

Building Sustainable Livelihoods: WaterHope Inc.

Introduction

WaterHope is a social enterprise that is providing clean and affordable drinking water to poor communities and supporting wider social development. It was set up via a partnership between the multinational food and beverage company, PepsiCo and an NGO focussing on humanitarian work and development in the Philippines, the Wholistic Transformation Resource Centre. With an initial focus in slum areas of Metro-Manila in the Philippines, it is a sustainable and scalable approach to dealing with lack of clean drinking water in poor communities and supporting the development of local livelihoods.

In 2010 WaterHope is registering as a company in the Philippines in its own right. The board consists of 3 PepsiCo staff, 3 WTRC staff and 1 additional director. To date it has focussed on launching 3 franchises water stations in poor urban areas of Metro Manila¹. The Water stations are developed in partnership with local NGOs with expertise on micro-finance and micro-enterprise development.

The United Nations Development Programme (UNDP) estimates that the Philippines is on target to reach it's the Millennium Development Goal (MDG) for Environmental Sustainability of which access to clean drinking water is a key target. Although national access was at nearly 80 percent in 2004, this drops to 65 percent for poor households and even lower for 'informal settlers' and slum dwellers.

In communities such as Barangay Bangong Silangan where the first WaterHope pilot was located, nearly 25 percent of the residents don't have access to the main water supply and rely on wells.. Hooking up to the mains can be expensive and out of reach of many families. Although the water may be clean at the start, there are illegal connections and open pipes which can lead to contamination. The local health clinic recommends that if people drink the tap water they should boil it before drinking. Stomach problems are common. Those families that can afford it often purchase distilled or mineral water only for their very young children².

WaterHope water stations have helped provide safe and clean drinking water at affordable prices in poor communities and helped residents improve their lives through their micro-enterprises and participating in the business and through additional social and education activities facilitated by the stations. The picture below demonstrates how the station functions:

¹ The first pilot was in Barangay Bangong Silangan and the second in Pasig and the 3rd in Pasay

² Reference conference paper... brown and welford...

Community Water Stations	Water Dealers	Customers
<ul style="list-style-type: none"> • Produces water at approximate cost of 2.26 pesos per gallon and 11.31 pesos per 5 gallon container 	<ul style="list-style-type: none"> • Purchase water from teh station for 16 pesos per 5 gallon container • Mostly women aged between 30-50 and part of the NGO microfinance network 	<ul style="list-style-type: none"> • Purchase water from the dealers or sub-dealers • Most dealers indicated they sold it to customers for 25 pesos although a few sold it for 20 and some for 30 pesos

Picture 1 – example of the first pilot

What prompted the founders to initiate the business?

The Philippines is one of PepsiCo’s key markets in the Asia-Pacific Region. From a relatively small business 10 years ago it has grown to be a significant market for the company in the region and is the second largest in their Asia Pacific profile. In 2006 the head of PepsiCo’s business in Asia wanted to pursue a community project which fit with the company’s sustainability strategy. ‘Performance with Purpose’ outlines the company’s commitment to financial achievement along with environmental sustainability; human sustainability and talent sustainability. There was a particular interest in addressing access to drinking water issues given the importance of this in the region and the nature of the business.

PepsiCo Asia Pacific’s regional head for CSR got in touch with Opportunity International’s Founder, David Bussau a social entrepreneur who has worked to address the root causes of poverty through responsible wealth creation, microfinance and micro-enterprise development. In the Philippines, David set up WTRC, which works in the Philippines and around Asia on community based development. David’s network had connections to technology providers for water purification and after some discussion, and feasibility analysis, the decision was to focus on a water station that could ‘give back to the community in a focussed and sustainable way’³.

For WTRC there was a clear link between their own vision for the community served by their NGO network. It addressed very clearly the thrust to be more wholistic in addressing the roots of poverty and its various effects. The organisation works with NGOs who provide micro credit schemes. These partnerships provided them with an opportunity to build on loyalty among the NGO clients and members and further advance WTRC’s own objectives. WTRC is also keen to get companies to do more to invest in poor communities and such an initiative with PepsiCo could potentially lead to getting more companies on board.

³ Comments from regional CSR Head

What were the challenges faced in establishing the business? And what strategies were adopted to overcome these?⁴

Finding an appropriate site

Since the communities where the stations are located are poor communities, the likelihood of finding titled land in the size that was needed for both a station and a community center was difficult. At the same time, they needed a municipal source of water with legitimate connections to water and power. Slum areas or areas where the urban poor live are not always equipped with these. While the founders didn't want it to be too commercial, it had to be a location that was accessible or preferably inside the community that would be served. In the end the founders decided to be uncompromising in the site selection and to make sure that they found the sites which fit all the necessary criteria.

Quality vs. Cost

Convincing the communities that although the water was sold cheap, it was actually mineral water and not fake was a critical challenge. Water stations are a common site in Manila. Whereas other water stations sold water for 30-60 pesos per 5 gallon container, WaterHope aimed to get this to consumers for around 25 pesos⁵. WaterHope's water came under suspicion because it was too cheap so consumers (and potential consumers) had doubts about the filtration process. Other stations distil water and essentially remove the minerals whereas WaterHope stations use a UV filtration process. To address this, the stations have had government licenses and approvals plastered on the windows and material of the business. When consumers saw that it was approved by the government they gradually grew to trust it. By keeping the standards of cleanliness high and having an 'open door' policy the stations have demonstrated their high quality.

The model is also asking consumers to make a switch from boiled tap water to purchased mineral water (which raises other sustainability issues). Most households have gotten used to tap water and all the illnesses they would fall prey to. Consumer education on sanitation and health is a key part of the strategy and there are numerous public education and community based health campaigns as part of the activities. Dealers were trained on these issues and could then incorporate key messages into their own customer interactions. These education programmes helped increase demand for the water offered through the station.

Security

Given the nature of the business it is a cash business dealing with money on a day to day basis. As the stations are located in poor communities, the risk of theft is high and real. In the first 2 pilots, theft was experienced until stringent cash controls were put in place. This involved a coupon system in the first pilot to decrease the risk through money changing hands. As the station was selling at cheaper rates than local businesses in terms of price there was also a potential source of conflict which needed to be addressed. The stations have built goodwill within the community through the social programs that were implemented and the protection of the station is ultimately given to the community itself.

⁴ Based on interviews with PepsiCo and WTRC

⁵ Final consumer price depends on individual dealers who set their own market prices. Dealers buy 5 gallon containers from the station at 11.5 pesos per container.

Micro-franchisees and investments from the dealers

For community members who want to sell the water it involves their own investment into the 5 gallon water containers. The USD 2.5 price for a 5 gallon container is quite steep for the local residents but it provides ownership and helps with the financial sustainability of the model. Although the 2 pilots tried to initially give away containers to jump start the dealers businesses this proved to be a failure as the containers were not looked after or maintained. . Through the micro-finance services and expertise of the local NGO, loans could be provided to the interested dealers in order to make the required investment into the containers. As their businesses were up and running they could pay back the loans through the sales of clean water. Going forward, WaterHope is looking at potential for buying in bulk for each franchise station to reduce the overall cost for the dealers yet still requiring their own investment (either through savings or credit).

Adaptive management for 'Base of the Pyramid' business models

The 2 organisations have different languages and there is a need to bridge the gap of understanding and expectations. PepsiCo obviously has enormous management experience it can share for the successful running of this business. However, as one NGO member noted “For companies to develop initiatives with meaning and be responsible must be willing to ‘take a step down’ and learn from communities”. The partnership with WTRC helps to facilitate this and ensure that there are appropriate opportunities for staff engagement. In addition to more typical employee volunteering, PepsiCo management are involved in skills-based volunteering where their core skills can support the work of WaterHope in meeting its business targets.

What are the most critical organizational and management issues when running such a business?

Like all businesses WaterHope must be a financially viable model. However, for a social enterprise like WaterHope, balancing the triple bottom line has raised its own challenges. As the director of WTRC in the Philippines note “the managers of the business have to be as committed to making the business profitable as to running, conceptualizing and budgeting for community development programs”. It’s not always an easy balance but for the founders it is clear. The NGOs commit to making the business sustainable for the purpose of using all revenue to meet the developmental needs of the community. It is imperative that the manager of the station is attuned to both the business and the community needs of the place where they operate.

What’s the impact of the social business and how can this be measured

The Community Water Station has provided water at a lower cost than other water providers in the area. This is more accessible than other alternatives on the market. WaterHope realizes though that this may not be affordable for the poorest of the poor hence the station provides free water to the schools, churches and health clinics in the area as well as public transport stations for the tricycle drivers as a public service. The water from the community water station is also perceived to be of a higher quality by many who sell it and buy it.

According to a preliminary review in 2009, the first pilot station helped 22 dealers and 11 sub-dealers generate additional income. This has varied widely depending on the dealer and the number of containers they have invested in. The majority of the dealers were in an income bracket of between 500 and 1,000 pesos per week and about one-third of the dealers we spoke to were

earning considerably more at over 2,500 pesos per week. Feedback from stakeholders was that this venture has helped contribute to a reduction in stomach problems and water-borne diseases.

The enterprise has adapted the approach of the London Benchmarking Group (LBG) to track inputs, outputs and longer term impacts. Critical stakeholders are involved in setting key indicators related to sustainable livelihoods which are tracked over time. Monitoring and evaluation has been built in from the outset. WTRC and PepsiCo have developed a scorecard to track critical data in an ongoing fashion and monitor monthly sales, social programmes and impact indicators.

Lessons learned and conclusion

Clearly, using an entrepreneurial strategy to address lack of clean water in poor communities in Manila has brought numerous benefits. WaterHope is a self sustainable business model which has community participation built into it. For a company like PepsiCo it enables it to invest in communities in a more empowering and sustainable way which is less 'donor driven'. The pilots have now proven to be success. Whereas there was an initial shortfall in terms of the financial viability of the first pilot station, challenges have been overcome and the model is proven to be financially viable and have a positive social and environmental impact. Challenges such as location, quality vs. price, adaptive management, and ownership structures and investment – which are common to all businesses - have been overcome. By striking the right balance between profit and social purpose, the enterprise has a solid foundation to grow on.

Scalability and replication:

WaterHope is currently reviewing the model to consider applicability in different markets in and outside of the Philippines. So far, a clear success factor has been alignment with the microfinance programme of an NGO and the enterprise will need to consider whether this is possible with other partnerships. Going forward, the enterprise will be looking at questions of whether the business case makes sense in areas of lower population density and in locations with no local or municipal source of water

Student discussion questions:

1. What are the benefits of running WaterHope as a stand alone enterprise? Are there any risks?
2. Do you think there are different challenges to running a 'social enterprise' than a 'regular enterprise'? Please explain.
3. How would you assess the performance of WaterHope? What should the KPIs be? How do you measure and sell 'impact'?
4. Why should a company like PepsiCo be concerned with strategies like this? What are the benefits of this sort of approach as opposed to a traditional 'philanthropic' and charitable model to community investment?

References and further reading:

<http://www.pepsico.com/Purpose/Environmental-Sustainability/Partnerships-and-Community.html>
<http://www.wtrc-tmed.org/>