Interview with William Puyo, General Manager KWSH

You joined KWSH after working as a consultant for OBOR Capital, a private equity firm that initially invested in KWSH in 2013. What exactly fascinated you about changing sides and tackling the access to clean water challenge?

William Puyo

When I was with OBOR, the clever, sound, and innovative business model of KWSH immediately caught my attention. It was clear that KWSH just needs hard work to create great impact and I wanted to be part of this journey. After I came back to Cambodia with a master’s degree from the UK in my pocket, I first stepped in for GAEA Waste Management’s general manager during her maternity leave. This was a very valuable experience for me. I discovered that KWSH and GAEA share similar challenges: Both are private enterprises providing a public good with very heavy capital expenditure and a licensing system regulated by the government. So when KWSH needed a general manager in July 2018, I didn’t hesitate to put myself forward.

How difficult was the switch from private equity to the operational side?

I had some operational experience and knew the enterprise quite well, but I’m definitely not an engineer. I spent a lot of time with the operations and engineering teams, made my hands dirty and tried to understand how things work in practice. We also travelled to the individual stations and met with our end-users to get their perspectives and learn how we can improve our customer service and products.

Do you remember a specific ‘aha moment’ when you first met the people that KWSH is serving?

One thing that really surprised me was the customers’ aversion to the taste and smell of chlorine. Drinking water is only a small share of our sales, but it still struck me that our end-users either cooked our clean water again or used filters on top. People boil water almost religiously in Cambodia, so it’s hard to change this long-standing behaviour.

Did this insight make you reshape your marketing messages?

Absolutely. One of our lenders, the Stone Family Foundation, gave me very valuable advice. They are involved in the sanitation sector and learned that selling latrines with messages about health didn’t change people’s behaviours. It only started to work once the sales arguments shifted to safety, privacy and convenience. The situation is similar for clean piped water: It’s very difficult to convince a family who has been using and boiling well water for more than 50 years and never encountered any serious health problems. So we refocused our messages on reliability and convenience and this made the trick. With us, clean water is available 24/7 throughout the year, regardless of whether it’s rainy
season or not. Also, families don't need to worry about pumping and collecting water, an arduous and time-consuming task that typically falls to women and children.

At a water treatment station

In such a challenging market, what are the main issues you see today?

Cambodia is among the most successful post-conflict countries when it comes to expanding access to piped water to rural areas. The government's strategy was to hand out licences to the private sector, which definitely worked, especially for denser areas. Often, the providers are family businesses with strong emotional ties and a huge pride in the province they are serving. But today, many of them struggle to expand. One reason is that in licence areas that are still unserved, the households are typically too far apart to make coverage economically viable. In existing license areas, on the other hand, the providers often lack the funding as well as the operational and technical expertise in utility management to reach more households. As a result, most operators only cover 40% or even less.

With KWSH, you strive to tackle this problem by consolidating a very fragmented market and making it more efficient. Why has nobody else tried this 'buy and build' strategy before?

I remember a story about a family who took a licence area back in the 1990ies. They had no experience in building a water treatment facility and once they did, the water that came out wasn't better than the one that went in. They had spent 180,000 USD on zero improvement and had to start from scratch. This is typical for our market: it has seen a lot of trial and error in the past. But in my view, now is the right time for professionalization. Of course, international utility experts are also interested in getting their feet into Cambodia. But they are not ready to go through the first painful years when you have to build a small portfolio and work through difficult transactions. At KWSH, we have gained a lot of wisdom from this work that others are not willing to put up with. For example, very few of the small providers that we invest in have heard about discounted cash flow analysis or professional due diligence. This is a completely foreign language to them. Thus, the experience and level of trust that we've built over the years is a big advantage and value add.

KWSH has different types of investors aboard, from DFIs to venture capital and private equity firms to impact investors. Did you ever have to cope with tensions between impact and commercial objectives?

What initially attracted me to KWSH is precisely the dual nature of our model. The metrics for commercial and impact returns are generally the same. In most cases, there's a fundamental alignment. Tensions only arise when we have a monopoly in a license area
and for example, 70% of households are viable from a commercial perspective, but the other 30% are not. We would be losing money if we expanded our system to serve these remaining households. Fortunately, our investors and lenders generally have an impact objective, too. But when it comes to last-mile distribution and reaching the most difficult households, the appeal and value add of grant programmes - and of SIINC for WASH in particular, - is very strong.

**Speaking of the SIINC for WASH programme: How did your existing investors and stakeholders react when they first heard about this opportunity?**

Very positively. The buy-in from our investors was pretty much immediate since SIINC is a clear win-win-win situation for all parties involved. For our existing grant providers, it makes sure that we stick to our mission statement and impact objective. For our lenders and shareholders, SIINC improves our commercial performance by allowing us to install connections to last-mile households and then serve these households in perpetuity. And for our end users, SIINC enables them to access services that they would otherwise be excluded from. You have to understand that paying a water pipe connection fee of typically 35 to 70 USD is a huge investment for these households. Subsidising this fee can make a real difference.

**What are the next steps for KWSH to make a difference and how can SIINC help you to achieve your goal?**

At the moment, we have covered 5 licence areas with around 40,000 households, out of which only 15,000 are connected. Now that we’ve proven that our model works, we want to grow organically in our existing licence areas as well as expand beyond. The first step is to use commercial financing to cover the viable areas that we haven’t covered yet. The second step is to move into last-mile areas, where SIINC will definitely help us to be successful. The third step is to boost inorganic growth and acquire new stations so we can reach a total of 100,000 households. The bigger vision is to become one of the leading water utility providers in Cambodia and probably build more products and services around that.

**When it comes to step two, last-mile distribution, where exactly do you see the additionality of SIINC?**

If you look at our two oldest licence areas, connection rates are at around 65% right now. Without SIINC, we simply wouldn’t be able to go for the remaining 35%. This is why the first SIINC metric focuses on reaching those people that would otherwise be left behind. This incentive is extremely
valuable since it gives us the flexibility to subsidize the connection fee and thus overcome a major barrier for the households: the relatively high initial investment cost to access the system. The second SIINC metric targets new acquisitions and helps us boost the inorganic growth that we’re trying to achieve. This is specifically important for areas that are a bit more difficult to cover, for example, because they have a higher proportion of poor households or include families without ANY type of access to clean water.

How did you experience the process of defining these exact SIINC metrics with the team of Roots of Impact and Aqua for All?

It went relatively smoothly but also had a level of challenge that was necessary, in my view. We’ve had some earlier experiences with grant providers, who had very rigid boxes to be ticked. If you didn’t tick these boxes, it didn’t matter whether your impact and business model are strong or not. This can be very frustrating. With SIINC for WASH, however, I was really impressed by the willingness of the team to get a detailed understanding of our model and to figure out how to structure the transaction in a way that makes sense for everyone involved. To me, they did a great job in distilling the essence of our business. I had the same targets in mind from the very beginning, but we all quickly concluded that these two SIINC metrics are the most logical. It was a very collaborative process.

And how did your team react to the SIINC opportunity?

Honestly, the team was very aware of the fact that we needed a solution for the dead-end that we hit every time once the commercially viable areas are fully built out. We had always been looking for a reliable partner to help us push further. So when I applied for SIINC for WASH, I went back to my team and said: “brilliant, we found one!”

Now that the SIINC transaction is closed, what would be your advice to an entrepreneur, who considers using SIINC for his or her company?

I would say that the metrics you choose should be as concrete as possible, easily measurable and verifiable by a third party. This is a big advantage that we have. In my view, the largest benefit of SIINC is the flexibility to tailor it to the needs of your company. As I said before, if you go with grant providers that want to have their boxes ticked, you sometimes find yourself squeezing your impact and business model into these boxes, which isn’t very appropriate. The beauty of SIINC is that you can continue pursuing your own objectives and push them even further.

Let’s fast forward to nine years from now: What is your biggest dream for KWSH in 2030?

It depends much on the financing we can secure, but our big dream is to supply clean water to 1 million or more people in Cambodia by then.

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Interview by Christina Moehrle, Roots of Impact / Pictures by KWSH & Shabana Abbas, Aqua for All