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**An exploration of franchising partnerships for the  
operation and maintenance of water services infrastructure**

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*South African research has 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. The findings of this research, and that from the continuation of this programme over the next three years, could well be applicable in other nations.*

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**Problem statement**

How is it that in some parts of South Africa, confident that these products contain no contaminants, visitors and local people alike can fill up their tanks at a petrol station while eating food purchased at the local KFC or McDonald's - but they cannot be sure that the water from a nearby tap is fit to drink, and that the local stream is not polluted by effluent from the sewers?

How can such a thing be? Two very likely reasons are:

- One is that the manager or owner of the retail outlet, and also the staff, know that their livelihood is directly dependent on their ability to provide that food or that petrol reliably every day. If something goes wrong, they know that they have to get it right - and quickly! That involves "commitment" and "responsiveness", as well as "incentive".
- Another 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 that it gets to the outlet, and so on, are properly trained - trained, that is, each to the level required for his or her respective job. ALSO they have an obligation (maybe a contract) to call for the higher levels of expertise when these skills are needed from those who have a matching obligation to provide that assistance. That is known as "capacity", which is driven by the collective culture of holding all parties to account.

As described in this paper, the Water Research Commission (WRC) and Council for Scientific and Industrial Research (CSIR) of South Africa research has been addressing:

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

The operational principles involved are described in the next section.

## **Franchising partnership principles**

In South Africa, the petrol station and the food outlet are very often franchisees, participants in franchising partnerships. The principles of franchising partnerships in the generic sense (i.e. not specific to water services or any other sector) can be summarised as follows:

- Franchises and franchisees are incentivised (and contractually bound) to provide the user with a service to an agreed standard. Also to assist each other to provide this service, and to do this in such a way that their businesses are sustainable (Note 1).
- Franchises' successes are based on replication of prior successes, efficient logistics and a trained and capacitated workforce.
- Franchising is robust, and able to ensure consistent quality products and services.
- Franchisors are obliged to provide the franchisees with specialist expertise and other forms of assistance.
- Franchisees are obliged to adopt the tried and tested systems and procedures of the franchisors, and to accept the quality control of the franchisors - resulting in greater efficiencies and, to the user of the service, assurance of more consistent quality.
- Franchises are able to constantly innovate and develop.

The cardinal elements of a franchise model can be summarised as:

- identifying components of the value chain that are simple enough to systematise;
- discovering good practices;
- systematising the identified component(s);
- selecting franchisors and franchisees;
- identifying financial and other risks to both franchisors and franchisees, and as far as practically possible reducing those risks;
- providing start up help, including initial training;
- preparing operations manuals;
- conducting ongoing research and development for the product or service and of the related market dynamics; and
- continuing support, training, control and discipline of the ongoing enterprise.

Franchising is a way of accelerating the development of an enterprise, based on tried and tested methodology. In short, 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 - thereby providing assurance that the quality of service will be consistent. You know what you will be getting, whether you purchase the Shell or KFC product or service – or the Postnet, Minit Print, Blockbuster Video or Master Maths (to name a few other South African franchises) product or service - in Menlyn, Makhado, Mount Frere or Machadodorp. (Or, no doubt, Melbourne, Marrakesh, Mombasa or Moscow, if those franchises were to operate there!)

## **Franchising partnership principles – and water services**

The rapid rate of construction and commissioning of new water services (i.e. water and sanitation) infrastructure has severely challenged the public sector institutions in South Africa responsible for operating and maintaining 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).

The franchising model is able to guarantee consistent quality of product and service - for petrol, hamburgers, and many other goods and services. In contrast, the quality of the operation and maintenance of water services infrastructure in South Africa varies greatly from place to place, and as a result the quality of tap

water, sanitation, treatment works effluent, and other water "products and services" varies greatly. Could the application of franchising principles help to ensure consistent (and satisfactory) quality?

To address this question, the Council for Scientific and Industrial Research of South Africa (the CSIR), with financial assistance and moral support from the Water Research Commission of South Africa (WRC), and in cooperation with the private water services operator Amanz'abantu Services, has researched the application of franchising partnership principles to the operation and maintenance of water services infrastructure.

There is limited 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.

A scoping study completed in 2005 (Wall 2005 – reported at WEDC 2004 (Wall 2004)) 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 (an important national government policy objective) broad-based black economic empowerment, all within the public sector service delivery environment.

Further research by the CSIR (WRC, awaiting publication) has since then very much further explored and developed the concept of franchising partnerships in water services. The CSIR and WRC have collaborated with Amanz' abantu Services (Pty) Ltd and others in this work.

### **Social format franchising**

Before making a case for water services franchising partnerships, and describing their design, a discussion on the application of franchising partnership principles to goods and services needed for social rather than commercial goals would be timely.

The franchising of goods and services for social rather than commercial goals is known as "social format franchising". Social franchises pursue social goals through the means of franchising as a concept for replication and distribution of their products and services - i.e. in order to achieve social goals, they use the structure of commercial franchising.

Social franchising is not practical benevolence or charity, but the management of businesses with social goals in a manner that is business-like and efficient - operating on commercial principles, but not for the attainment of commercial goals. Practitioners in this market refer to social enterprises as "profit making, not profit taking". (Which might be less ambiguously phrased as "making a surplus, but not taking a profit".) This implies that these enterprises make enough surpluses to be sustainable, to ensure their continuity and longevity, and to promote their social goals, but they do not distribute profits to shareholders outside the community served (if indeed they distribute them at all).

In commercial franchising, there are two main role-players, viz. the franchisee and the franchisor. In social franchising, the roles of the franchisee and franchisor are based on similar principles, with the franchisor providing support and training and the franchisee operating according to standards prescribed by the franchisor. The roles of the social franchisee and franchisor have been defined as follows:

1. "Social franchising is a process by which a developer of a successfully tested social concept, the franchisor,
  - in order to scale up the coverage of target group
  - and the quality of product [or services].
2. enables others, the franchisees,
  - to replicate the concept
  - using the tested system
  - using the brand name.
3. in return for,
  - social results
  - system development
  - impact information". (FRAIN 2003, page 4).

Just as in commercial franchising, the franchisor is the developer of the concept, while the franchisee replicates the concept in his/her community along the lines prescribed by the franchisor for the purpose of

achieving social goals. As in commercial franchising, it is easier to replicate a concept that has been tested and proven to work in terms of operational aspects and generation of revenue, than it is to embark on an untried path.

The franchisor is also responsible for training programmes, advertising, and on-site support. The franchisee must maintain prescribed levels of service quality, operate along the guidelines provided, and pay franchise fees. The franchisor should be a legal entity, while the franchisee could be a social enterprise with or without legal personality (ibid, page 5).

Social franchising may have an additional significant role-player, viz. a donor, in recognition of the financial unviability (at least during the start-up phase, if not beyond that) that usually characterises the services provided, and/or in recognition that the services are being provided to people who cannot afford to purchase these in the usual marketplace, and/or in recognition that the private sector or the usual public sector mechanisms are not providing the service. The donor provides supplementary funding for the franchise, or all the necessary funding as the case may be, but would inevitably have its own agenda, and its funding may come conditionally.

As with commercial franchising, the benefits of a franchise concept, i.e. principally those arising from the replication of a proven system, are attractive to the providers of social services also. The pursuit of economies of scale, standardisation and geographical dispersion makes franchising an attractive business concept for organisations with social goals.

While it is important to have a pool of potential franchisees, the existence of a sustainable franchisor is a determining condition for success of a social franchise. "It may seem blatantly obvious, but a problem that exists in commercial franchising is even more applicable in social franchising, namely the success and continuity of the franchisor. The franchise network cannot exist without the ongoing management and support from the franchisor. Should the franchisor fail, the survival of the network would be in jeopardy" (ibid, page 6).

Social franchising has been applied to the provision of a range of social goods and services, but most cases that have been documented are from the health sector. Proposals have nonetheless over the years been made to franchise the supply of water services (for example: Roche et al 2001, McMaster and Sawkins 1993) and selected other development services.

"In the South African context, social franchising could have a wide scope of application. Social problems such as unemployment, lack of water and sanitation services in rural areas, AIDS care and education and a lack of health care could potentially be addressed by social franchise organisations. While donor funding is available, a lack of models for implementation is detracting from the optimal use of these funds" (FRAIN 2003, page 7).

### **The case for water services franchising partnerships**

The question: "could the principles of franchising be brought, with advantage, to bear on the operation and maintenance of water services infrastructure in South Africa?" may now be answered.

The most comprehensive review to date of the state of infrastructure in South Africa is 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 that infrastructure in the major urban areas is generally in the care of skilled professionals, while the other areas not have 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 outside the major urban areas could enjoy ongoing support, mentoring and quality control - or if they could enter into partnerships with microenterprises which would, through franchising partnerships, enjoy the necessary ongoing support, mentoring and quality control, and would have quick access to skilled assistance when they needed it.

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 municipalities.

The municipal client's competence to monitor performance and enforce contract compliance is key to it effectively using the microenterprise sector. However if a municipality is short of management resources, it

would be putting to more efficient use those resources that it does have if it managed the work of a contractor rather than trying 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 municipalities 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 borrowed from it, and it could in turn benefit from adoption of some of the characteristics of franchising.

On the other hand, a few water services franchisors 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 (which is invariably within the private sector). More than one franchisor would like to extend its services to municipal-owned infrastructure, but franchisors do not find the environment conducive to the sustainability of their business model. Thus a major motivation for the WRC and CSIR research has been the wish on their part to extend water services franchising beyond its current niches, and to explore and pilot the application of franchising across operation and maintenance of a range of public sector water services infrastructure elements. And thereafter to place in the public domain the business information (e.g. methods, financial viability) that is developed.

### **Franchising partnerships design**

The CSIR and WRC have 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 municipality).

The concept is more akin to social format franchising than it is to business format (i.e. commercial) franchising, in that it is (quoting Section 4 above) pursuing "social goals through the means of franchising as a concept for replication and distribution of products and services - i.e. in order to achieve social goals, [seeking to be] .... business-like and efficient - operating on commercial principles, but not for the attainment of commercial goals".

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 municipalities do not have staff or systems to deliver some or all of their service functions. A carefully designed set of municipal/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 would 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 municipalities of outsourcing the operation and maintenance of infrastructure that they, the municipalities, 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.

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.

A municipality 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 municipality. The latter 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 it. 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.

### **Franchising partnerships potential**

The water services franchising partnerships concept is very attractive for a number of reasons, but in particular that, where it is put into practice, it would address 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 of South Africa. The local staff would be able to deal with day-to-day operational needs, but would not be 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 these measures together with the incentive structures to ensure that the desired end result is achieved.

In brief:

- On most days at the (for example) treatment works, nothing out-of-the-ordinary would be happening. Staff of the local franchisee, 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 the franchisee's staff know that the franchisor WILL help, because there would be a binding contract and a shared reputation.
- The obligation would be two-way - 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, would be spread across many franchisees and sites - thus cost per site is low.

The franchisees could be microenterprises and/or CBOs. The franchisors would be any institutions - private sector, parastatals or NGOs - that have the required expertise (or could readily be trained and mentored to have it), are willing to provide the service, and would not enter into 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 municipalities, but other sites belong to other public sector institutions such as schools and clinics. Help from franchisors would be of particular value to municipalities at a distance from the major urban centres - few rural municipalities in South Africa can afford to employ competent qualified staff, and this directly results in periodic unreliability of supply and frequent non-compliance with national standards relating to, for example, the quality of

effluent from wastewater treatment works. A franchisor can ensure a professional approach, quality control, and ongoing training, as well as advice and help as and when needed by the franchisee.

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 CSIR has modelled some of these elements.

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

### **Learning points**

Generically, franchising:

- transfers appropriate skills to local personnel,
- brings ongoing assistance, mentoring and quality control, and
- provides backup at-a-distance skills together with the incentive, on the part of the local (franchisee) personnel, to call for those at-a-distance skills and, on the part of the franchisor, to make them available, because there is a binding contract between them and a shared reputation.

CSIR research, together with the WRC, has explored the concept of franchising partnerships in water services - three-party partnerships, that is, between franchisor, franchisee and the owner of the water services infrastructure. Findings indicate that many opportunities lie in the franchising of suitable parts of the water and sanitation services value chain - of operation and maintenance activities inter alia "suitable" for small enterprises in that they can be readily systematised. A selection of these opportunities has been modelled, so that they can be made available to emerging entrepreneurs as the basis of viable businesses. Interested potential franchisors and municipal water services authorities have been identified. Procurement issues have been identified. Principles for embarking on water and sanitation services franchising (for use by services authorities, potential franchisors and potential franchisees) have been drafted (Note 2).

### **In conclusion**

The work has 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. Only in piloting will be benefits be demonstrated. Also, unanticipated challenges will be identified - and overcome.

The potential for water and sanitation services partnerships in South Africa is immense. Already, at least one large water services provider is using the knowledge generated to set itself up as a franchisor, expanding its existing range of activities into the franchising arena.

Finally, a foreign donor has agreed to substantial funding of advocacy, piloting and other work over the next three years. The intention is that the funding would be used to add value to public sector budgets - for example that, by employing franchising principles, selected water services infrastructure operation and maintenance funding that is already in public sector budgets, but is not being spent effectively and efficiently, would be unlocked.

*The findings of this research, and that from the continuation of this programme over the next three years, could well find application in other nations.*

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## Notes

1. To briefly reinforce the point, an initial conversation between the potential franchisor and franchisee could go as follows:
    - Franchisor to franchisee: If you provide the service and do it the way I tell you, you will make a reasonable income. I will then also make an income, because you will give me an agreed proportion of your income (or you will pay me a fixed fee - arrangements vary). I will then have the incentive to help you provide a service to an agreed standard, and to run your operation sustainably.
    - Franchisee to franchisor: I want you to help me provide the service, because I want to make my living out of it - that is my incentive. Therefore I agree to the training regime, quality control, and other mechanisms that you are making a condition of this partnership that we will have.
  2. The extent to which this work is practice-based needs to be emphasised. The team started with a deep understanding of the reasons for the poor state of operation and maintenance of much water services infrastructure in South Africa, especially in municipalities away from the major urban areas. Franchising partnerships, using microenterprises and small CBOs as the franchisees, are seen as a way to assist many of those municipalities. These franchising partnerships are being designed on well-proven principles, abstracted from the conventional franchising sector. The team has undertaken detailed research, including detailed modelling. Following the advice of the Franchise Association of South Africa, those contracted to do the modelling have been selected only from people who have hands-on experience in each of the modelled areas that is as close to franchising as it is possible to get without it actually being franchising - for example, operating and maintaining an element of infrastructure in the same type of geographical and socio-economic area, with the same type of water chemistry (if chemistry is involved), same type of microenterprise except that it is not actually a franchise, etc etc. Pilots will tell more.
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## Keywords

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