

## **LOCAL FRANCHISEE PPPS FOR WATER SERVICES OPERATION**

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### Abstract:

There is a need in South Africa for institutional innovations aimed at increasing the coverage and reliability of water services, and sustaining those services. The paper describes an alternative service delivery institutional concept, viz the franchising of local entrepreneurs, a PPP model especially suited to developing countries. The concept is being developed with the intention of making it available to emerging entrepreneurs as the basis of a viable business. The franchise would be in respect of components of the water supply value chain that are suitable for small business in that they can be readily systematised.

### Keywords:

Franchise, institutions, South Africa, water

### Introduction:

In the past decade, South Africa's municipalities, assisted by national government, have been remarkably successful in answering the challenge of provision of water supply and sanitation. Large numbers of households are now, thanks to massive investments in

infrastructure, supplied with water services. However, this very success provides the seedbed for future problems. As the number and complexity of water services systems increase, so the operation and maintenance requirements escalate.

The problems are especially evident in the municipalities further from the major urban areas. These often struggle to attract and retain staff (especially engineering staff) that are competent to deal with even the routine responsibilities of operation and maintenance of water services infrastructure. Furthermore, they completely fail to attract the higher levels of expertise (for example with respect to process control of water and wastewater treatment works) that are more readily available in the larger urban areas, where there are larger budgets and the costs of highly trained and experienced personnel are shared by a number of treatment works in relatively close proximity.

Current institutional approaches are too often inadequate, failing to ensure that the new infrastructure provides improved access to basic services for the poor. There is a need to explore a range of alternative options for water services operation and maintenance as well as to selectively incubate innovations, including innovative public sector-driven partnerships with the private, non-governmental organisation (NGO) and community-based sectors, on an experimental basis. Franchising is one such an option.

#### Findings and analysis -- franchising:

For good reason, franchising can be summed up in the slogan: “Being in business for yourself but not by yourself.” The twin driving forces of the franchising concept are: incentives, in the form of focused and quantifiable outcomes (returns, profits, dividends or surplus), and a successful business model that can be replicated widely.

The barriers to entry for start-up small, medium and micro enterprises (SMMEs) in any field of enterprise are substantial. If these can be overcome, many more business opportunities would be enabled and the probability of business failure would be reduced. Franchising is a way of accelerating the development of a business based on a tried and tested methodology. The franchise system firstly systematises the business. A franchisor then identifies potential franchisees, sets up the business, and for several years thereafter supports and disciplines the franchisees. Other essential role-players are the customers or users of the service, and the regulators and funders.

The cardinal elements of the franchise process are:

- identifying components of the value chain that are simple enough to systematise
- discovering best practice
- systematising the business
- selecting franchisors and franchisees
- training
- preparing operations manuals
- undertaking research and development
- continuing support, control and discipline of the ongoing business

For-profit franchising of commercial goods and services in South Africa is extensive, generally viable, and growing rapidly. More than 400 franchised systems operate through more than 26 000 franchised outlets, generating retail turnover (excluding retail petroleum outlets) that accounts for just under 6.5 percent of all the nation's retail turnover. Some 280 000 people are employed in the franchising sector, a good indication of the sector's ability to create jobs. There is much evidence that, everything else being equal, franchised businesses have a far lower failure rate than independent businesses.

#### Findings and analysis -- franchising and water services

A South African Water Research Commission (WRC) study of the concept of franchising, its relevance to the water services sector, and its prospects as an institutional option for water services operation and management, found many characteristics which could, in appropriate circumstances, alleviate problems encountered in water services delivery. At the same time, franchising would stimulate and support the development of local enterprises and (a major objective of the South African government) black South Africans' economic empowerment, all within the municipal service delivery environment. (Bhagwan et al 2006; Wall 2005a)

While franchising is not suitable for investment in new water services infrastructure, it can be suitable for its ongoing operation and maintenance. However there is little experience of the franchising of water services anywhere in the world, and no experience in South Africa, although many existing public-public and public-private partnerships have some characteristics of the franchise approach.

Franchisee water service providers, dependent for their livelihood on the success of their business, would have a strong incentive to perform, and would also enjoy the benefit of the franchisor's expert guidance and quality assurance. On this latter point, a franchisor can ensure a professional approach, quality control, and ongoing training, as well as advice and help when needed.

This help from the franchisor would be of particular value in municipalities away from the major urban centres. Few of these municipalities can afford to employ competent qualified staff. Sample surveys of these municipalities' treatment works, for example, show frequent non-compliance with the performance standards laid down. (DWAF 2005; Snyman et al 2006; Wall 2005b) Significant improvements would soon be seen if the generally under-qualified or under-resourced water services staff in these municipalities could have this ongoing support, mentoring and quality control -- or if the municipality could contract this out, entering into PPPs (public-private partnerships) with others who would enjoy the necessary ongoing support, mentoring and quality control.

Thus there is ample scope for the private sector to assist, and there should be a range of ways in which entrepreneurship in water service provision can be encouraged and supported. If the entrepreneurs were not stand-alone enterprises, but were franchisees, they would enjoy the support of a competent "godfather", and both franchisee and franchisor would be incentivised to make this arrangement work. Many useful pointers

can be found in business format franchising franchisee development programmes as well as in engineering infrastructure contractor development programmes, both of which have good track records in South Africa.

Given that the costs of the franchisor's higher levels of specialist expertise are shared by several franchisees, the franchisor could afford to make this expertise available to each of them on an as-needed basis, and could provide other resources normally only available to larger water services providers. This holds significant benefits for municipalities.

The municipal client's competence to monitor performance and enforce contract compliance is key to it effectively using the private sector. However if a municipality is short of management resources, it would be putting these to better use in managing the work of a third party than in having to cope with the operational issues itself.

The argument for franchising does not depend on the case for or against the participation of for-profit organisations, and there are already elements of franchising in some of the current activities of non-profit water services organisations in South Africa. For example, a valuable asset to several predominantly rural municipalities is the current practice of appointing large water services institutions as "support services agents" to support small, local community-based water services providers. Another example, this time not from a rural area, is eThekweni (Durban) Metropolitan Municipality's "franchisee contract" for sanitation maintenance work, which is not true franchising by any means but does have influences of franchising, management contracting and other antecedents.

The WRC research, undertaken jointly with the Council for Scientific and Industrial Research (CSIR), has involved the formulation of a number of proposals that should in due course become pilot projects.

These proposals are of two types:

- Firstly, proposals that would lead to the establishment of franchisee water services providers offering a full range of water services.
- Secondly, proposals that would lead to the establishment of franchisees who would offer selected services under contract to larger water services providers.

#### Conclusions and recommendations:

The WRC and CSIR work has thus found a great need for alternative water services provider systems, and that water services franchising PPPs have the potential to simultaneously improve the delivery of water services and promote sustainable jobs and local enterprises.

Ongoing research is further exploring and establishing the concept of franchising of water services. Its key objectives are:

- Firstly, to identify and determine which elements in the water services delivery chain offer the greatest scope for franchising.

- Secondly, to develop franchising models for the areas identified by the research (with consideration of legal, regulatory and other aspects).
- Thirdly, to develop guidelines (for use by water services authorities, potential franchisors and potential franchisees) for embarking on water services franchising.

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