How a franchise approach to water services could look based on successes in South Africa
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ABSTRACT

Pilot projects in South Africa have demonstrated how the institutionally innovative and very practical social franchising partnership approach can be used as an alternative approach to more commonly encountered options, for the routine maintenance of low-technology water and sanitation infrastructure. The strength of this approach is that it is built on a robust foundation of mutual support and incentives. The paper describes how franchise partners have been working with schools and municipalities to address operational issues. The Eastern Cape provincial Department of Education now has a proven model which it is rolling out to further school districts, beyond the initial pilot in the Butterworth education district. Municipalities in the area are also employing the franchisee microbusinesses to undertake maintenance services. Further opportunities lie in applying the approach to operation and/or maintenance activities within the water and sanitation services delivery chain, and thereafter extending it to other types of infrastructure (e.g. roads and electricity reticulation).

Key words | franchising, operation and maintenance, sanitation, schools, South Africa

PROBLEM STATEMENT AND INTRODUCTION

Year after year, the operation and maintenance of water and sanitation services (hereinafter ‘water services’) infrastructure in South Africa has, in far too many cases, been found non-compliant with the required standards (SAICE 2011; South Africa 2012a, b). While this research has revealed a number of contributing factors, the key contributor is usually a shortfall in the skills and management of the institution responsible for delivery of these services.

These operation and maintenance shortfalls are particularly apparent in ‘the quality and reliability of basic infrastructure serving the majority of our citizens [which] is poor and, in many places, getting worse. Urgent attention is required to stabilise and improve these’ (SAICE 2011: 5). The consequent service delivery failures indicate that turnaround strategies are required.

Of similar opinion, a Ministerial Sanitation Task Team, set up by the Minister of Human Settlements and chaired by Mrs Winnie Madikizela–Mandela, highlighted the contribution of lack of skills and capacity to the failure of infrastructure. Its report concluded that ‘there is great potential for public and private investment on sanitation that could increase both benefits and cost-effectiveness of public investment’ (South Africa 2012c: 70).

This paper describes the work to date on an innovative adaptation, to address quality and reliability of service delivery, of commercial franchising principles. In particular it reports on piloting this innovation in the Eastern Cape province of South Africa.

The Water Research Commission (WRC) of South Africa has for a number of years funded studies of selected institutional options that could assist in the improvement of operation and maintenance. One line of this research, led by the Council for Scientific and Industrial Research (CSIR) and the private sector water services provider Amanz’ abantu (‘water for people’ in Xhosan) Services of East London, postulated that business format franchising models, developed in the private sector to provide a wide range of services, could be adapted, and the resultant social
franchising partnership concept could be a valuable and viable addition to the current range of more commonly encountered institutional options for the operation and/or maintenance of public sector sanitation and water services infrastructure. (Wall 2005; Wall & Ive 2010, 2013).

This research, and interest shown by owners of infrastructure, prompted Amanz’ abantu in 2008 to establish a subsidiary, Impilo Yabantu (‘hygiene for people’ in Xhosa) to play the role of franchisor where needed.

It was originally thought that municipalities would be the first to procure social franchising partnerships. Where many officials expressed interest, they were reluctant to pioneer this untested concept. The first significant interest came from officials of the Eastern Cape provincial Department of Education (DoE), who saw its potential to assist them with one of their most intractable problems, namely the poor levels of maintenance of water and sanitation infrastructure at schools. Particularly, they saw its potential for rural schools, where harvested rainwater is generally the only water supply, and the toilets are ventilated improved pit (VIP) latrines or similar.

The franchisor and its trainee franchisees in less than three years greatly improved the condition of the toilets at the 400 rural and urban schools of the Butterworth education district of the Eastern Cape. This paper describes the approach, describes the pilot programmes (reflecting on some of the key benefits and lessons learnt), and describes how this approach has already been replicated, and might be replicated even further.

**FRANCHISING PARTNERSHIPS**

Ten or more years ago, while conducting investigations of the condition of infrastructure in South Africa, and of the factors underlying this condition, it struck the CSIR researchers that in many instances:

- water and sanitation services run by the municipality and other public sector institutions were neither efficient nor reliable; whereas
- in the same vicinity, petrol and fast foods (among other goods and services) were being delivered efficiently and reliably by small businesses – and a major ingredient in their success was that they were part of a franchising partnership.

This suggested that an exploration of the way in which those small businesses operated could lead to an alternative model of value to public sector institutions in how they operated – or appointed some other institution to operate – their infrastructure.

A prerequisite of success would be the willingness of the public sector authority owning the infrastructure to outsource its responsibility for routine servicing, and the ability of this authority to procure, appoint and direct micro-businesses to undertake the work under the guidance of the franchisor.

Water services social franchising partnerships can broadly be described as business-to-business partnerships:

- whereby small locally based enterprises enter a business partnership with a larger established enterprise;
- for the purpose of utilising a tried and tested approach to undertake the operation of sanitation and water facilities and systems in a reliable manner and in accordance with the specified availability, quality, hygiene and environmental standards.

Since the 1950s, franchising has utilised the drive of entrepreneurship while reducing many of the risks to small business (Parker & Illetschko 2007: 9). Both parties of a franchise have a vested interest in making sure the venture is a success while benefiting from mutual learning and shared experiences (Ahler et al. 2008: 16). The concept of ‘social franchising’ is defined as ‘the application of commercial franchising concepts to achieve socially beneficial ends’ (Montagu 2002) and has been identified as an approach appropriate for use in sectors where the quality of a public or social service needs to be driven up and the cost of the service needs to be driven down through standardising on proven delivery mechanisms.

Commercial enterprises such as McDonald’s seek not only to cover costs but to also make the franchisee and franchisor a significant profit. In contrast, social franchising, while still needing to cover costs and permit franchisees to make a living, is motivated by addressing the needs of those most neglected and doing social good.

Social partnerships are especially suitable for communities with a large poor population needing infrastructure services, but who are also looking for employment and an opportunity to develop their entrepreneurial and technical
skills. As Box 1 demonstrates, the water services social franchising partnership concept provides opportunities for linking local economic development and job creation with the provision of basic municipal and community services.

**Box 1 | What franchising has to offer as a service delivery model**

Compared to more commonly encountered options for routine maintenance, social franchising partnerships bring:

- a quality and reliability of service for the client, and at a price which is agreed to before the work is undertaken;
- proven methods of undertaking the maintenance;
- structured support for microbusinesses;
- incentives to franchisees to stick to the business model, to deliver service to specification, and to be productive and efficient;
- structured mentoring of franchisees and staff;
- through franchising networking, opportunities for economies of scale and to share learning experience;
- from the franchisor, scope to try out new methods and products, which can then be offered to the franchisees; and tested methods to improve financial sustainability of franchisees and franchisor.

The franchisor identifies people with the skills and temperament appropriate to run the franchisee microenterprises, who are resident in the target area and who, once they have been exposed to training, are willing to enter into a franchise agreement. This concept provides appropriate training, a quality management system (QMS), operational procedures, and the backup of the off-site skills held by the franchisor. Figure 1 shows the relationships between the franchisor, franchisees and customers (adapted from Ahlert et al. 2008).

**THE SCHOOLS PILOT**

The focus of education authorities in South Africa has too often been on classroom-based activities, with insufficient attention being paid to the built infrastructure. Services like sanitation have been provided with insufficient consideration of quality, durability and sustainability, and repair and maintenance issues have often been sidelined or ignored. Consequently, much school water and sanitation infrastructure is either:

- dysfunctional, requiring radical interventions (extensive refurbishment or total rebuilding); or
- serviceable, but deteriorating, and threatened by further deterioration if not supported by good operation and maintenance.

The negative impact of poor sanitation and non-availability of clean water in schools deprives learners of the basic infrastructure support they need to allow them to focus on their studies. The health and social problems arising from lack of these basic services spill over into the community – for example, the learners should be experiencing good water and sanitation practice at school, and should be taking this understanding home, in order to improve the practice at home. Sadly, this is not happening.

In the Butterworth pilot, trainee franchisees, all local people, with few exceptions first-time entrepreneurs, were helped to set up microbusinesses which mostly employed women from rural villages. Under the guidance of the franchisor, these teams undertook the initial cleaning and thereafter routine servicing of the water and sanitation facilities at the schools.

The primary objective of the Butterworth schools sanitation and water servicing pilot project was to develop and test an outsourcing concept which, if successful, could be rolled out to most of the more than 6,000 public schools across the 23 education districts of the province.

In 2009 Irish Aid, the CSIR, the WRC, the DoE and Amanz’ abantu signed a memorandum of understanding (‘MoU’) to implement a three-year pilot for routine servicing (akin to the 15,000 km routine servicing of a motor vehicle) of water and sanitation facilities at the approximately 400 schools of the Butterworth education district.

A scope of work was agreed, and training and operation plans were developed. Advertisements called for parties interested in becoming water services franchisees to come forward. A condition was that they had to be resident in the Butterworth area for two reasons:
• to ensure that the work would be done by people drawn from the communities that would be served; and
• in order to minimise travelling time and cost to Butterworth and to the schools that would be serviced.

Prospective franchisees were screened, and those shortlisted were interviewed in more depth. Those selected then received initial training. Thereafter the trainee franchisees and franchisor met with the DoE Butterworth district staff and school principals to plan their work schedules. These franchisees were required to operate under the franchise brand.

The franchisor established and trained an in-house team. One purpose of this team was (and still is) to be available as a back-up should a franchisee drop out. The other purpose of the team was to provide the franchisor with benchmark costs and an opportunity to develop and test methodology and procedures.

The franchisor also developed and adopted a QMS which is compulsory for all work of the franchise, whether of the franchisor or the franchisees. It provides a framework to ensure regular audits are undertaken, as well as a controlled management system which enables the franchisor to manage the documented works procedures. Spot checks are conducted by the franchisor on randomly selected schools to ensure standards of work are being maintained.

A key component of the service provided by the franchisees has been that of inspection and reporting on the serviceability and suitability of the facilities. Photographs taken have assisted the process of inspection and assessing schools’ repair (in some cases, replacement, the toilets having been found in such a poor structural condition) and maintenance needs. Reports compiled from these inspections have been submitted to the district managers of the DoE at monthly meetings, and maintenance and repair lists agreed for implementation over the next month. In this manner, ongoing service relationships have been developed between the franchisees, the school principals and the DoE’s district managers.

The franchisees billed the schools (or the DoE on certain schools’ behalf) each time they did cleaning and maintenance. But all of the development costs – including developing the concept, developing the training schemes, doing the training, preparing the operations manuals – were funded by Irish Aid, the WRC and also the in-kind contributions of the franchisor and the CSIR.

During the pilot, the franchisor found it necessary to take direct responsibility for defining and securing the work orders, and it then instructed the franchisees-in-training to perform the work. In effect, each maintenance order was a small contract – for the first round of maintenance, each order was between R2,000 and R5,000.
(US$200–500). For administrative convenience during this start-up phase, the potential franchisees were managed as subcontractors, although they were treated as franchisees for all other aspects of the operations. The franchisor assisted the franchisees through the setting-up phase, including the basic business and administrative training, and the development and training of the operational methodology.

Post-pilot the franchisees no longer needed the comfort and safety net of a subcontract arrangement, and the switch to a full franchising-like arrangement took place, with the franchisees now being appointed directly by infrastructure owners. The franchisees have proven themselves capable of seeking new clients and generating new and repeat business, and managing their own interactions with clients. In particular, this means it was up to them to ensure the school principals and the school governing bodies were satisfied with results and approved the work done. The franchisees were also able to offer their services to clinics, other public authorities, and to private business and households.

The franchisor played a very intensive role, not only managing the administrative part of the process (checking and compiling invoices and ensuring payment from the DoE), but also being responsible for random quality checks on franchisees, and processing the vast array of ‘before’ and ‘after’ photos from each school. Another key role of the franchisor was that of ‘fire-fighting’ – addressing problems and issues as they arose, such as payment delays, failure of equipment and the logistics of schools being found to have no latrines.

The pilot over and over again proved the value of the franchise arrangement. Not only was this in respect of anticipated advantages such as the training and mentoring, but it was demonstrated in less anticipated ways, such as in the form of the protection that the franchisor provided against the bureaucratic inefficiencies of the DoE. For a particular example: when payments by the DoE were late, the franchisor followed up on behalf of all franchisees. It was not necessary for each individual franchisee to come in from the field, costing time and travel expenses, and losing production. Given the slow rate of processing invoices and making payments during the schools pilot, it was unlikely that standalone microbusinesses would have survived for long.

THE MUNICIPAL PILOT

As Ahlert et al. (2008) pointed out, while many social franchising pilot projects were successfully carried out, without scaling up they failed to increase the social impact. The Butterworth pilot programme showed that the social franchising partnership approach could improve the condition of water and sanitation facilities in schools, but it was always envisaged that significant municipal work would sooner or later be commenced, thereby adding to the scale and scope – and impact.

The first such significant appointment came from the Amathole District Municipality (ADM), which asked for all of the 400-plus household pit latrines in a suburb of Duthywa to be emptied. This the franchisees achieved in six weeks. The site was within a kilometre of the wastewater treatment works, and so the franchisor fenced off an adjacent piece of land for disposal of the sludge. As the work progressed the ADM granted the franchisor permission to dispose directly into the works.

ADM has since made several further appointments of the franchise. At the time of writing, 2,400 household toilets were being serviced by three franchisees. Figure 2 shows the franchisees working on the household disposal.

The franchisor has been developing methodologies for accessing household toilets and disposing of waste, depending on the type of toilet, toilet top structure, topography and geographical location. These have been tested through work for the ADM in several areas of its jurisdiction. The franchisor’s ability to innovate on behalf of the franchisees is a major advantage of the franchise approach.

FACTORS AFFECTING VIABILITY AND COSTS

The pilots underlined that rolling out of the programme would sink or swim on financial viability. Costs of undertaking the servicing had a significant bearing on that.

Not unexpectedly, the amount of effort involved in undertaking the servicing of sanitation facilities – including time, training required, equipment required, and ingenuity – varied enormously from site to site, even when all were VIPs. The main variables included the type of top structure, the nature of the pit contents, whether there was or was not
broad consistency of type and contents in an area, distances (between pits, from home base to work site, from pits to disposal site, from location of specialised equipment to work site), logistical delays (e.g. non-arrival of equipment), and bureaucratic hold-ups (especially payment delays).

The biggest single influence on cost was continuity of work – or lack thereof. To illustrate, once franchisees were able to get into a routine, they could each empty up to five household toilets each day, also disposing of the contents. Ability to work at this pace brought the cost per toilet down substantially.

While none of the above variables was unique to franchising partnerships, the list served to underline the point that service providers, when pricing the service, had to be keenly aware of all these factors, because the cost of an effective service could vary between wide limits.

Establishing the franchisor as designated lead service provider independent of other responsibilities ensured that a focus was kept throughout the project on overcoming issues and challenges. It was accepted by the pilot project stakeholders from the outset that the franchisor would not make a profit during the pilot. Its purpose was to pioneer the franchise approach, and to overcome hurdles, ensuring that the project stayed on track.

The DoE has stated that it is keen to roll this programme out to all education districts. However there is a need for greatly improved willingness on the part of departmental officials to make commitments and to stick to them, and in particular to pay service providers and suppliers on time and in full.

Franchisees are not unique in needing to be paid in order to stay alive. All types of outsourcing by public sector bodies are jeopardised if they are unable to pay in accordance with contractual obligations. Everything else being equal, stand-alone microenterprises will go under first, followed by franchisee microenterprises, thereafter by larger businesses. Alternatively, the public sector bodies will find no takers when they try to outsource, or bidders will load their prices in order to cover themselves against the unknown.

The franchisor and franchisees are mutually dependent in many ways, particularly in respect of financial viability. For example, if the franchisees cannot cover their costs, the franchisor will find it difficult to remain in business and provide them with a service.

**MOVING FORWARD**

Many subsidised programmes have enjoyed success which does not last beyond the periods of financial support. Their models are not scalable (Bramley & Breslin 2010). Franchising incentivises microentrepreneurs to follow a professional approach to business. This restructuring of the relationship between the user, client and service provider transforms a social service into a contracted service. The driving force behind success is the franchisees’ ambition to succeed, as they have a clear incentive to achieve set standards, be paid when they achieve these standards, and grow their own business.

The pilots have developed usable and replicable business plans with tried and tested operating procedures. This has been documented, and the information placed in the public domain (Wall & I ve 2013). The management
systems are vital to ensuring quality control over the operations, sustainability through economically viable pricing systems, and responsible health and safety and environmental management systems. These systems attract additional costs but on the other hand they ensure responsible business practice, governance and enhance efficiencies throughout the franchise.

Technical methodology needs constant development. The franchisor has been monitoring developments relating to the management of biological processes of the pit contents as well as to mechanical equipment and techniques for pit emptying and sludge handling and disposal.

The franchisor has also developed and documented health and safety guidelines for those working with faecal sludge. This is important to maintaining healthy and safe practices in the sector and conveying to franchisees the responsibilities they have to their staff. Currently an immunisation and deworming programme is under review, along with the further development of protocols for all aspects of work, including operation, storage of tools, and disposal of water used to wash items which have been in contact with faecal sludge.

The franchisor is also investigating the ever-growing potential of mobile communications. Worldwide, around six billion people have access to a phone but less than three billion have access to toilets (Kalan 2013). The growth of mobile technology led to a worldwide ‘Sanitation Hackathon’ which encouraged mobile application developers to design applications to address sanitation provision issues. Two possibilities are as follows:

- The amount of paperwork generated by each servicing is a serious concern to the franchisor, which is as a consequence currently investigating how mobile technology could assist with data collection.
- The franchisor is also investigating how mobile phone users could report specific problems, as they occur, to a central processing point. Especially in the rural areas, where travel times are long and petrol costs high, being able to remotely understand the exact needs of a situation would enable a faster response and also reduce cost.

Through continuous expansion and proof of success of the franchise approach it is probable that competitors will appear to challenge the franchisor Impilo Yabantu. Those involved in the franchise recognise the role competition plays in improving and refining businesses – indeed, they look forward to the time when other reputable, competent and ethical service providers will enter the market and create competition. The key role players in an expansion of the concept are:

- owners of infrastructure, who require operation and/or maintenance of this infrastructure;
- locally based aspirant franchisees, people currently living in and being familiar with the community to be served, and who have the required levels of entrepreneurship, energy, skills and leadership; and
- aspirant franchisors.

In respect of the latter quite a few organisations in the South African water services sector have the potential to undertake this role, but only a few have so far shown interest, no doubt because the market is currently so small. Although the social franchise approach is not primarily profit driven, encouraging competition will provide incentive for entrepreneurial innovation to continually improve and drive down cost whilst offering more and more opportunities for employment.

The earlier studies by the CSIR/WRC/franchisor team analysed the water services delivery value chain, and identified more than 40 types of opportunities for microbusinesses (Wall & Ive 2010). The social franchising partnerships concept is now set to expand beyond its current tried and tested paradigm of routine servicing of low-technology water and sanitation infrastructure.

Whereas the initial pilots have taken place in the water and sanitation sector, this is because the expertise of the professionals responsible for concept development are in this sector, as are the opportunities presented by the interest shown by public sector owners of water and sanitation infrastructure. However there is great potential for social franchising partnerships to undertake operation and/or maintenance of other municipal infrastructures. Opportunities have been identified in, for example, the maintenance of electricity reticulation, roads maintenance, solid waste collection, maintenance of stormwater reticulation, and maintenance of community buildings and public open spaces.
SCALING UP

The contracts have been let, and the water and sanitation facilities at nearly 1,400 schools of four further education districts (three of them predominantly rural) within the Eastern Cape, viz Dutywa, Butterworth, Cofimvaba, and East London, will be serviced regularly during 2013–2016. Based on the lessons learnt from the schools pilot, the DoE has appointed an implementing agent (IA) to manage the programme on its behalf. Operating through an IA should address some of the bureaucratic issues, particularly the late payments for work completed, which were problematic during the pilot.

Undertaking this greatly expanded workload is requiring the franchisor to establish a new base of operation in each of the districts, and to develop methodologies for working on the waterborne sanitation found in the more urban areas. The different sanitation systems will require the franchise teams to acquire new skills sets.

The franchisor is currently working with the ADM to help it further address its commitment to maintaining household sanitation. This includes exploring how the concept could optimise the participation of members of the local community while creating jobs and transferring skills. Such an approach would allow each franchisee to expand its area of work while giving it ‘eyes on the ground’, allowing it to plan a work schedule more closely related to the demands of each locality.

The franchisor is at the time of writing also in the process of expanding its operations to provide a wider range of services, initially by introducing additional services such as solid waste disposal. (Solid waste disposal is a natural extension to the on-site sanitation programmes, given that, without a collection service, pit toilets rapidly fill up with inorganic waste.)

Buffalo City Metropolitan Municipality (BCMM), amongst others, has opened discussion about a series of projects that could be outsourced to franchised service providers. These include undertaking water and sanitation servicing in dense settlement areas and for communities living on the rural fringe, as well as solid waste collection, recycling and disposal.

In approaching the franchisee selection process for this expansion, there is much that has been learnt from the pilot programme and much excitement at expanding the franchise to be bigger and more competitive. However when tendering is required for securing of work, the franchise may not always appear to be the most price-competitive approach, because clients may place greater emphasis on offers which are apparently cheaper but do not guarantee the quality and reliability of service which a franchise would. The franchise approach will therefore require commitment from the client through inclusion in the terms of reference for the work. In return the client gets a guarantee of quality and efficiency, the community gets the service they need, and locally based people become involved in a sustainable and profitable business of which they can be proud.

The franchise started in 2009 with ten trainee franchisees. Five years later, the best of these trainees are capable of working with minimal support from the franchisor, and are in the process of establishing their own companies, giving their businesses a more robust structure with greater

Figure 3 | The current franchisees and their teams (left) and the class of 2013 (right).
credibility, this alongside the training of a further 16 franchisees. Figure 3 shows the more experienced franchisees and their teams and the 16 new franchisees after they completed their training. The expansion of the DoE’s schools programme and the work identified by the ADM and the BCMM requires further potential franchisees to be mobilised, trained and developed.

CONCLUSION

Research findings from the pilot indicated that many opportunities exist in applying the principles of social franchising partnerships to a range of suitable operation and/or maintenance activities within the water and sanitation services delivery chain – that is, of readily systematised repetitive operation and maintenance activities.

The concept has proved very successful in incentivising a professional approach. On the one hand, restructuring the relationship between the user, client and service provider transformed an often-neglected essential service into a contracted service. On the other hand, the contract between franchisor and franchisee offered a stable relationship, as opposed to the larger entity hiring or partnering with the franchisee.

The driving force behind success is the franchisees’ incentive to achieve set standards, get paid when they achieve these standards, and grow their own businesses. Reinforcing this arrangement are management systems which ensure quality control over the operations, sustainability through economically viable pricing systems, and responsible health and safety and environmental management systems.

Working with franchisees requires the franchisor to be nurturing, guiding and patient, ensuring that an environment conducive to stimulating learning and the growth of the franchisees is maintained.

Apart from providing essential operation and maintenance services to public sector authorities who are short of skills, the partnerships create jobs, provide training, and nurture microentrepreneurs. Future pilots must be structured so that when they come to an end, the franchisees employed on them would have developed into sustainable microbusiness entities, with the necessary skills and sufficient workload and income streams to continue as viable businesses.

REFERENCES


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