

# The private sector and sanitation for the poor: a promising approach for inclusive markets in Peru

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*The 'Alternative Pro-poor Sanitation Solutions in Peru' initiative model is a strongly market-driven approach, which advocates moving from viewing the poor as 'beneficiaries' to viewing them as 'customers'. While 'beneficiaries' have needs to be fulfilled by either the state or the municipality, with little concern for their visions and preferences, 'customers' have the right to choose among different alternatives; they are responsible for good decision-making and have the power to shape supply, bringing about new suppliers, thereby improving the sanitation status. This new approach to sanitation in Peru faces some important challenges; it implies a change of paradigm. Also, there is the challenge of maintaining the interest of the private sector when it takes time for consumers' attitudes and behaviour to change. It is too early to point to results; however this approach could be a good opportunity to find new ways to reach sustainable and high-quality sanitation services based on social inclusion, equality and solidarity.*

Keywords: sanitation marketing, sanitation services, Peru, sanitation systems

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How can we involve the private sector to improve sanitation?

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THE STRUGGLE TO REACH the sanitation target of the Millennium Development Goals for the poor in both urban and rural areas worldwide is challenging all development planners and different stakeholders in searching for alternative solutions. How can we involve the private sector to improve sanitation? What institutional conditions allow alternative sanitation solutions to operate with the sustained involvement of the private sector?

These are the core questions addressed by the 'Alternative Pro-poor Sanitation Solutions in Peru' (APSS) initiative. The APSS initiative is a public-private alliance headed by the Peruvian Government through the Vice-Ministry of Construction and Sanitation of Peru, Lima's

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public water utility (SEDAPAL), the Directorate for Environmental Health (DIGESA) of the Ministry of Health, the World Bank, the Swiss Agency for Development and Cooperation, the United States Agency for International Development, the Americas Fund, the Ensemble Foundation and the Water and Sanitation Program (WSP). The WSP acts on behalf of the steering committee of the APSS initiative, which consists of all the aforementioned institutions, and is in charge of the general coordination of it.

The APSS initiative seeks to promote the development of quality sanitation markets for low-income populations in six pilot localities in Peru. These localities are representative of the diverse cultural, geographical and social conditions of the country: the urban marginal areas, rural areas, small towns, the coast, the highlands and the jungle.

The APSS initiative model is a strongly market-driven approach, which advocates moving from viewing the poor as 'beneficiaries' to viewing them as 'customers'. The implications of this shift are crucial. While beneficiaries have needs to be fulfilled by either the state or the municipality, with little concern for their visions and preferences, customers have the 'right to choose' among different alternatives; they are responsible for good decision-making and have the power to shape supply, bringing about new suppliers, thereby improving the sanitation status.

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This model views  
the poor as  
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than 'beneficiaries'

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## Background

In most developing countries like Peru, the provision of sanitation services has generally relied on centralized schemes and standard services emerging from a supply-side approach with a unique provider, whether the state or the municipality. Sanitation services in Peru are provided by 49 enterprises; 47 are municipal enterprises while Lima's public water utility (SEDAPAL) is run by the Peruvian central government (Rojas and Sandoval, 2007). These enterprises provide 80 per cent of the annual water and sewer connections; nevertheless, just half of Peruvian households have access to public water and sewer networks.

In the absence of water and sewer connections, the poor in Peru have received latrines in massive, subsidized and standard programmes. In 2005 almost half of Peruvian households (48.5 per cent) had access to sanitation systems with disposal of excreta to public sewer networks; more than a fifth (22.9 per cent) had drop-hole latrines while almost another fifth had no system for the disposal of excreta (INEI, 2006).

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## Viewing the poor differently to improve sanitation

### *The current sanitation situation*

The prevailing sanitation schemes in Peru pay little attention to the preferences and expectations of the poor about sanitation and to the potential of incorporating other creative local actors (e.g. private sector, civil society) to improve the current sanitation status. These schemes work in a one-way orientation with little room for feedback. The institutional network to support the sustainability of sanitation depends on just one actor, the state or the municipality.

The qualitative and quantitative baseline studies carried out by the APPS initiative in 2007 in representative samples in the six localities, (see Box 1) revealed that the lack of access to sanitation systems, or the nature of the available sanitation system (latrines), is experienced by poor local people in Peru as a manifestation of second-class citizenship.

Although poor people have usually paid for latrines in Peru, they have no one to whom to make a claim in the event that the latrine does not fulfil their expectations or breaks down. The demand study (part of the research package developed as part of the baseline studies of the initiative) found that poor people in the five localities had paid 50 to 90 per cent of the total cost of latrines and had also built them with little or no technical assistance. Maintenance services are almost non-existent. To that extent, latrines are perceived as a factor of social differentiation among Peruvians.

In 2007, the Water and Sanitation Program (WSP) administered by the World Bank started the implementation of the APSS initiative in Peru. In the following two years, the APSS initiative plans to reach 8,000 families with 'toilets' promoted as part of an integrated package (sanitation options, service facilities, financial products and adequate health and hygiene practices) in six poor localities in Peru: Belen, Loreto; Pachacutec, Callao; La Encañada and Namora, Cajamarca; Independencia, Ancash; and Chinchero, Cusco.

The APPS initiative is inspired by former community-led total sanitation and sanitation marketing schemes successfully applied by WSP in Africa and Asia (for further information on these schemes, see Kar, 2003). Nevertheless, the APSS initiative in Peru also incorporates much of the learning from other Peruvian experience in improving the access of the poor to basic services such as microfinance or other services by operating market mechanisms and involving the private sector. For example, since 1983, the NGO APROPO has commercialized contraceptives in strategic alliance with prestigious large-scale laboratories in order to make them accessible for poor people in 10 localities in Peru.

The objective of the APSS initiative is to increase the access of the poor population to *safe, sustainable and low-price sanitation services* in

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A lack of sanitation is perceived as a manifestation of second-class citizenship

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Latrines are perceived as a factor of social differentiation among Peruvians

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The initiative builds on Peruvian experience in improving the access of the poor to basic services

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### Box 1. Baseline studies for operating sanitation markets in Peru

The APSS initiative developed three studies as part of the baseline research:

*Sanitation Demand, Behaviour and Baseline Study in Peru, by IMASEN in 2007*

Objectives:

- To establish the perception maps of well-being, health and sanitation and better quality of life
- To obtain household characteristics: socio-demographic, economic situation; access and use of health services, morbidity associated with sanitation; and family and community infrastructure
- To establish sanitation coverage and type of coverage among target population

Methodology:

Qualitative and quantitative surveys with 1812 families consulted through a household survey and sanitary inspection.

Focus groups (24 FG, n=6)

Non-participant observation (n=40)

Households: mothers and heads of households with adequate latrines in use, not using latrines and without latrines

*Study on the Supply of Low-Cost Sanitation Products and Services in Peru, by Ricardo Rojas and Pedro Sandoval in 2007*

Objectives:

- To establish the distribution chain:
- Identify products and services, local product and service providers: small businesses and artisans (bricklayers and plumbers)
- To establish sanitation technologies in use;
- Analyse the quality of sanitation products and services

Methodology:

Interviews with key actors (NGOs, microfinancial institutions, banks, regional and local authorities) in six localities and at national level (n=64)

Analysis of qualitative and quantitative household survey

*Study on Financial Opportunities for the Development of the Sanitation Market in Peru, developed by Macroconsult and IEP in 2007*

Objective:

- Identify opportunities for the development of sanitation financial products and market in Peru

Methodology:

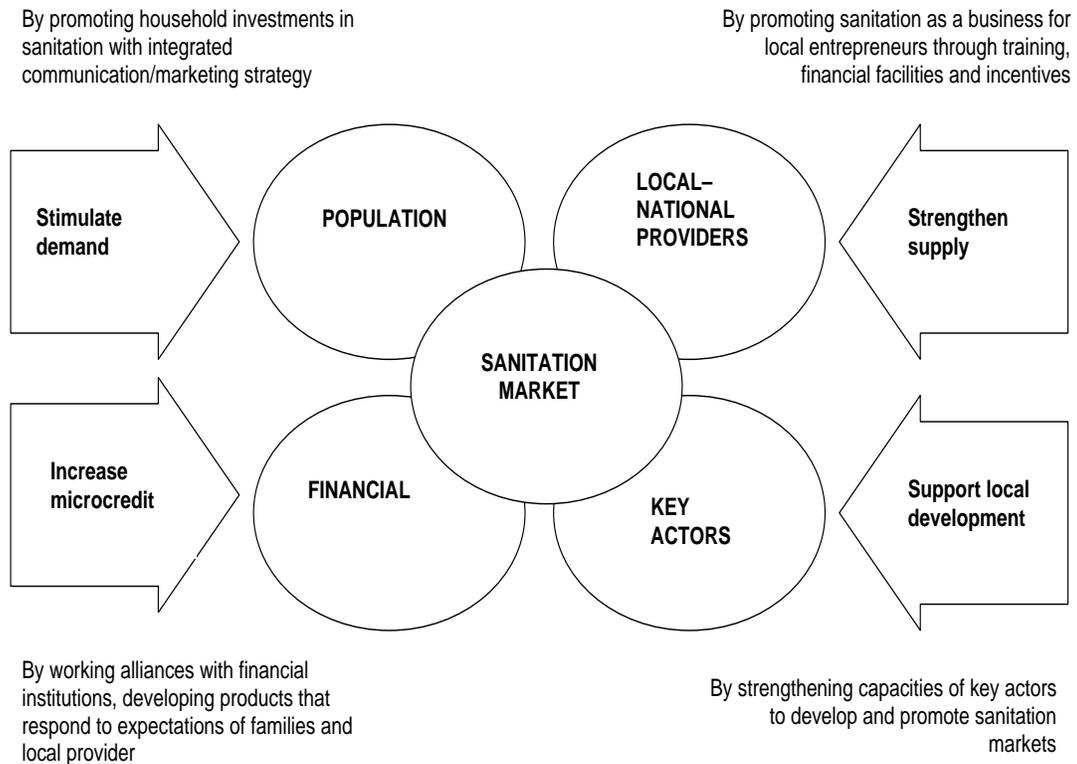
Interviews with key actors (NGOs, regional and local authorities, retailing stores, local manufacturers, service providers and population) in six localities and at national level (n=215)

Analysis of qualitative and quantitative household survey

Source: APSS 2007 Reports

order to improve their health and decrease the environmental impact of inadequate sanitation practices. The working strategy of the APSS initiative has been implemented through four components: 1) demand stimulation; 2) strengthening of the supply; 3) access to microcredit options; and 4) supporting institutional capacities (see Figure 1).

The APSS initiative proposes a market approach to sanitation based on the interaction of: 1) a demand that gives priority to sanitation and demands quality products and services; 2) a competent, articulated and profitable local-national supply able to provide quality products and services; 3) a microcredit system which includes financial products for sanitation; and 4) key actors, as the private sector, committed to sustainable sanitation management, as well as to the promotion



**Figure 1.** The sanitation market approach

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Improved sanitation is promoted to increase the value of their housing investments and their social status

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and regulation of this market. It pays special attention to the active involvement of the private sector in sanitation supply, promoting it as a business opportunity to benefit local development as well.

According to the local environment and culture in the six localities, the APSS initiative proposes alternative sanitation solutions as a way for poor families not only to improve their health but also to increase the value of their housing investments and their social status. Emphasis is placed on the role played by local governments in the endorsement of institutions to support the sanitation market in the scope of demand-driven public policies.

#### *Assessing and stimulating the demand*

This market approach proposes to assess: 'what do poor people want in sanitation?' The baseline studies (see Box 1) identified that 30 per cent of the households in the pilot localities have no access to sanitation, while 55 per cent with access to some kind of sanitation system have a latrine, but they are not satisfied with it (Table 1). They think

**Table 1.** Perception of people about latrines in the APSS initiative pilot localities, Peru (Baseline Study 2007)

	Yes	No
<i>In your opinion latrines are:</i>		
Secure	57%	42%
Hygienic	70%	29%
Easy to handle	58%	41%
Easy to build	84%	16%
Cheap	82%	18%
Easy to clean	59%	40%
Modern	29%	70%
Foul smelling	79%	21%

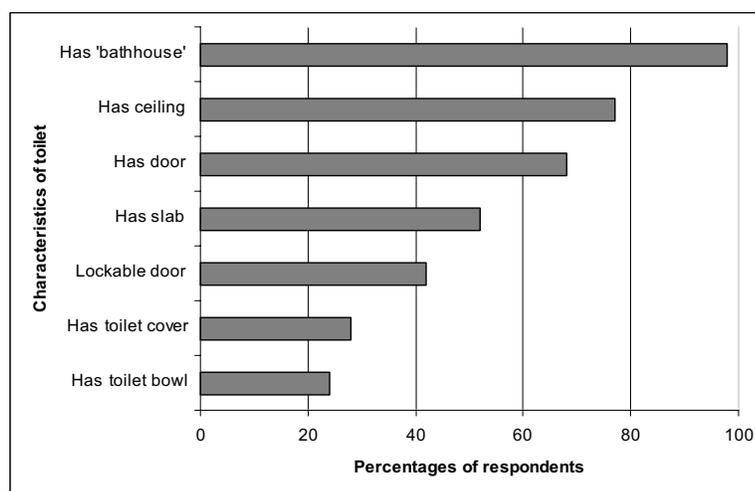
Source: IMASEN, 2007a. Prepared by Macroconsult-IEP, 2007

latrines look awful, smell bad, attract flies, and are unsafe sanitation systems that suggest they are second-class citizens.

Latrines have different connotations among the poor population. As reported by the demand study, these meanings and connotations depend on the technology and quality of the available latrines, but in most cases they are related to bad perceptions. In poor people's minds, latrines are like a label saying, 'I am poor'.

The prevailing conditions of the available latrines suggest that improving sanitation for these households goes beyond access and addresses quality concerns as well (see Figure 2). In the pilot zones, one in three latrines has no door and one in four has no ceiling, the lack of adequate building for latrines reinforces the perception of latrines as unsecured, no-privacy systems.

A lack of adequate superstructure reinforces the poor perception of latrines

**Figure 2.** Characteristics of latrines in the APSS initiative pilot localities (2007)

Source: IMASEN, 2007a

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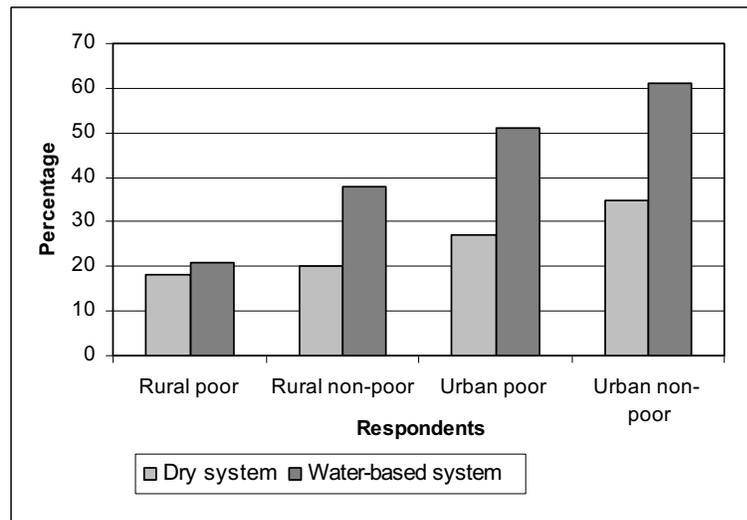
Many poor people expressed a willingness to invest in run-off sanitation systems rather than in improved latrines

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While poor people look for a *lasting, definitive and integrated* sanitation system, they have been receiving latrines which are perceived as a *fragile, transitory and partial* system given the fact that they lack access to public water and sewer networks. These expectations also suggest there is a preference for sanitation systems linked to run-off water. This is confirmed when assessing the willingness to invest in different sanitation options among the poor and the non-poor in the pilot localities (Figure 3). A greater percentage of the poor, in either urban or rural locations, has shown willingness to invest in run-off sanitation systems rather than in improved latrines.

People's expectations about sanitation represent a challenge that needs to be responded to by working on how to transform latrines into 'suitable, secure, comfortable and definitive products' (WSP, 2004), allowing demand-supply interactions in sanitation. If the challenge is to be met, the articulation and interaction of a range of local suppliers with innovative capacities, as well as alternative products and technologies offered by national providers, become crucial. The APSS initiative promotes this articulation and interaction by establishing reliable alliances with the private sector and promoting sanitation as a business.

The baseline studies also found that improving the health conditions is not a motivator to invest in sanitation for these householders, but improving housing could be a strong one (IMASEN, 2007a).



**Figure 3.** Willingness to invest in sanitation systems: dry systems versus water-based systems

Source: IMASEN 2007a

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Linking improved sanitation to better housing was a strong motivator to invest

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Therefore, motivation to invest in sanitation in the context of the APSS initiative would need to be linked to better housing and improved social status.

The APSS initiative works by stimulating demand and looking for a behavioural change in the population in favour of health and sanitation. The APSS initiative works to change sanitation attitudes, practices and knowledge through promotion, information and education. It has produced an integrated market communication strategy for behavioural change composed of sales promotion and post-purchasing support to customers. Different community actors are involved in the promotion of sanitation alternatives: sales promotion includes local audiences, audiences at schools and health centres. Sales promoters are trained to give sanitation information and counselling.

### *Strengthening the supply capacity*

Generally, the local sanitation supply chain does not work in articulation or does not exist at all in poor localities. In the APSS intervention localities, the supply chain of sanitation products and services involves a wide range of diverse and unconnected providers. It involves large-scale enterprises (transnational enterprises) linked to the sanitation industry at national and international levels, such as Eternit, Rotoplas, Amanco and Celima, with outreaching networks of local retailers. It also involves different regional providers who produce and commercialize inputs. There are also artisans who produce sanitation products with local materials (Rojas and Sandoval, 2007). Installation, use and maintenance services may exist but are not necessarily qualified, certified or articulated to the provision of sanitation systems. They all work in separate ways making it costly for poor families to access sanitation.

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Supply has been diversified through a catalogue of alternative sanitation technologies

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The APSS initiative partners (sanitation enterprises, non-governmental organizations, local governments, steering committee members, national sector authorities and others) have been working on the articulation of these supply actors. One important outcome has been the diversification of supply through the development of a catalogue of alternatives under five main sanitation technologies. This catalogue includes sanitation options for people without access to water services, such as ventilated improved pit latrines or ecological latrines; options for families with water services; options for households without sewerage systems (latrines with filtration systems and septic tanks); and options for families with access to sewerage systems but without house connection as yet (see Figure 4). The design of these alternatives paid special attention to adequate building and privacy for 'toilets' in order to overcome the user's perception of the second-rateness of former latrines.

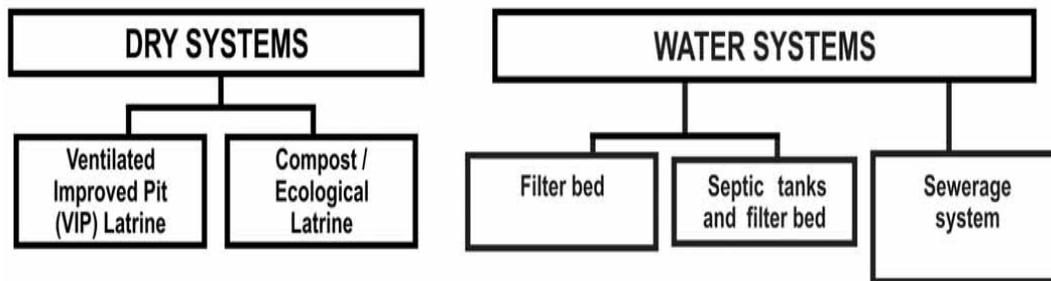


Figure 4. Sanitation options in the APSS initiative pilot localities (2008)

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The competences of retailing stores, sanitation service providers and local sanitation manufacturers have improved

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In the case of water systems, there are also alternatives to a bathroom: a basic bathroom with a standard room and toilet; an improved bathroom that includes the standard room, a toilet and a sink; and a complete bathroom that includes a toilet, sink, and a shower.

At local level, the APSS initiative has improved the competences of three types of sanitation provider: retailing stores, service providers and local sanitation manufacturers. The focus of the strategy is on developing an accessible point of sale for communities in terms of place and integrated service.

The APSS initiative is validating a programme to certify service providers for the installation and maintenance of the alternative sanitation options. This programme is run in alliance with educational institutions, private sector enterprises and local governments.

#### *Extending the finance market for sanitation*

Just 14 per cent of the households in the five pilot zones have had access to some kind of credit facility, but not for sanitation. The microfinance sector in Peru is quite active but is not really diversified; it is concentrated on meeting the needs of commercial and productive activities, with relatively short terms (3 to 6 months), high-frequency collections and high rates of interest, while there are not yet micro-lending options for consumption and or medium and long-term investments (Macroconsult and IEP, 2007).

Microfinance products to facilitate access to improved sanitation for the poor would mean a step towards diversification. That is why the APSS initiative received a positive response from the local and national financial sector. Three different kinds of financial institution have been involved: international banks (Scotiabank), national and regional microfinance organizations (Mibanco, Edyficar, CMAC Cusco) and non-regulated institutions integrated by community-based organizations and NGOs. The financial products and schemes they are going to operate are diverse. For instance, Maestro Home Center

in Lima – a sanitation wholesaler – is going to promote a credit card, while microfinance institutions (Mibanco, Edifycar and CMAC Cusco) will operate individual and community loans, as well as savings groups (see Table 2).

All these financial partners will make a deposit in the local providers' accounts for loan disbursements to assure that the credit will be used in sanitation. Interest rates vary between 24 and 70 per cent per annum in periods ranging from 6 to 60 months. The objective of involving these financial partners is to increase the opportunities for poor families to access sanitation options (see Box 2).

### The role and involvement of key local actors

In this sanitation scheme, local government and the private sector have core and precise roles to play in achieving sustainable sanitation. A key issue in sanitation markets is to work on the institutional arrangements that allow sanitation demand and supply to operate

#### Box 2. Sustainable sanitation and Scotiabank

Scotiabank is a large commercial bank with a third of the total share of financial markets in Peru. A bank representative, Miguel Angel Arce, explains the positive response to the APSS initiative as follows:

'WSP called us last year to take part in a project in some low-income localities outside Lima (Huaraz, Cajamarca, Iquitos), to start working in a new mechanism to improve sanitation for the poor. We had no need to think it over twice and said yes. Why? This goes beyond social responsibility; we are interested in experimenting, in finding new ways to expand access to credit for lower-income groups. We want to support their struggle to improve their living conditions. We are interested in making them creditable, 'good payers'. This is a process; we want to know them, to assess their potential and to experiment with non-traditional financial services.

To start this process, the orientation of non-governmental development organizations in the promotion of credit facilities for customers has been very important. In the APSS initiative localities, sales posts will be installed in local retailing stores; people will pay there (in one place) for toilets and credit. We will train sales promoters to check signatures for credit but the evaluation of each family is our responsibility as bankers. Later on we will give credit to providers. We plan to reach 30,000 families in three years and feel confident they will be able to pay back. People will start with the toilet but once they have paid, they will want to improve other parts of the house and we will be there. They will grow with us. We have to look at these segments because *they are a real part of Peru; they are customers* we need to know how to reach. The economy is growing and these people have to be incorporated into the growing process; good sanitation is a first step.'

Source: Extract from an interview with the representative of Scotiabank, Miguel Angel Arce, in the context of the APSS initiative implementation strategy

**Table 2.** Financial options in the APSS initiative pilot localities (2008)

Financial institution	MAESTRO	EDYFICAR	MIBANCO	ADRA	SCOTIABANK	CAJA MUNICIPAL DEL CUSCO
Kind of institution	Retail company	National microfinance institution	National microfinance institution	NGO. Non-regulated institution	International bank	Regional microfinance institution
Product	Credit card	Individual loan	Individual loan	Saving groups	Individual loan	Individual loan
Name/brand	Not defined yet	Edy Baño (Edy Bathroom)	Mi Casa (My House)	Not defined yet	Autoconstrucción (Self-building)	Mi Baño (My Bathroom)
Characteristics	Individual loan on basis of conventional qualification	Individual loan	Individual loan without mortgage guarantee, but with demonstration of income and house ownership	Community loan with supportive guarantee. Qualification based on the saving group behaviour.	Individual loan on basis of conventional qualification such as shared guarantee.	Individual loan on basis of conventional qualification
Period	Not defined yet	10–12 months	3–60 months	12–18 months	6–24 months	Not defined yet
Annual rate	Not defined yet	32–35%	34–55%	35–38%	47–70%	Not defined yet
Level of innovation related to sanitation	Product being adjusted; not launched to market yet	New product	Existing supply	New product	Existing supply/new product	Adjusting of product not launched to market yet

Source: APSS files, 2008

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By-laws are needed for organizing and operating wastewater treatment for sustainable sanitation

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fluently in alignment with development plans and policies. The implementation of rules or by-laws, incentives and sanctions to guarantee technical and quality benchmarks to guide customers and producers, defining to whom customers will make complaints if their expectations are not fulfilled, and organizing and operating rational responses for wastewater treatment are at the forefront of sustainable sanitation.

Local government is meant to promote and provide an enabling institutional environment for the adequate operation of sanitation local markets and to implement public integrated sanitation policies. Together with local communities, they are responsible for making the installation of public water and sewer networks and the construction of wastewater treatment plants and drains local investment priorities.

In the six localities, the development of these local government responsibilities implies strengthening local government capacities to understand the market approach to sanitation and to be able to identify its promotional and regulation tasks. The APSS initiative has been supporting local governments in customer protection as well as in education and information campaigns for adequate health and hygiene practices.

The vision of the long-term management of sludge from pits (treatment and disposal) is as yet limited in the APSS initiative localities, which is why it is working on strengthening capacities of local service providers in order to include sludge management as part of their services (implementation, maintenance and final disposal) by training and qualifying them. The APSS initiative addresses the local governments' capacities for defining regulations for the management of sludge and to promote it as a business opportunity for the private sector.

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Regulations will guarantee that all tourism businesses have adequate sanitation

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The APSS initiative promotes the operation of local management committees to support the development of local government and local communities' responsibilities in enforcing sustainable sanitation. Local management committees are multi-actor spaces for coordination and planning; they include local authorities from the health sector, schools' representatives, the municipality, local sanitation providers, community organizations and NGOs.

One example is the case of Chinchero, a touristic rural town in the Inca's Sacred Valley route in Cusco, where the local management committee is introducing a regulation to guarantee that all tourism businesses (particularly restaurants) have adequate sanitation services in line with the local development plan and guidelines (see Box 3).

**Box 3. The local management committee in Chinchero: Adequate sanitation in local businesses in line with local development plans**

The local management committee (LMC) formed in Chinchero, Cusco, under the umbrella of the APSS initiative is working out a municipal regulation to control the adequate installation or improvement of *sanitation* services in local businesses, with special focus on restaurants. Chinchero is a tourist site in the rural countryside of Cusco and promoting good tourism is part of the local development plan.

The regulation is an initiative of the LMC. Chinchero receives many visitors from different parts of the world each day (900 to 1,000 visitors) and the idea of the regulation is to guarantee that these visitors receive good services. Nevertheless, this regulation has the potential to go beyond restaurants to improve local sanitation as a whole. Extending the tourism supply in Chinchero will imply involving households in tourism services, particularly in providing accommodation to visitors. The regulation will make having adequate sanitation services a prerequisite for all businesses to obtain an operating licence and could be an incentive to install alternative sanitation services in households as well. Inasmuch as it is the local government that gives the licence for these businesses to operate each year, it is in its power to guarantee good sanitation in tourism services.

The text of the regulation will be presented to the Consejo Municipal and is highly likely to be approved.

*Source:* Extract from an interview with a team representative of ADRA (APSS local operator of sanitation markets in Cusco)

**Private sector participation: Window of opportunity for consumers and entrepreneurs**

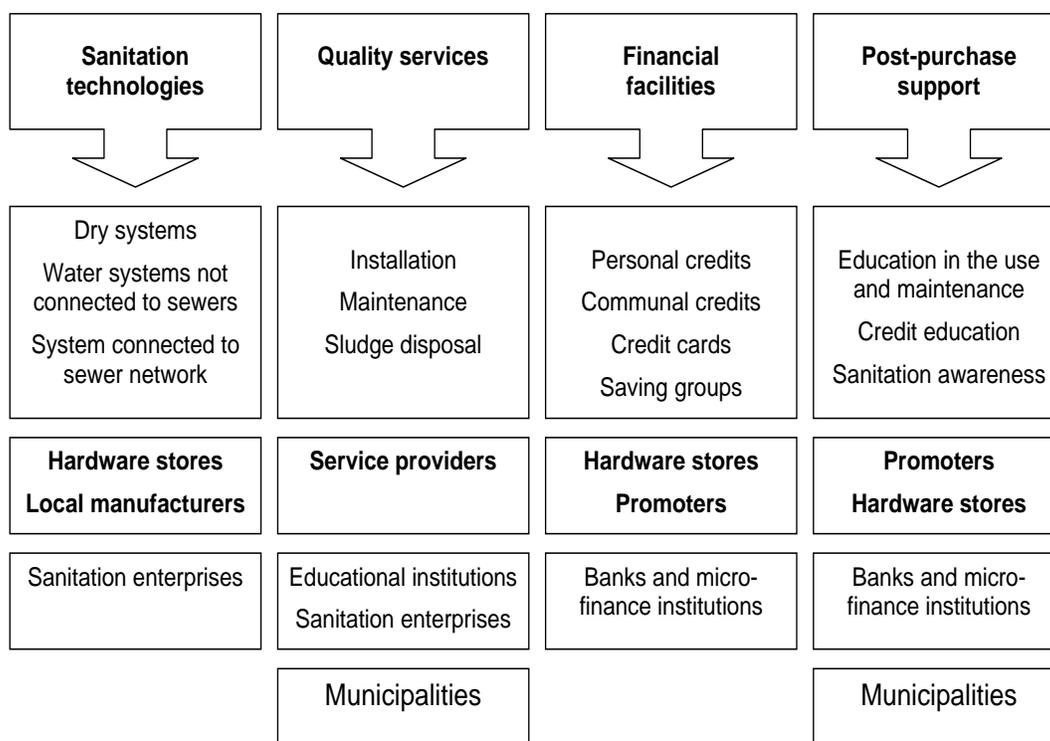
By July 2008, households in the pilot localities will have access to an integrated sanitation package consisting of: sanitation options, installation and maintenance services, financial facilities and post-purchasing advice and support. They all represent new benefits, but the most important would be the potential of the integrated package to reduce transaction costs for the poor to access a sanitation system. They will have simultaneous access to sanitation products and services, eliminating the costs of dealing with different product and service providers, the costs of getting information from different and dispersed providers.

This alternative sanitation product will be available through the articulation and interaction of the key actors whom the APSS initiative has encouraged to get involved in sanitation markets for the poor (see Figure 5). Householders would be able to access this sanitation package as a whole, simply by contacting a local sales promoter (third row down in Figure 5), while in the past they had to deal with all these key actors individually. The challenge is to operate an integrated sanitation package.

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The challenge is to operate an integrated sanitation package

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**Figure 5.** Involvement and role of the private sector in sanitation markets (APSS Peru)

Business charges are to be established and observed in late 2008. Nevertheless, the APSS initiative has endorsed the elaboration of business plans among the 21 local retailing stores that will provide the sanitation options created under the APSS initiative umbrella as well as the provision of installation and maintenance services.

The development of a sanitation market requires a different orientation of subsidies. In the past, sanitation programmes included subsidies for the poor to access a product they had not chosen and they had no way of shaping according to their preferences. In this new approach, the subsidy goes to help local-national actors to interact and to look for consensus and institutional arrangements to make sanitation take off as a dynamic factor for local development. In the sanitation market scheme, the subsidy goes to build market mechanisms to give poor people the chance to choose the kind of sanitation system they dream of.

Through their research and innovative capacities and their ability to foresee market opportunities, private sector enterprises are key actors in product design as well as in the information and educational

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The subsidy goes to build market mechanisms to give poor people the chance to choose their sanitation system

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efforts addressed to families (a result of their marketing expertise). They are also active partners in training and supporting local sanitation service providers.

The positive response of the private sector has three aspects:

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The private sector is looking for new markets among the poor

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1. Commitment to and interest in incorporating the lower income groups into the dynamics of growing markets in the context of a growing economy by means of innovative pro-poor mechanisms. They are looking for new markets to increase their profits.
2. Private sector enterprises in Peru are increasingly active in their commitment to their stakeholders under a corporate social responsibility framework, which values preserving a crucial resource such as water.
3. An entrepreneurial and emergent micro-business sector that now has better expectations for the future grounded in macro-economic stability, peace and the reconstituting of democratic institutions in Peru.

So far, the APSS initiative has been successful in involving the most important enterprises in the country in the improvement of sanitation for the poor. These enterprises have decided to try to make pilot investments in favour of the sanitation market approach.

Nevertheless, the sustained involvement of the private sector in sanitation for lower income groups in Peru demands a response to some challenges:

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Subsidies can provide support for a period of time while enterprises get to know the poor as customers

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1. Meeting poor people's sanitation demands requires permanent innovation and research capacities to develop new sanitation products of high quality and low costs.
2. While behavioural change to endorse good sanitation for the population is a medium- and long-term task, enterprises frequently have short-term objectives. The challenge is to match this different timing between investments and outcomes. The role of subsidies becomes crucial in this regard. Subsidies can provide support for a period of time while enterprises get to know the poor or the initial product design so that local actors such as the private sector can start trying out sanitation markets.
3. Another challenge to be faced in order to guarantee a sustained involvement of the private sector would be the optimal development of the public sector in its key role of promotion and regulation of sanitation dynamics, in its diverse aspects: product and service quality, optimal management of sludge and wastewater, proposing them as business opportunities for the private sector.

This new approach to sanitation in Peru faces some important challenges; it implies a change of paradigm. The promising results are an initial response to the core questions addressed by the APSS initiative; however it opens opportunities to explore the potential of incorporating the private sector in sanitation improvement for the poor, through market mechanisms. It also seeks to build bridges between a huge number of local, small and mostly informal entrepreneurs, located at the bottom of the distributional pyramid, and the formal and transnational private sector in Peru. In that sense, the sanitation local market approach could be a good opportunity to find new ways to reach sustainable and high-quality sanitation services based on social inclusion, equality and solidarity.

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