

WATER SERVICES AND FRANCHISING PARTNERSHIP PRINCIPLES FLOWING TOGETHER FOR IMPROVED DELIVERY

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Abstract

Water Research Commission (WRC) of South Africa studies have found that franchising partnerships could alleviate and address many challenges in the operation and maintenance of water services infrastructure. Franchising brings appropriate training to those on-site, and also offers backup off-site skills together with the incentive to both call for those skills and to make them available. Findings indicate that many opportunities lie in the franchising of suitable elements in the water services value chain, and a selection of these has been modelled on paper. Procurement issues have been identified. Principles for embarking on water services franchising (for use by water services authorities, potential franchisors and potential franchisees) have been drafted.

1. PREFACE

How is it that one can go to some parts of our country, and buy clean petrol, and clean (if, arguably, unrepresentative of good dietary practice) hamburgers, but cannot get clean water from a tap, or hygienic and environmentally acceptable sanitation? Especially when the oil from which the petrol is made has to be imported from very far away, whereas the "raw material", so to speak, for the clean water can be sourced from relatively close by.

How can such a thing be?

There are lots of possible reasons for this. Two of which are:

- The first one is that the manager or owner of the retail outlet, and also the staff, know that if they cannot reliably, every day, provide those hamburgers or that petrol, they will not get paid. If something goes wrong, they know that they have to get it right -- and quickly. That is "incentive".
- The second reason is that the staff of the outlet, and all the people responsible for producing the product to be sold (e.g. those who refine the petrol), making sure they it gets to the outlet, and so on, are properly trained -- trained, that is, each to the level required for his or her job, BUT with an obligation (maybe a contract) to call for the higher levels of expertise when these are needed, and a matching obligation to provide that assistance. That is known as "capacity".

The questions that this paper addresses are:

- What is it that makes the hamburger outlet or petrol station work as well as it does -- what are the operational principles? And
- Can these principles be applied to providing acceptable sanitation and clean water?

2. INTRODUCTION

The rapid rate of construction and commissioning of new water services infrastructure is severely challenging the public sector institutions in South Africa responsible for operating and managing this infrastructure. Innovative approaches are required. But even if all the existing water services institutions were coping with the responsibility, there would be good reason to investigate alternative institutional models, on the grounds that it needs to be found out if alternatives:

- could be more cost-effective, and/or
- could allow existing roleplayers to focus on their other responsibilities, and/or
- could offer a range of other advantages (including greater local economic development).

There is an alternative institutional model that is suited more for the ongoing operation and maintenance of water services systems than for investment in new infrastructure – and, importantly, that is friendly to small business and local economic development. This alternative is the franchising partnership. However there is little experience of this approach having been applied to water services infrastructure operation and maintenance anywhere in the world, although some existing partnerships share some of the characteristics of the franchise approach.

The principles of franchising partnerships in the generic (i.e. not specific to water services or any other sector) sense can be summarised as follows:

- Franchises' success is based on replication of success, efficient logistics and a trained and capacitated workforce.
- Franchisee small businesses are relatively easy to establish.
- Franchising is robust, and able to ensure consistent quality products and services.
- Franchisees are obliged to adopt the tried and tested systems and procedures of the franchisor, and to accept the quality control of the franchisor -- resulting in higher quality assurance and greater efficiencies.
- Franchises are able to innovate and develop constantly.

Franchising is a way of accelerating the development of a business, based on tried and tested methodology. The franchise system firstly correlates and systematises the business, and then facilitates the setting up of the business, and supports and disciplines it thereafter.

The key is the incentive, to franchisor and franchisee alike, to improve efficiency, and to provide improved service reliability and quality control.

A Water Research Commission (WRC) scoping study completed in 2005 (Wall 2005) found that franchising partnerships could alleviate and address many challenges in the management of water services. At the same time, franchising would support the development of local microenterprises and (broad-based black economic empowerment) BBBEE, all within the public sector service delivery environment.

Further WRC research (soon to be published) has since then very much further explored and developed the concept of franchising partnerships in water services.

The WRC collaborated in this work with a team led by the Council for Scientific and Industrial Research (CSIR) and comprising in addition Amanz' abantu Services (Pty) Ltd and others.

3. THE CASE FOR WATER SERVICES FRANCHISING PARTNERSHIPS

The most comprehensive review to date of the state of infrastructure in South Africa has been that released by the South African Institution of Civil Engineering (SAICE). At the end of 2006 SAICE released the first ever “report card” of the state of South African infrastructure (SAICE 2006). In respect of the major urban areas, SAICE assigned water infrastructure the grade of "C+" and sanitation "C", whereas it gave "D-" and "E" (the next-to-the-lowest-possible grade) to the equivalents in small towns and rural areas. SAICE found that, to a very significant extent, the difference lay in infrastructure in the major urban areas being in the care of skilled professionals -- and the other areas not having access to these skills levels.

Significant improvements would soon be seen if the generally under-qualified or under-resourced water services staff of the municipalities and other water services authorities (WSAs) outside the major urban areas could enjoy ongoing support, mentoring and quality control -- or if the WSAs could enter into partnerships with microenterprises which would, through franchising partnerships, enjoy the necessary ongoing support, mentoring and quality control.

Given that the costs of the franchisor’s higher levels of specialist expertise would be 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 WSAs.

The WSA client’s competence to monitor performance and enforce contract compliance is key to it effectively using the microenterprise sector. However if an WSA is short of management resources, it would be putting these to more efficient use if it managed the work of the contractor rather than tried to cope with the operational issues itself.

The argument for franchising partnerships as a means to improve efficiency in water services operation and maintenance does not depend on the case for or against the participation of for-profit organizations. There are already elements of franchising partnerships in some of the current activities of non-profit water services organisations in South Africa. For example, a valuable asset to several predominantly rural WSAs currently is the practice of appointing large water services institutions as "support services agents" to support water services providers that are NGOs (non-governmental organisations) and small, local CBOs (community-based organisations). Although this arrangement is not franchising, development of the franchising partnerships concept has learnt from it, and it could in turn benefit from adoption of some of the characteristics of franchising.

A few water services franchisors that have long been operating in South Africa. They are successful financially and in terms of the service (operation and/or maintenance of an element or elements of the water services delivery chain) that they provide to their current market niche (invariably within the private sector). More than one franchisor would like to extend its services to WSA-owned infrastructure, but they do not find the environment conducive.

The Drain Surgeon is a well-known franchisor, based in Gauteng, but with franchisees under the same brand name in all major centres of South Africa. Its business model is undoubtedly very successful, but much of the business information pertaining to its business model, and the business models of other water services franchising companies, is, understandably, guarded by the companies that possess it, and which have, with little if any exception, gained their information the hard way – through experience! It is their competitive advantage, and they are willing to share only up to a point.

Thus a major motivation for the research has been the WRC's wish to extend water services franchising beyond its current niches, and to explore and pilot franchising's application across operation and maintenance of a range of public sector water services infrastructure elements. And to place in the public domain the business information (e.g. methods, financial viability) that it (the WRC) develops.

4. FRANCHISING PARTNERSHIPS DESIGN

The WRC has therefore been researching a partnership concept, making use of the principles of franchising, for improved water services infrastructure operation and maintenance. In this concept, ownership of the water services infrastructure remains with the public sector (e.g. the WSA).

The concept has been formulated with a view to improving water services operational quality and efficiency through introducing a new (to water services) supply-side operation and maintenance provider mechanism.

Many South African WSAs do not have staff or systems to deliver a reasonable service. A carefully designed set of WSA/franchisor/franchisee arrangements, efficiently implemented, could assist. At the same time, franchising offers opportunities to the microenterprise sector and to local economic development. Franchisees are microenterprises, but their association with a franchisor gives them considerable advantages -- reflected in the better service that they can provide -- over stand-alone microenterprises.

Franchising might not be ideal, but it might in many situations offer the prospect of improved operation and maintenance of water services. However three main priorities need to be addressed simultaneously if the operation and maintenance of public sector water services infrastructure is, in the cause of improved water services provision, and to the benefit of water services users, to be franchised where it is appropriate to do so.

A "three-step breakthrough" is needed:

- The first step is the breakthrough to acceptance by WSAs of outsourcing the operation and maintenance of infrastructure that they, the WSAs, own. (To emphasise: this outsourcing need not necessarily be to the private sector – it could also be to NGOs and CBOs.)
- The second is the acceptance that the institutions outsourced to could be microenterprises.
- The third step is the acceptance that these microenterprises could be franchisees. (This third step should not be a problem once the second level is in place. Franchised microenterprises should be a concept considerably easier to convince clients of the merits of than the idea of microenterprises that are stand-alone.)

Note that what is good or bad for microenterprises is good or bad for franchising partnerships. But the converse doesn't necessarily apply – or, putting it another way, a franchisee microenterprise, given the support it would receive from the franchisor, would in all likelihood find it easier to meet some regulatory and other requirements than would a stand-alone microenterprise, everything else being equal.

Finally, whereas a business based on a single element of the water services delivery value chain might not be viable, a franchisee might be able to make a viable business by offering several water-related services, thereby achieving dual objectives, viz:

- economy of scale; and
- lessening dependence on one or a limited number of clients.

Figure 1 depicts a possible set of contractual relationships. (The WSA ("water services authority") is a municipality (or grouping of municipalities) with water services responsibilities assigned by national legislation.)

Figure 1 has been kept as simple as possible, so as to not obscure the principal relationships -- but in practice it is unlikely that any microenterprises would be water services providers (WSPs) directly contracted to WSAs. Their small size counts against them. In nearly all conceivable circumstances, the WSA will contract with one or a small number of "prime contractor" WSPs in its area, and these will in turn contract with smaller "subcontractor" WSPs -- including the likes of CBOs and microenterprises (which might or might not be franchisees).

Whereas a WSA may require contractual recourse not only to the franchisee, but also to the franchisor, the franchisor could be a co-signatory to the contract or a guarantor of the performance of the franchisee. This would, if it were deemed to be necessary, require an additional contract, one that closes the loop between the franchisor and the WSA. The WSA may require this contractual assurance that the franchisee will be supported by strong management, and also that the franchisor is able to make alternative arrangements which will ensure continuity of service should the franchisee for any reason whatsoever fail to meet its contractual obligations to the WSA. Especially this assurance could be necessary if the franchisor's expertise or track record is a significant reason for contracting with the franchisee, and the franchisee is a largely unknown quantity.

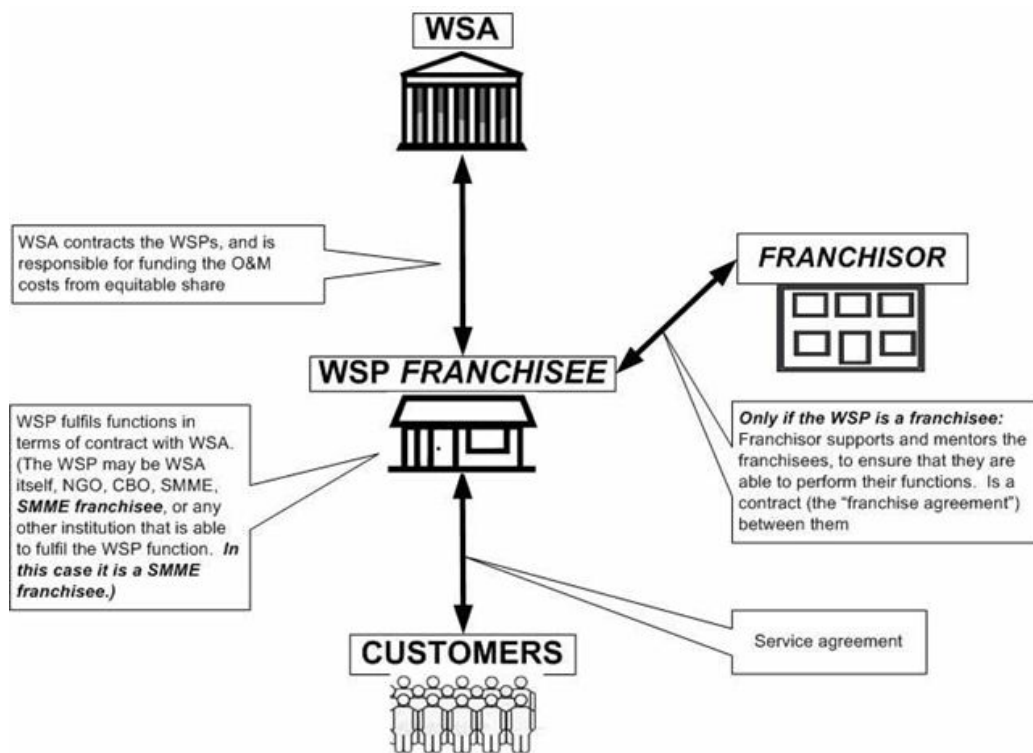


Figure 1. Water services sector franchising partnerships contractual relationships

5. FRANCHISING PARTNERSHIPS POTENTIAL

The concept addresses the lack of higher-level expertise that has so often been identified as a key to improvement of service, especially in the more remote areas. The local staff can deal with day-to-day operational needs, but are not able to deal with anything more demanding than that. The essence of water services franchising partnerships is the creation of a pool of appropriate expertise upon which the local operators can draw, a restructuring of the local responsibility for operating, and the creation of a two-way obligation -- an obligation to call for assistance from the pool, and an obligation to respond rapidly to that call. All of this together with the incentive structures to ensure that it happens.

In brief:

- On most days at the (for example) treatment works, nothing out-of-the-ordinary happens. Franchisee staff, who are appropriately skilled, are able to cope.
- When major maintenance or upgrading is needed, or when there is a breakdown -- those staff know who to call at the franchisor in order to bring the higher level of skill.
- And they know that the people they call WILL help, because there is a binding contract and a shared reputation.
- It is two-way obligation -- an obligation on the franchisee to ask for help, and an obligation on the franchisor to give the help.
- Cost of the higher skills levels, which are needed only intermittently, is spread across many sites -- thus cost per site is low.

The franchisees would be microenterprises and CBOs. The franchisors would be any institution that has the required expertise, is willing to provide the service, and would not be in a conflict of interest were they to offer to provide the service.

There are already many potential sites for water services franchising partnerships, in the sense that much water services infrastructure is already in place but is not being operated and maintained properly at the present time. Many of these sites fall under the jurisdiction of or are owned by WSAs, but other sites belong to other public sector institutions such as schools and clinics. Figure 2 depicts school sanitation infrastructure, the operation and maintenance of which could be contracted to a microenterprise franchisee, which could hardly do a worse job than the school itself is currently doing.



Figure 2. "Franchisable" school sanitation infrastructure

Other water services operation and maintenance tasks with apparent potential for franchising include (but are not limited to) leak detection, borehole management, management of municipal treatment works, management of treatment package plants, meter reading, pit-emptying services, laboratory services, data management, demand and pressure control management, and site and property management. The WRC has modelled some of these.

In setting up a franchisor-franchisee partnership, the sequence of events will probably be that it will initially only be entities (companies or large NGOs) that see themselves as potential franchisors that will have the capacity to initiate water services franchising partnerships proposals. They will select water services elements and will formulate the business models to go with each. They will then look for sites to apply the models, and will seek the cooperation of the WSAs or other infrastructure owners. Finally they will offer the business to potential franchisees, or will attempt to nurture potential franchisees. As water services franchising in South Africa spread, however, the initiative may come from others.

6. PILOTING, AND ADVOCACY

Whereas more research, and particularly the building of more models on paper, would undoubtedly add great value, the main need now is to start piloting the concept.

The on-paper studies have been taken to the point at which the concept is described and it is made sufficiently clear that it could work, where it could work, and how it would work. If the environment is favourable, potential franchisors will, it is hoped, seize the opportunity, and will do the detailed modelling to suit their abilities and the circumstances to which they see the concept being applied.

Piloting of the concept, after completion of the current study, is being promoted. Only in piloting will be benefits be demonstrated. Also, unanticipated challenges will be identified -- and overcome.

Proposals for piloting can readily be grouped into two types, as follows:

- Proposals that would lead to the establishment of franchisee WSPs, offering a full range of water services.
- Proposals that would lead to the establishment of franchisees that would offer selected services under contract to WSPs.

Preliminary planning of DWAF's "Water for Growth and Development" programme has identified that franchising partnerships would be a key element in its initiatives (still being evolved) to address the dynamics of water, growth, poverty alleviation, and development.

The literature published by the conventional franchising sector over and over again advises against franchising a business without a business model that has not been thoroughly worked through on paper and that has not been tested "in the field" over a period of time. As the Franchise Association of Southern Africa (FASA) manual emphasises, by far the best way to test the model is by "actually operating the business [this] is the only reliable way" (FASA 2005 pg 60). This the franchisor should preferably do by for example running a directly-owned outlet that lacks only a franchisee and a franchise agreement, but has in place many of the other aspects of franchising -- e.g. there would need to be an operating manual, training, quality control, etc.

Further to that, FASA makes a strong case for doing the initial testing of the non-franchised business model in an area where, if the test result is positive, the first franchised pilot will be rolled out. This is the most direct way to establish:

- local expertise (local management and staff) and
- local familiarity with and confidence in the product (which in the case of water services should not just be confidence of the customers/end users, but of other stakeholders, especially of the WSA and of other WSPs).

As franchising partnerships spread, business models will proliferate, and companies with the appropriate water services skills and resources will be attracted to the franchisor role.

For each potential franchising circumstance, a specific approach will probably be clearly enough evident at the time, and a pragmatic "horses for courses" attitude to franchisee selection will prove appropriate.

Two large water sector provider companies that have seen the opportunity, and are indeed "seizing" it, are Amanz'abantu Services and Biwater. Both are advanced with investigations into how they can expand their range of operations into the franchising arena.

Meantime, the WRC is not allowing its own water services franchising partnerships initiative to slacken.

Finally, a foreign donor has agreed to providing substantial funding for piloting and other work over the next three years.

As noted above, a "three-step breakthrough" is needed. The WRC team is confident that this breakthrough will be achieved. It will take strong and insistent **advocacy** at both national and local level. Advocacy, that is, that lobbies key influence groups -- such as key personnel within lead departments of national government -- chiefly DWAF, the Department of Provincial and Local Government (DPLG) and National Treasury (particularly because of its influence on outsourcing and procurement policy) -- and within other bodies such as local government and professional associations. Advocacy, also, that disseminates widely the finding of the research, and is able to encourage locally-driven initiatives.

Successful pilot projects will be of considerable assistance in achieving the breakthrough. At the moment, the understandable response of many is along the lines of "if water services franchising partnerships is all that you say it is, then why is no one else doing it?" There is a natural reluctance to embark on something other than the tried and tested.

The improved operation and maintenance effectiveness that water services franchising partnerships can uniquely bring would improve compliance with standards (such as water reliability and quality standards) or about infrastructure asset management. It should also be attractive because of the potential returns to WSAs from improving operation and maintenance of neglected water services infrastructure. These returns can be substantial -- returns, that is, measured in terms of for example water loss reduction, improved wastewater treatment works effluent quality, and more reliable water supply. Funding that would enable the trying out of promising new ideas (and franchising of water services operation is one) would be money well spent.

National government should assist with focused initiatives to address funding stream and other financial liability issues. Potential franchisors are inhibited by the fear that, contractual commitments notwithstanding, WSAs may make payments late or not at all. No microenterprise can afford a delay of two or three months before it receives its due for services rendered, and it could go to the wall while it waits for payment by an inefficient financial department. Another issue is budgeting -- the

microenterprise franchisee would need to contract not for the kind of budget that is so often allocated by a WSA to operation and maintenance, but would need to be paid from a realistic, adequate budget.

The several initiatives that have made use of supported CBOs (e.g. Mvula Trust (and others), and the “support services agents” themselves, have been facing some of the same issues. Their success (or otherwise) in achieving at local level the first step of the breakthrough should be observed – and indeed their ongoing efforts to get a fairer deal for outsourcing must be applauded.

In support of general dissemination of knowledge of the appropriateness and advantages of water services franchising partnerships, the advocacy programme (much of it ad hoc, seizing opportunities as they arise) of the WRC and CSIR must continue. The aim should be to draw attention of both the public and private sector to the advantages of water services franchising partnerships, and to elicit support for it from the public sector – in particular from DWAF and other key national government departments. Not just their in-principle support, either, but their active support for making the environment more conducive to outsourcing water services operation and maintenance, and in particular addressing the priorities identified above as to what needs to be addressed if franchising is to be viable and is to provide the desired service.

7. REFERENCES

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