from *Rapid Rural Appraisal (RRA)*, a systematic but semi-structured activity by a multidisciplinary team in the field that is designed to obtain new information and to formulate new hypotheses about rural life. RRA can therefore be seen as a bridge between formal surveys and unstructured research methods.

The main difference between PRA and RRA is that the first emphasizes processes which empower local people, whereas the second is mainly seen as a means for outsiders to gather information.

- ❖ Visualization: direct observations, diagrams, matrix scoring, timelines, local histories and case studies, biographies, participation in activities

For explanation of these categories we refer to the links mentioned at the end of the document.

Social mapping, wellbeing ranking and focus group discussions

Of all the PRA tools and techniques, social mapping, wellbeing ranking and focus group discussions are perhaps the most useful for the BOP entrepreneur. These are indirect means of gathering market information, and are useful supplements to questionnaire-based information. They are briefly explained below.

Social mapping and wellbeing ranking

These two techniques involve community members setting criteria to identifying different classes within the community, classifying their own community into these classes, and marking them on a map. For instance, villagers may define a poor household as one with debts, with insufficient food for the whole year, no land, and no assets. They can then list the households in their village that satisfy these criteria. Similarly, they can identify all households without toilets or access to a public water tap or a household water connection. Wealth ranking helps with identifying the size of different wealth groups, such as the very poor households or only the well off, and hence the potential market for the entrepreneur's product.

Focus group discussions

These can be held with any target group, including women, farmers, schoolchildren or the entire village, to collect group-specific information on the proportion of poor families (defined by the prevailing government norms), age distribution, occupational profile, social organization, sociopolitical context, needs and values, and community-based institutions (that could be useful marketing and feedback channels in future).

In some communities, relative wealth/poverty is a very sensitive topic and this technique may need to be conducted in a private setting to allow participants to talk freely. In some cases you may not be able to do it at all! This technique has sometimes proved problematic in urban areas, where people tend to be less familiar with their neighbors than in rural communities. Also, the results of the wellbeing ranking should be cross-checked by using other means of addressing the issue of relative wealth and wellbeing, such as a social mapping exercise. Finally, make sure you compensate villagers for their time – for them a single day devoted to answering your questions is a day of wages lost!

Principles

Different sources recognize different principles of rural appraisal. Nevertheless, some general principles can be recognized:

- ❖ Triangulation: cross-checking data by using various techniques, thereby also expressing the complexity and diversity of local people's realities
- ❖ Participation: local people's input is essential, learning directly on-site and face-to-face
- ❖ Offsetting biases: identify and offset biases by being relaxed, listening rather than lecturing, being unimposing, and using multidisciplinary teams
- ❖ Flexibility: there is no blueprint, hence improvisation, being neutral by making a trade-off between accuracy, quantity, relevance, use, and timeliness

Rapid Rural Marketing Appraisal

Rapid Rural Marketing Appraisal (RRMA) focuses mostly on making informed decisions about improving agricultural marketing systems in developing countries, but also emphasizes

the essential role that marketing plays in the rural development process. Hence, RRMA stresses that it is necessary to appreciate the role of good rural marketing research to reduce the risk in rural marketing decision making. RRMA focuses on what the consumer needs and wants, looking at rural people as the target market. It is about identifying and prioritizing marketing problems, and evaluating practical means of improving marketing functions. In RRMA, it is important to first describe accurately and meaningfully the systems that exist, and second, to evaluate these structures and their performance. RRMA is used to:

- ❖ Identify the needs of the rural community
- ❖ Identify existing and potential markets
- ❖ Test that a project is on track
- ❖ Design appropriate technologies
- ❖ Study decision-making processes and dependency patterns
- ❖ Evaluate marketing systems
- ❖ Analyze marketing feasibility and social acceptability
- ❖ Understand and improve price efficiencies.

Pros and cons of PRA

PRA can be described as “fairly quick” and “fairly clean”, as opposed to “quick and dirty” and “long and dirty”. Quick-and-dirty approaches are also known as “rural development tourism”: a brief rural visit by the urban-based expert. This is often low cost, but mostly not cost-effective. Large misperceptions and misinterpretations of the rural reality are often the result. Formal and accurate studies are longer and more costly. They are often preferred by well-trained professionals, but are often inefficient and already outdated before they are published.

PRA overcomes these drawbacks by determining which information is really relevant, opportune, understandable, and actually useful for the decision makers. This means that it generates results that seem less precise, but they have greater evidential value than in traditional quantitative research: it gets the big things broadly right rather than achieving spurious statistical accuracy. Moreover, in developing countries it is sometimes difficult to apply standard marketing research techniques employed elsewhere because there is often a paucity of baseline data and poor facilities for marketing research. This is where PRA comes in very useful.

Unfortunately, there has also been much abuse of the PRA method by outsiders, who only want to obtain information quickly and use it for their own purposes. In such cases, local people are brought into a process in which expectations are raised and then frustrated. To avoid this, those wishing to use PRA techniques need to be transparent about their intentions. If you call what you are doing PRA, you must make a commitment, if asked, to do your best to support the actions that local people have decided upon.



Further reading:

http://en.wikipedia.org/wiki/Participatory_rural_appraisal

www.fao.org

www.worldbank.org

www.iisd.org/cas/

<http://portals.wi.wur.nl/ppme>



Info Sheet 7: Steps to form an Indian company

Practical info sheet about several Indian legal business structures and the way to incorporate them

Who should read this info sheet?

Entrepreneurs who are planning to set up a local business in India should read this info sheet carefully.

Practical issues

We refer to the India Business Guide 2007 by the Dutch Ministry of Foreign Affairs. The section “Setting up your business” provides you with a good summary of all the steps you need to take to form an Indian company.

There are a variety of factors for the BOP entrepreneur to consider when starting a business in India. At the outset, a clear understanding of the options available is essential. Fortunately, almost all this information is available on a comprehensive government website (business.gov.in). The main issues involved in starting a business in India are given below. It summarizes information from the main government website, which contains the details.

Registering a business in India

In India, incorporation of a company is governed by the Indian Companies Act of 1956. It is the most important piece of legislation that empowers the Central Government to regulate the formation, financing, functioning, and winding up of companies. It applies to all of India and to all types of companies, whether registered under this Act or an earlier Act.

Registrars of Companies (ROCs) appointed under Section 609 of the Companies Act, covering various States and Union Territories, are vested with the primary duty of registering companies floated in the respective States and the Union Territories and ensuring that such companies comply with the statutory requirements under the Act. Their offices function as registry of records relating to the companies registered with them.

To register and incorporate a company you must file an application with the Registrar of Companies of the State in which the company is proposed to be incorporated, accompanied by the selected names of the business, a Memorandum of Association, Articles of Association, and other necessary documents.

Under the Companies Act, an entrepreneur can form two types of companies: a private company or a public company. Most BOP businesses are likely to be private companies.

Forms of business organizations

A business enterprise can be owned and organized in several of the following forms:

- ❖ Sole Proprietorship
- ❖ Private Limited Company
- ❖ Public Limited Company
- ❖ Partnership Firm
- ❖ Cooperatives
- ❖ Joint Hindu Family Business

Each form of organization has its own merits and disadvantages. The right choice of the form of the business is crucial because it determines the power, control, risk, and responsibility of the entrepreneur as well as the division of profits and losses. Being a long-term commitment, the choice of the form of business should be made after considerable thought and deliberation. The most appropriate organizations for BOP entrepreneurs are the sole

proprietorship, private limited company and the partnership firm, all of which are detailed below. Note that only the key features are provided here. Full details and requirements are specified on the government website (business.gov.in).

Sole Proprietorship

This is the oldest and the most common form of business. It is a one-person organization where a single individual owns, manages and controls the business. It is the easiest to form as no agreement has to be made and registration is not essential. However, the owner may be required to obtain a *license* specific to the line of business from the local administration. The owner has complete control over all the aspects of the business and takes all decisions (although he may contract others to carry out day-to-day activities). The owner alone enjoys the benefits or profits of the business, but also bears all losses, if any. The business depends on the life of the proprietor and illness or death of the owner brings an end to the business.

Partnership Firm

A partnership is defined as a relation between two or more persons who have agreed to share the profits of a business carried on by all of them or any of them acting for all. The owners of a partnership business are individually known as the “partners” and collectively as a “firm.” It is also easy to form as no cumbersome legal formalities are involved. Its registration is also not essential. However, if the firm is not registered, it will be deprived of certain legal benefits.

The Registrar of Firms is responsible for registering partnership firms. The minimum number of partners must be two, while the maximum number can be 10 in case of a banking business and 20 in all other types of business. Ownership of the legal entity of the partnership firm usually carries with it the right of management and therefore every partner has a right to share in the management of the business firm. The liability of the partners is unlimited. This means that if the assets and property of the firm are insufficient to meet the debts of the firm, the creditors can recover their loans from the personal property of the individual partners.

The firm has a limited span of life. Legally, even a ten-partner firm must be dissolved on the retirement, mental incapacitation, bankruptcy or death of any partner. A partnership is formed by an agreement, which may be either written or oral. When the written agreement is duly stamped and registered it is known as a “Partnership Deed”. Ordinarily, the rights, duties and liabilities of partners are laid down in the deed, and it also specifies the following:

- ❖ Name of the firm
- ❖ Nature of the business to be carried out
- ❖ Names of the partners
- ❖ The town and the place in India where the business will be carried out
- ❖ The amount of capital to be contributed by each partner
- ❖ Loans and advances by partners and the interest payable on them
- ❖ The amount of drawings by each partner and the rate of interest allowed thereon
- ❖ Duties and powers of each partner
- ❖ Any other terms and conditions to run the business.

Private Limited Company

A private limited company is a voluntary association of not less than two and not more than fifty members, whose liability is limited, the transfer of whose shares is limited to its members and which is not allowed to invite the general public to subscribe to its shares or debentures. It has a legal existence independent of the members. It is relatively less cumbersome to organize and operate as it is exempted from many regulations and restrictions which apply to public limited companies. For example, unlike a public limited company, it need not file a prospectus with the Registrar, it need not obtain the Certificate for Commencement of

business, it need not hold statutory general meetings or file statutory reports, and the liability of its members is limited. A private limited company has to have a minimum of two members and must have the words “Private Limited” (or Pvt. Ltd.) as the last part of its name. Additional restrictions are:

- ❖ The company has to register a unique name with the Registrar of Companies (ROC), which reflects the activities of the company. A local company with no international links may be denied the use of the word “International” in its name (e.g. Water India International Pvt. Ltd.).
- ❖ The proposed name will be accepted by the Registrar of Companies only if there is no other existing company with the same name.
- ❖ The minimum paid up share capital is Rs.100,000 (€1,785).
- ❖ The number of (non-employee) members is limited to fifty, but there is no limit on the number of past or present employees who are members of the company.
- ❖ It cannot invite or accept any deposits (equity) from persons other than its members, directors or their relatives.

Steps to be taken to incorporate a private limited company

- ❖ Select, in order of preference, a few suitable names, not less than four, that indicate the main objects of the company.
- ❖ Ensure that the name does not resemble the name of any other company already registered and does not violate the provisions of Emblems and Names (Prevention of Improper Use) Act, 1950.
- ❖ Apply to the relevant ROC to ascertain the availability of a name in [Form 1A](#) of the General Rules and Forms, including a fee of Rs.500. If the proposed name is not available, apply for a new name on the same application.
- ❖ Arrange to have the Memorandum and Articles of Association drafted by solicitors, vetted by the ROC, and printed.
- ❖ Arrange to have the Memorandum and Articles stamped with the appropriate stamp duty.
- ❖ Get the Memorandum and Articles signed by at least two subscribers in their own hand, stating their father’s name, occupation, address, the number of shares subscribed for, and witnessed by at least one person.
- ❖ Ensure that the Memorandum and Articles are dated after the date of stamping.
- ❖ Get the following forms duly filled out and signed:
 - Declaration of compliance – [Form 1](#)
 - Notice of the situation of the registered office of the company – [Form 18](#)
 - Particulars of the director, manager or secretary – [Form 32](#)
- ❖ Present the following documents to the ROC with the filing fee and the registration fee:
 - Stamped and signed copies of the Memorandum and Articles of Association (3 copies)
 - Forms 1, 18 and 32 in duplicate
 - Any agreement referred to in the Memorandum and Articles
 - Any agreement proposed to be entered into with any individual for appointment as managing or whole time director
 - Name availability letter issued by the ROC
 - Power of attorney from the subscribers in favor of any person for making corrections on their behalf in the documents and papers filed for registration
 - Payment of the registration and filing fee by demand draft or banker’s check if it exceeds Rs.1000 (€17.85)
 - Certificate of Incorporation from the ROC

Exhibit 29: Steps to be taken to incorporate a private limited company

Regulatory requirements

An entrepreneur has to take into account the basic regulatory requirements for setting up the business, the most important regulations being the Indian Companies Act, 1956 and environmental regulations under the Environment Protection Act, 1986 and any other relevant legislation.

The Companies Act, 1956

The Companies Act, 1956 contains provisions relating to the formation of a company, powers and responsibilities of the directors and managers, raising of capital, holding company meetings, maintenance and audit of company accounts, powers of inspection and investigation of company affairs, reconstruction and amalgamation of a company, and even winding up of a company. The Ministry of Corporate Affairs, previously known as the Department of Corporate Affairs under the Ministry of Finance, is primarily concerned with administration of this Act as well as other allied Acts and rules and regulations adopted under these Acts.

The Companies Act, 1956 is administered by the Central Government through the Ministry of Corporate Affairs and various other government offices, including the Office of the Registrar of Companies, Official Liquidates, Public Trustee, the Company Law Board and the Director of Inspection. The Registrar of Companies (ROC) controls the task of incorporating new companies and the administration of running companies.

Environmental regulations (Environmental Protection Act, 1986)

Environmental protection has been given constitutional status and a good environment is a constitutional right of the Indian citizen. The Directive Principles of State Policy states that it is the duty of the state to “protect and improve the environment and to safeguard the forests and wildlife of the country.” It imposes a fundamental duty on every citizen “to protect and improve the natural environment including forests, lakes, rivers and wildlife.”

In India, the Ministry of Environment and Forests (MoEF) is the top administrative body for (i) regulating and ensuring environmental protection; (ii) formulating the environmental policy framework in the country; (iii) undertaking conservation and surveys of flora, fauna, forests and wildlife; and (iv) planning, promotion, coordination and oversight of the implementation of environmental and forestry programs. The Ministry is also the coordinating agency in the country for the United Nations Environment Programme (UNEP).

The organizational structure of the Ministry covers a number of Divisions, Directorates, Boards, Subordinate Offices, Autonomous Institutions, and Public Sector Undertakings to assist it in achieving all these objectives. Besides these, the responsibility for prevention and control of industrial pollution is primarily executed by the Central Pollution Control Board (CPCB) at the Central Level, which is a statutory authority, attached to the MoEF. The State Departments of Environment and State Pollution Control Boards (SPCBs) are the designated agencies to perform this function at the State Level.

Production and product standards

The Bureau of Indian Standards (BIS) is the only body in India authorized to set standards and certify products according to these standards (see <http://bis.org.in>). It awards the ISI (Indian Standards Institutions, being BIS' former name) mark for certified products, which is now well known even in rural India as a hallmark of quality on products ranging from iron water pipes to electricity cables and fittings. “Good Manufacturing Practices” are a set of regulations, codes, and guidelines for the manufacture of drug substances and drug products, medical devices, *in vivo* and *in vitro* diagnostic products and foods. These do not apply to water supply yet. In India, Good Manufacturing Practices are overseen by the Ministry of Health and Family Welfare and by multinationals and foreign enterprises working in India (www.cfpa.com).

Further reading:

www.rnebizguideindia.org

www.business.gov.in

www.cfpa.com



Info Sheet 8: Experience in setting up a business organization in India (Basic Water Needs India, Private Limited)

Practical info sheet on how Basic Water Needs Foundation set up a business in India

Who should read this info sheet?

Entrepreneurs or other organizations that are planning to set up a business in India should read this practical experience carefully and take this further as lessons learned by one of the entrepreneurs involved in this Toolkit.

Practical issues

Basic Water Needs Foundation (“BWNF”) is a Dutch foundation working on a low-cost water filter technology for household use, as well as a bigger UV water purification unit for community use. Most of the work was done in the Netherlands until November 2006, when it was decided to set up a local organization in India. The area was already chosen from previous experiences (pilot projects): close to Pondicherry and close to Auroville in the State of Tamil Nadu.

November 2006

BWNF located a suitable place where they can assemble the larger UV unit. The space was rented by Klaas van der Ven privately at a cost of €120/month. Klaas also located a few people willing to work freelance. He found these people via a friend who knows the area. The person responsible for making the electronics for the UV unit takes over as manager of the local operation while Klaas is absent.

Klaas stayed in India on a six month business visa, obtained on invitation from a local NGO. He had to leave the country after this period because he was also needed in the Netherlands to run the operation there.

BWNF cooperates with a research lab in Auroville, staffed by Western scientists working for a low fee and delivering high-quality work. This is one of the reasons for choosing this location.

July 2007

Basic Water Needs BV (“BWN”) was founded in the Netherlands in July 2007 and this is the basis for the commercial operation. Until this date all activities were run from the Foundation. BWN imported the filter cartridges (10,000 units) into India, with the assistance of a local importer. The local importer asked for a fee of 8% of the commercial value of the goods and it worked well. The filters arrived in India and are owned by BWN.

September 2007

Klaas visited India again and started the process of establishing Basic Water Needs India Ltd. The first step was to have the name researched by Delhi, which was cleared after six weeks. Then the process of registering the Private Limited Company began, which involved a lot of paperwork. This was all done by a local accountant. Please note that, to start a local limited company, you need a certified copy of your passport. This has to be obtained in the country where the passport was issued, so Klaas had to go back to the Netherlands to get it and then return to India to apply for the registration of the limited company, which needs to be done in person.

January 2008

BWN India Ltd. was established and a Director Identification Number (DIN) was issued. The process of applying for a VAT (= PIN) number could then begin. This is only possible after a company has first opened a bank account. Meanwhile the first orders started to come in. The

filter had been successfully tested in the field and the first organizations started to place orders. However, BWN India was still a long way from having an import/export license and did not even have a bank account.

March 2008

After six weeks, the bank account applied for at ICICI Bank was still not available due to internal problems at the bank. Klaas decided to switch banks and apply for an account at the local department of Citibank, although he still favored ICICI Bank. Citibank approved the account within a week, and after some problems with activating the account (a check for €2,000 issued on the name of the new limited company was needed) the bank account was opened.

Klaas could now apply for a VAT number. Without a VAT number you cannot sell anything. Buying materials is not a problem, although without an Indian bank account all transactions are done against cash, which is taken from the local ATM machine (with a daily limit, which is inconvenient). Note that when you apply for a VAT number you will be inspected. You can check on the Internet how much you need to pay the inspector to be assured of a smooth inspection (Rs.10,000).

All in all, it took more than three and a half months to open a bank account! The company now has a bank account at ICICI Bank. Because the opening of a bank account took so much time, the application process for the VAT number could not start. The next step is to apply for an Import/Export Code ("IEC") with the customs authorities.

Meanwhile, the first orders needed to be delivered. This was done with the help of the local exporter again, with an invoice for the goods at a reduced price (since customs need an invoice with the goods) and later a second invoice by BWN for the rest of the amount due. This might not be entirely according to the letter of the law, but it worked and the goods were delivered.

The process of getting the right numbers, accounts, permits, etc. took little over nine months. It is advisable to start this process in good time. From overseas, you can ask a local consultant or accountant to at least start the process of checking the name and filing the limited company. Then the DIN can follow, then the bank account, VAT number, and IEC (import export code). For a complete description of the legal requirements for starting a company in India we refer to Info Sheet 5. The Dutch Business Support Office in Chennai gives an overview of the process in its business guide.

May 2008

The process of applying for the import/export license and the Small Scale Industry License was set in motion. For the latter the authorities even ask for the amount and value of the tools that are used.

Further reading:

This information was gathered from interviews with Klaas van der Ven, director of Basic Water Needs India Ltd.



Info Sheet 9: Differences between equity and loans

Theoretical info sheet about the differences between equity and loans

Who should read this info sheet?

Entrepreneurs who need to make fundamental choices in the way they want to finance their activities.

Key topics

There is a lot to tell about the difference between equity and loans, but we will keep it short. Debt holders have the first claim on the cash flows of a company. Only after interest payments have been made, can equity owners receive a return on their investment (dividend). Therefore, debt is less risky than equity, but it usually gets a lower rate of return. More specifically, equity gives its owners (shareholders) the right to do the following:

- ❖ Make or approve specific decisions with respect to the business activities. These rights are subscribed by law and agreed in the shareholders agreement or assigned to certain types of shares (called priority shares).
- ❖ Claim dividend as a return on their investments. Of course, dividend can only be claimed when a profit is made, but the sequence of who claims first and how much depends on the type of share (preference shares).
- ❖ Sell or pledge all or part of their stakes. The possibilities and procedures to be followed need to be included in the shareholders agreement. In most cases, existing shareholders have the right of first refusal, meaning that the selling shareholder has to offer his/her shares first to the other shareholders.

A simplified example

You are 100% shareholder of WaterCo Ltd. You are not making any profit. You need €100,000 to build a prototype, test it and finance the startup of production. An independent accountant values your business at €50,000. You own 100 shares, so the share price is calculated at €500. If you offer an investor 50 common shares (€25,000) and 150 cumulative preference 15% shares ("prefs") (€75,000), you keep your majority (75%) but your investor has the first right to receive a yearly €11,250 dividend (15% of €75,000).

During the first two years all profit is used to finance the business. After the third year, WaterCo Ltd. makes €40,000 profit of which €35,000 is declared as dividend. Your investor has the first right to claim €33,750 (3x €11,250) as preferred dividend. You are entitled to claim €833.33 (75% of the remaining €1,250); €416.67 is claimed by your investor as dividend on common shares. Next year, a profit of €125,000 is realized. €111,250 is declared as dividend and €11,250 is claimed by your investor on the preferred shares. €100,000 remains and your claim is €75,000.

Lenders do not have a share in the profit of the business. The rights of investors who give you a loan are put down in a loan agreement. The loan conditions reflect the rights and obligations of lender and borrower and apply to the following topics:

- ❖ Installments and scheme of payments (the term of the loan)
- ❖ Interest and fees (the interest rate plus other recurring or upfront fees)
- ❖ Security (deeds, registered pledges or private security documentation)
- ❖ Ratios (see Info Sheet 8 on business risks)
- ❖ Other conditions (like dividend clauses, ownership clauses, etc.)

Further reading:

<http://en.wikipedia.org/wiki/Loan>

<http://en.wikipedia.org/wiki/Stock>



Info Sheet 10: Sourcing strategies

Theoretical info sheet about strategies that organizations use to source goods

Who should read this info sheet?

Almost every entrepreneur will have to deal with this issue. Sourcing of goods is often an important element in the business model.

Key topics

Companies source many different items. These items can be classified according to their importance for the company (high to low) and the complexity of the supply market (high to low). When we rank the items we divide them into 4 quadrants. The figure below shows these quadrants and the characteristics of the purchase items in them. No matter how much effort you put into a sourcing strategy, you should always keep this in mind and rank your purchase items accordingly. It will help you to determine how to spend your limited time and resources.

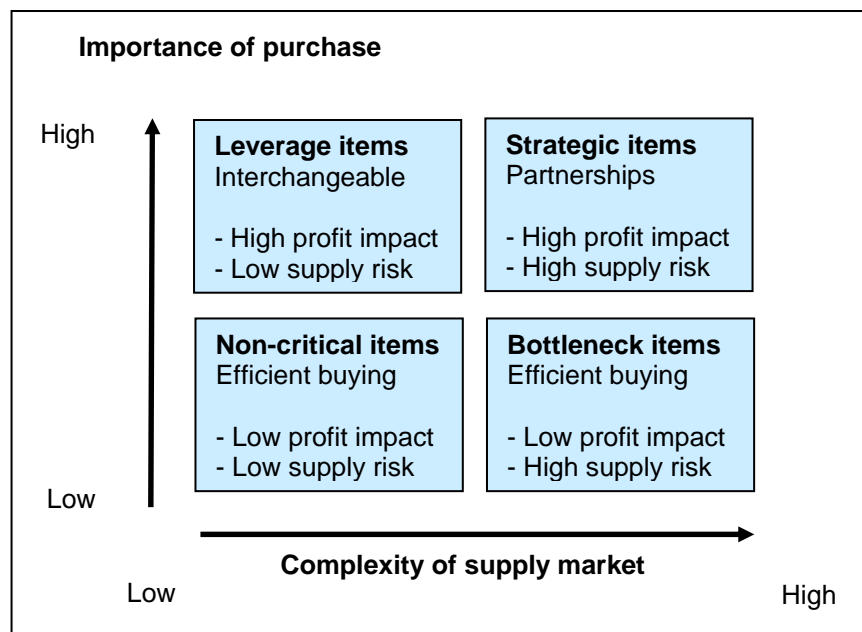


Exhibit 30: Characteristics of purchase items

Sourcing strategic items

In this category of goods the focus is on longer-term benefits. It makes sense to consider having these goods manufactured under your own supervision or sourced at companies with whom you can form some kind of solid partnership. Take, for example, the production of a certain piece of injection molded plastic typical for your design or important for the proper functioning of your product. It could make sense to consider making your own mold(s) to give you the freedom to switch between suppliers and/or use two suppliers so that certainty of supply is guaranteed. This way you gain some protection against opportunistic supplier action on pricing. Aim for long-term and stable supplier relationships.

Sourcing bottleneck items

These items represent a group of purchase items that, although they do not have a huge impact (in value) on your product, they are still complex to buy. It does not make sense to spend much time and energy thinking about making them yourself. Focus on long-term stable supply relations and inventory control, and make a contingency plan. Try to have access to multiple suppliers for this group of products.

Sourcing non-critical items

For this group of products you should try to use your full purchasing power. There are many suppliers and the market is simple and often transparent. Volume and logistic optimization help to get the best deals. The items do not have a big impact on your operation, but they could offer an opportunity to use your purchasing power. Examples of goods often found in this group are office suppliers, packaging and standard components.

Sourcing leverage items

This group represents items that really offer an opportunity to make a difference to your operation. They have a big impact and the market is not too complex, so there is enough opportunity to use your purchasing power. Spend enough time on this group to ensure you get the right deals. If possible, consider pooling with others to create more purchasing power. Examples of goods often found in this group are the costs of IT, travel, and temporary labor forces.

Further reading:

http://en.wikipedia.org/wiki/Strategic_sourcing



Info Sheet 11: Microfinance and microcredit for water and sanitation

Theoretical info sheet about microfinance as an instrument to finance water and sanitation activities

Who should read this info sheet?

Those entrepreneurs who need better access to credit for the poor to reach the BOP market.

Although not a new concept, microfinance has become very popular in recent decades. Its potential has become attractive to mainstream corporate players (like commercial banks, investment funds, and corporate firms), looking for ways to enter the low income segments in society. If you have the ambition to launch water and sanitation products on Southern markets, microfinance enables the poor to access financial products which can be used:

- ❖ To make your product affordable, financing the initial purchase price
- ❖ To stimulate entrepreneurship, e.g. financing a small water kiosk selling your product

Key topics

Historically, microfinance has not been available for financing water supply and sanitation activities because the link with income generation was not directly obvious. More recently, however, the use of microfinance in the water sector has received growing attention. One reason for this is that linking microfinance to water and sanitation can be used to create a business model. Such a business model makes it possible for projects to start functioning without subsidies and to scale up. In addition, the link with microfinance creates ownership for customers, leading to better care for the product and a longer useful life.

Potential clients of microfinance for water and sanitation include small-scale private water providers as well as households. Microfinance has been used for the construction of household latrines and public toilets, manual latrine-cleaning services and various water purifiers.

Partnerships

Companies involved in water and sanitation often partner with microfinance institutions (“MFIs”) and NGOs in order to capitalize on the advantages of microfinance. NGOs and MFIs may also start partnerships. In such partnerships, NGOs engage in awareness raising and capacity building, identify specific water and sanitation needs and often act as financial intermediaries between MFIs and their users, for example by creating and supporting Self Help Groups (“SHGs”) and linking them to MFIs. Companies offer water and sanitation products appropriate to the BOP market, while MFIs make sure that the necessary funds are available. Microfinance and commercial projects can also be linked to subsidized activities such as sanitation promotion. Three examples of successful partnerships are given below.

Case 1: ACCESS and Hindustan Unilever Limited, the Pureit

ACCESS Development Services (an Indian non-profit organization) and HUL (Hindustan Unilever Limited) work together to provide safe drinking water to the poor. HUL designed a

Definitions

Microcredit is the extension of very small loans to poor people who traditionally were not considered bankable. As they lack employment and a verifiable credit history they cannot meet the minimal qualifications to gain access to traditional credit.

Microfinance, on the other hand, is the provision of a wider range of financial services to the poor and includes any financial service used by poor people, including those they access in the informal economy. Microcredit is thus a form of microfinance. In practice, however, the word microfinance is often used to refer to institutions whose goals include profitability as well as reducing the poverty of their clients. It also refers to a movement that envisions “a world in which as many poor and near-poor households as possible have permanent access to an appropriate range of high quality financial services, including not just credit but also savings, insurance, and fund transfers”.

household water purifier, Pureit, which does not require electricity or running water. ACCESS facilitates loans to rural women to buy these water purifiers through its partner microfinance institutions. Pureit costs €30. Women in SHGs pay installments of €1.50 to €3.50 every month, plus interest. Within three months, 1,500 SHG members had purchased the filter. To date, the loan repayment rate has been 100%.

Women in these SHGs are more than willing to make an investment in clean water because many people in this area fall ill from the tap water. This leads not only to high healthcare costs, but also causes many worries about the health of their families and children.



Exhibit 31: The Pureit

Case 2: India's first sanitized slum

Gramalaya uses microcredit for many of its activities. However, in this case it is not MFIs that provide the funds, but the local women themselves who form SHGs and are involved in savings schemes. Startup funding for the Community Toilets project was given by WaterAid.

Sanitation and Hygiene Education Teams (“SHE Teams”), formed by the women of the SHGs maintain the community toilets and collect the money that villagers pay for using them. This money is put into a bank account and used for expenses like the salary of the night watch and cleaning materials. The amount saved is pooled and used for other health and sanitation related activities, like the renovation of an abandoned community toilet and the construction of a child-friendly toilet. Open defecation is no longer necessary, allowing this community to become “India's first sanitized slum.”

Case 3: Financing urban sanitation in Wogodogo, Ouagadougou, Burkina Faso

In Wogodogo, a low-income neighborhood in Burkina's capital Ouagadougou, a savings-credit initiative was set up for the management of domestic waste. Credit was provided by LAGEMYAM, a women's association working for improved sanitation, which also agreed to finance the initial 70% required to start up the credit system. The interest rate was set to cover administrative costs only. Credit was provided on moral grounds: it was difficult to make households repay the credit as the population was used to getting sanitation facilities for free; any revenues from solid waste collection were invested in basic needs rather than paying back the loan. After an awareness campaign to help the population develop self confidence and commitment, the beneficiaries realized that the system could not continue if they did not pay back their loans. The system runs well now and the rate of reimbursement is more than 80%.

Conclusion

The above examples show that using microfinance in the water and sanitation sector can result in successful projects. Poor people are willing to pay for water and sanitation facilities, and assets created can be maintained if a sense of ownership is present. Microfinance can be used to start up such facilities in various different ways: facilities can be created and maintained by the community, women's groups or local entrepreneurs (even if we have not found such examples yet). Microcredit can be made available by MFIs, banks or SHG saving schemes. NGOs may or may not be involved in awareness raising activities.

Further reading:

<http://en.wikipedia.org/wiki/Microfinance>

<http://en.wikipedia.org/wiki/Microcredit>

www.irc.nl/page/40649

www.nextbillion.net

FMO, Intelicap and Goodwell (date unknown) *'Flows: Filling up the Base of the Pyramid: Business and Finance Solutions to Scale up Water Access for India's Poor'*, FMO, Intelicap and Goodwell

George, M., Maheswari, A. & Pandian, N. (2007) *'Inverting the Pyramid: The Changing Face of Indian Microfinance'*, Intellectcap



Info Sheet 12: Business risks

Theoretical info sheet about business risk to take into account when starting up a business

Who should read this info sheet?

Entrepreneurs making business plans to present to financiers should read this information carefully.

Key topics

Business risks

From an investor's perspective business risks are all kind of risks that affect the predictability of the cash flow. Generally, cash flow has three drivers:

- ❖ Cash flow from operational activities (caused by turnover and cost base)
- ❖ Cash flow from non-operational activities (caused by sale of assets)
- ❖ Cash flow from financial activities (caused by receiving or providing financing)

Operational risks

Much has been written on this subject. From an investor's point of view the following categories may apply:

Macroeconomic and political risks (risks at country or regional level)

These risks relate to the economic and political activities of a country or region. Examples are the development of the national income, inflation, import/export, currency fluctuations, political instability, government budget, etc. The scariest scenario related to political risk is that a change of government could mean the nationalization of foreign-owned companies without compensation.

Market risks (risks related to the market you want to launch your product on)

These risks relate to the behavior of your potential customers. What affects their decision to buy your product? You can describe the development of their income, buying power, existence of competitive products, possibility to enter the market as a competitor (barriers of entry), etc. If forecasts on buying power are positive, your revenues and cash flow are most likely to increase.

Production and organizational risks (risks at company level)

These risks relate to the production process and all organizational activities that support it. It starts with the risk of sourcing the raw materials, spare parts and equipment needed, and dependency on additives. Quality (spoilage, waste and malfunctions), efficiency (not meeting your standard production cost price) and quantity (not meeting the delivery time) are risk indicators during the production process. If materials and/or end products are taken in stock, price and market risk of stock (the chance your products become unsellable) comes into play. When you have sold your product, there is a risk of trade debtors: will you receive your money in time? And finally, even after receiving your money your company might be liable to product malfunctions.

Management and governmental risks (risks at management level)

These risks relate to the composition of the management team and the way the company is managed. It starts with the CEO or director. Are you competent enough to lead the company? Who will replace you? As nobody is perfect, risks can be reduced if you put together a management team that fulfills all the competencies needed to make the business a success. Besides the management team, who are the key persons in the company and how are they being motivated to stay with the company in the long run? How is the strategy implemented? What is the organizational structure that triggers and controls revenue?

Contingencies (legal, tax and compliance risks)

These risks concern the compliance with law (legal, tax), regulations, industry standards, certification, and the degree of liability that comes with it. As water is a consumer good and has a direct impact on health, compliance with regulations is a topic you should investigate carefully. Regulations will definitely apply when selling water directly to end users (e.g. bottled water) and may apply when your product is used by end consumers to access or cleanse unsafe water. But even when no law or regulation is in place, reputation risk is something to consider because you do not want to end up in the newspaper being accused of selling inferior goods or products!

Concentration and competition risks

Say you are ready to sell your product in the market and suddenly a NGO gives the same kind of product away for free! And when you have convinced them to subsidize your product too, a governmental program is launched to construct a water pipe to provide clean water in the district you have chosen to be your key market. Water and sanitation are topics on which charities and governments often focus. These stakeholders might consider safe water and proper sanitation as a right instead of a service, offering products for free, effectively “kicking you out of the market.”

Besides the risk of competition, you face the risk of concentration. This is when your competitors merge to form big and powerful companies, or work together in joint ventures. Both risks should be identified carefully and you should develop plans to mitigate these risks before they appear.

Reputational risks

Because water and sanitation products are linked to health, defaults can lead to casualties. Small incidents in a remote area, managed professionally, will not harm a business, but think about the possibility that people may die or really get sick because of a product. Water and sanitation is on the radar of NGOs and they know how to reach the media or officials when things go wrong. On the other hand, word of mouth can be quick, using modern communication means, and the media are powerful nowadays. Businesses should stay in dialogue with those key players and have a plan ready in case things go wrong. Malfunction of products can force the direct closure of a factory, especially when people start falling ill.

Non-operational risks

These risks apply to activities and assets that are not the core business of the company and not directly involved in the sourcing, production, and marketing process. Most of these risks relate to the revaluation of assets due to currency fluctuation, inflation or change in market prices. Usually these risks become evident when your business has to sell assets to meet other obligations. The best way to mitigate these types of risks is to focus on the core business when you are going to invest money in assets (“put your money in machines instead of bricks”).

Financial risks

You need capital to run your business. If your cash flow is insufficient to finance investments or expansion, you will have to rely on external financial sources. The risk of not matching these sources with your current and future credit, plus not being able to meet the obligations which come when attracting these sources, is called financial risk. It can be separated into three specific risks:

- ❖ The risk of not being able to attract external funds (on attractive terms)
- ❖ The risk of not being able to meet current financial conditions
- ❖ The risk that current financial costs (interest or fees) increase

These risks all relate to the risk profile of your company. When operational or non-operational risks increase and you are not able to mitigate them, the risk profile of your business increases. Financiers might then not be willing to provide additional financing against suitable conditions, or change current loan or other financial conditions (e.g. increase interest rates or request additional security). In the worst case, if you are not able to meet your financial obligations (interests, installments, financial ratios and other conditions) you are “in default”, the precursor to bankruptcy. Investors may have the right to ask you to repay the facilities at once, even by liquidating all or part of your assets.

Financial ratios reflect financial risks and financiers often use these ratios to monitor the risks on their investments. The most common ratios are:

Solvency Ratio (S)

This is the ratio of own means to total assets. This definition may differ depending on the country and accounting standards. Banks often recalculate the own means of a company by:

- ❖ Adding unrealized reserves of solid fixed assets like real estate
- ❖ Deducting intangible assets like R&D costs, startup costs and goodwill
- ❖ Deducting the value of minority participations

Interest Rate Coverage Ratio (IRC)

This is the ratio of EBIT (earnings before interest and tax) to annual interest payments. It tells investors roughly how much operational profits can fall before interest payments can no longer be met.

Total Debt to EBITDA ratio

This is the ratio of total debt (all interest bearing liabilities) to EBITDA (earnings before interest, tax, depreciation and amortization). This ratio reflects a company's ability to pay off all of its total debt out of cash flow, of which EBITDA is a measure.

Debt Service Coverage Ratio (DSCR)

This is the ratio of net cash flow to all obligatory installments on credit facilities. A DSCR > 1.3 tells an investor your company is able to repay its current debt according to the agreed installments. This ratio is used when a company is leveraged with high bank debts (in the case of a management buy out or a merger).

Further reading:

http://en.wikipedia.org/wiki/Risk_management



Info Sheet 13: Questions for a starting Dutch entrepreneur

Q&A info sheet about what to ask when you start to export your product

Who should read this info sheet?

Dutch entrepreneurs who want to export their product to BOP markets.

Key questions

Are subsidies available to a novice exporter?

There are several subsidies, for example the Dutch program for starters on foreign markets (Programma Starters op Buitenlandse Markten, PSB). This program has supported SMEs that had little or no experience in entering a new (or practically new) foreign market. The support varies from free recommendations on how to develop and implement an export strategy to a contribution to the costs of a number of activities resulting from that strategy.

The PSB applies to all countries in the world. The EVD, an agency of the Dutch Ministry of Economic Affairs, administers the scheme and cooperates with the regional chambers of commerce and a number of export promotion organizations. An appointment with the consultant for international trade at your regional chamber of commerce is advisable. Consult the website for subsidies and regulations:

- ❖ [International trade consultant at your regional chamber of commerce](#) (“KvK”)
- ❖ [Subsidies and regulations](#)

Where can I find export training?

Several export training courses exist, such as export management, export operations, documents at export and international transport. Training is given at several locations and is organized by Fenedex and EVO. For an overview of export training, contact the following organizations:

- ❖ [Fenedex](#)
- ❖ [EVO](#)
- ❖ [Export training](#) (international)

What can the trade promotion network do for me?

The trade promotion network can help you to explore foreign markets by supplying relevant information about sectors, statistics, subsidies, practical information, and useful agencies. The EVD can help you to make contact with foreign trade partners. You will find most of the information on the EVD website. Other export promotion organizations that might be helpful are:

- ❖ [Dutch centre for trade promotion](#)
- ❖ [Chambers of commerce](#)
- ❖ [Fenedex](#)
- ❖ [Getting in touch with foreign partners](#) (EVD)

Where can I find market information about my product?

As a starter on the foreign market it is important to know if your product has any chance of success. When exploring your market be sure to find information on the spending pattern, the gross national product, competition, etc. The EVD provides this information for a large number of countries worldwide:

- ❖ [World in visibility, country comparisons](#) (EVD)
- ❖ [Country pages](#) (EVD)
- ❖ [Market explorations](#) (EVD)

How do I find consumers abroad for my product?

The trade promotion network might help you in your search for a foreign trade partner. Address information is available for a number of countries. If not, visit agencies or Internet sites that provide information about foreign distributors. The network also organizes regular matchmaking activities which can put you in contact with your future trade partner. Other agencies which are helpful for identifying foreign consumers:

- ❖ [Chambers of Commerce](#)
- ❖ [Trade applications worldwide](#)
- ❖ [Office for trade information](#)
- ❖ [Kompass address files](#)
- ❖ [Guide for export information](#) (KvK)
- ❖ [Agenda](#) (international)

How do I know if a foreign partner is reliable?

Entrepreneurs who want to know if their foreign partners are reliable can contact Dun & Bradstreet and Graydon. Dun & Bradstreet and Graydon have information reports that enable you to analyze the financial strength of a potential partner. The information reports give a picture of their creditworthiness and the company connections of your existing or future partner. Moreover, they provide insight into their payment behavior and other essential data:

- ❖ [Dun & Bradstreet](#)
- ❖ [Graydon the Netherlands](#)

How do I find reliable transportation?

As a starting exporter it is important to know which logistical service providers can look after your transportation. The Rotterdam transport handbook provides an overview of the different means of transport. Other organizations in the transport sector that can be helpful:

- ❖ [Fenex](#)
- ❖ [EVO](#)
- ❖ [VRC](#)
- ❖ [Rotterdam transport handbook](#)

Who can insure my export operations?

In the majority of export operations the exporter runs financial risks. The exporter can cover these financial risks with export credit insurance. Atradius Dutch State Business plc insures payment risks which Dutch companies run on internal and foreign consumers. Atradius Dutch State Business plc is the only credit insurance company in the Netherlands which insures political risks. More information about insurance can be obtained from Atradius Dutch State Business plc in Amsterdam (+31 20 553 22 04):

- ❖ [Atradius Dutch State business plc](#)

Where can I find model contracts?

Several model contracts exist, such as distribution and sales contracts. These model contracts are available at ICC Netherlands, part of ICC - The World Business Organization:

- ❖ [ICC Netherlands](#)

Further reading:

www.internationaalondernemen.nl

Tools

[Tool 1: AT protocol](#)

[Tool 2: Simple financial model](#)

[Tool 3: Overview financial options](#)

[Tool 4: One pager to present your idea](#)

[Tool 5: Quick scan on business aspects of your idea](#)

[Tool 6: Business plan format](#)

[Tool 7: Check list](#)

[Tool 8: Choosing a proper location](#)

[Tool 9: BID financial model format](#)

[Tool 10: MWF financial model format](#)

Attachments

[Attachment 1: Census India](#)

[Attachment 2: Smart Water Solutions](#)

[Attachment 3: Smart Sanitation Solutions](#)

[Attachment 4: Smart Water Harvesting Solutions](#)

[Attachment 5: Starting up](#)

[Attachment 6: Cannes Lions 2008](#)

[Attachment 7: Rural water supply and sanitation sector in selected states](#)

[Attachment 8: Scoping water and sanitation business opportunities in India](#)

[Attachment 9: Formation of an Indian company](#)

[Attachment 10: Water and sanitation as a business – best practices from India](#)

[Attachment 11: Structure of the Indian Government](#)

[Attachment 12: Funding options for an AT entrepreneur in India](#)

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