

“Crossing over”: appropriate private sector principles, to operate more reliable public sector water services

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Abstract

Private sector institutions utilise many different business methods, some of which can selectively be adapted for use by organisations outside the private sector, to the benefit of their service delivery responsibilities. But the best of the appropriate practices from the private sector have often “not crossed over”.

The Water Research Commission (WRC) of South Africa, working in collaboration with the Council for Scientific and Industrial Research (CSIR), finds that the concept of franchising, so successfully used by the private sector to deliver many goods and services, if applied to water services operation and maintenance, could alleviate and address many challenges in the management of water services. At the same time, franchising could provide an ideal stimulus to support the development of local enterprises, all within the municipal service delivery environment.

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. Some areas for potential franchising include meter management, billing, plumbing, pressure management, sewer maintenance, and wastewater treatment processes.

The help from the franchisor would be of particular value to water services authorities at a distance from the major urban centres. Few of these authorities can afford to employ competent qualified staff, and often non-compliance with the laid down performance standards is a direct consequence of this lack. Significant improvements would soon be seen if the generally under-qualified and under-resourced water services staff could have this ongoing support, mentoring and quality control — or if the authority could enter into partnerships with small local enterprises or NGOs which would, through franchising, enjoy the necessary ongoing support, mentoring and quality control, and would have quick access to expert assistance when they needed it.

Keywords: Franchising, water services, water management,

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1. Preface

How is it that residents of some parts of our country can buy clean petrol, and clean (if, arguably, unrepresentative of optimum dietary practice) hamburgers, but cannot get clean water from a tap, or hygienic and environmentally acceptable sanitation? This contrast is especially stark in the light of the fact that the oil from which the petrol is made has to come from very far away, whereas the “raw material”, so to speak, for the clean water comes from relatively close by.

How can such a thing be?

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

- First, the manager or owner of the outlet (petrol station, fast food shop, etc) knows that if he or she cannot provide those hamburgers and that petrol, and cannot promise to provide them every day, he or she will not receive income. If something in the process goes wrong, he knows that he has to get it right again — and quickly. That provides “incentive”.
 - And, without knocking the majority of municipal employees, who are con-scientious and hardworking, many municipal employees know they can, or think they can, get away with excuses for the water not being clean, or not being available, or the sanitation (and especially the effluent from the wastewater treatment works) being sub-standard — day after day — and they will still receive their pay.
- Second, the staff of the petrol station, and all the people responsible for refining the petrol, making sure that it gets to the petrol stations, and so on (and same for the hamburgers), are properly trained. That provides “capacity”.
 - On most days in the year nothing much happens at the petrol station that the fairly low-skilled staff who are there all the time do not have the capacity to cope with readily.

The principles of franchising.

- 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.

However, when it comes to major maintenance, or upgrading — or when there is a breakdown — the staff at the petrol station know who to call for advice, or to come, maybe from far away, to help them.

- And they know that those better-trained and more experienced people WILL help them, because they have an obligation, in the form of a contract, to do so.
- Those higher-level people are not needed all the time — they are needed just occasionally. So the cost of these high-capacity people is spread among many petrol stations, and the cost per petrol station is very low.

Of course there are from time to time other reasons, but these will not be dealt with here. The questions that this paper attempts to address are:

- What is it that enables the hamburger outlet or petrol station to provide services as reliably as it does? And
- Can that recipe be applied to reliably providing acceptable sanitation and clean water?

2. Background

South African local government, assisted by the national Department of Water Affairs and Forestry (DWAFF) and other roleplayers, has in the past dozen years been remarkably successful in answering the challenge of services provision. Large numbers of households are now supplied with water services¹ of a wide variety, thanks to massive investments in infrastructure and institutional development. Although there are many who are still not able to access services, this achievement is exemplary.

However, this very success is creating problems now, and for the future. As the number and complexity of water services systems increases, so the operations and maintenance workload escalates.

One of the principal pillars of the policy framework established by South Africa's new government from 1994 involves a shift in responsibility from a centralised, authoritarian state towards greater autonomy at lower levels of the system. Ultimately the success of this framework depends on those local governments, their elected councillors, their appointed officials, and the local communities taking the initiative and assuming responsibility for the optimal

¹ "Water services" for present purposes includes both water and sanitation.

functioning of the services, the delivery of which has been assigned to them in terms of the national Constitution.

Conventional wisdom, supported by research, indicates that the capacity of many local authorities in South Africa to adequately provide even basic levels of water services to all their citizens on a sustainable basis is in question (for only two (of many alternative) examples: DWAF 2005; DWAF and CSIR 2007). This research illustrates the distance which many authorities at that local level need to travel before this vision can become reality. The rising challenge is to ensure that local government water services providers can manage the delivery system sustainably.

Exploring a range of options to support these authorities also represents an opportunity to selectively incubate innovations on an experimental basis, following a tradition of South African leadership in public sector-driven partnerships with the private sector.

There is undoubtedly, among other measures, a need to make use of the potential of small, medium and microenterprises (SMMEs) to assist public sector water services providers. However the barriers to entry for the smaller or start-up company are substantial. But if these could be overcome, perhaps through franchising, then there would be many opportunities for local economic development. The twin driving forces of the franchising concept are the profit motive and the existence of a successful business model that can be copied widely – neither of these is currently in evidence in the water services sector.

DWAF and others have for a number of years considered that the potential for franchising in the water services sector ought to be investigated, but, for various reasons, they didn't follow up.

The Water Research Commission (WRC), working in collaboration with the Council for Scientific and Industrial Research (CSIR), has since 2002 undertaken pioneering research into the concept of water services franchising in South Africa, exploring the concept and its relevance to the water services delivery process. The first stage of this work, completed in 2005, indicated opportunities in the water services delivery chain, and recommended that these be explored further. (Wall 2005)

A second stage of the WRC/CSIR work, commenced in 2005 and now complete:

- Further explored the concept of franchising partnerships and their relevance to the water services delivery chain.
- Identified those elements in the water services delivery chain which offer the greatest scope for franchising partnerships.
- Undertook a review of the policy, statutory, technical, financial

and regulatory aspects which impact on the concept of franchising.

- Identified those elements in the water services delivery chain which offer the greatest scope for franchising partnerships, and set out the results of the business analysis (i.e. modelling) of possible franchising of selected elements.
- Developed franchising partnerships models for the areas identified by the research, with consideration for the legal, regulatory etc. aspects.
- Conducted a case study of an element in a hypothetical situation, to see how the model would work.
- Set out the principles for water services franchising partnerships.

The longer term outcome, when franchising is widely introduced, should be that in a significant number of instances in South Africa there will be reliable water services delivery where there has not been such before. In addition:

- for DWAF and local government, an alternative, and in many circumstances superior, delivery concept will be available;
- employment opportunities will be created; and
- for potential entrepreneurs, and for broad-based black economic empowerment (BBBEE), new business opportunities will be made accessible and viable.

3. A case for the public sector to selectively learn from some of the private sector's operating principles

Private sector institutions utilise many different business methods, some of which can selectively be adapted for use by organisations outside the private sector, to the benefit of their service delivery responsibilities.

Imagine a system that will ensure that tap water anywhere in South Africa enjoys (within acceptable limits) the same quality, and reliability of delivery, from place to place — and that this quality, and reliability, is fully compliant with the nationally laid-down standard. Also imagine that if there is the occasional malfunction, and consequent threat to the quality and reliability, the system of delivery is geared to rectify this within an appropriate time limit (depending

2 Municipalities, or groups of municipalities, which have the responsibility for water services. They are permitted to contract others to provide all or part of the provision of the service. Although it is not strictly correct to do so, this paper uses the terms “municipality” and “WSA” as if they were fully interchangeable.

on the issue, this could, if needed, be as quickly as a matter of hours). That would indeed be a boon to public confidence in water services delivery and in the water services authorities (WSAs²), and a great contribution that to public health.

And what if such a system could be extended to wastewater — in particular to improve compliance of the effluent from wastewater treatment works?

However, it is not necessary to invent this system, because it already exists. It is the system that ensures that petrol at any pump enjoys (within narrow limits) the same quality, and reliability of delivery, from place to place. Which is the same system that ensures that many other services (including hamburgers!), from specific local suppliers anywhere, enjoys (again within narrow limits) the same quality, and reliability of delivery, from place to place.

That system is generally known as “business format franchising”.

Whereas this system is in widespread use in throughout the world to deliver a wide range of consumer goods and services, it is seldom, if ever, used to deliver services that meet basic human needs.

It is worth asking why this is the case. Especially considering that the quality of drinking water and sanitation, are, it can be argued, more important to human life than are the quality of petrol, or hamburgers, or printing services, or videos, or shoe repairs, or the myriad of other goods and services often supplied in terms of business format franchising partnerships.

A possible answer that immediately comes to mind is that few, if any, in public sector water services delivery have thought of even looking to see if there is anything that can be learnt from the way the private sector is operating and maintaining its infrastructure. (Talking here about the private sector generally — not referring to the private sector delivery of water services.)

The corollary of that could be that no one in the private sector (not just in franchising) has bothered much about offering its operating principles to the public sector — perhaps because the private sector perceives that there is nothing in it for them, or because it perceives that the public sector would be averse to learning from the private sector, or for any other reason.

Another possible answer is ideological resistance, from some in public sector water services delivery, to anything that smacks of the private sector. But there could be other reasons.

Whereas there are many instances of public sector delivery institutions adopting practices from the private sector (and vice versa), many more possibilities wait to be explored — and no doubt many

others wait even to be identified.

The author could refer to many such instances, but one will suffice.

An interesting example of what appears to be a recent awakening by a number of institutions, not in the private sector, of the value that might lie in them adopting tried and tested practices in the private sector, is found in what is referred to as the “humanitarian sector”.

A number of comparisons have in recent years been made between, on the one hand, the ability of large private sector organisations to deploy people, equipment, materials and funds, and, on the other hand, the ability of humanitarian organisations to perform near-enough the same types of tasks when the latter are faced with the need for the aid that they are mandated to provide – which might be in order to respond to a natural disaster (such as flood, earthquake, tsunami, hurricane), man-made disaster (war, terrorism), famine, or extreme poverty. The comparison has often not been favourable to the humanitarian organisations, whether the disaster might be a rapid onset disaster, such as an earthquake, which requires immediate interventions of rescue and aid, or a slow onset disaster, such as drought or famine, which may allow more time to respond.

For example, a series of articles in “Fortune” magazine, dealing with the aftermath of Hurricane Katrina, showed that the private sector has a wealth of knowledge that can be put to good use in disaster relief situations. (Boorstin 2005, Fox 2005) This knowledge encompasses forward planning, risk management, and the kind of logistics skill and experience that enables goods to be identified, sorted, transported and delivered – speedily and efficiently, and with an ability to respond to changing needs and circumstances.

An outstanding example of this was the response by the retail giant Walmart, which “... began preparing for the effects of Katrina six days before the storm even hit land. Walmart takes natural disasters so seriously the organisation even employs private meteorologists to provide the most advanced predictions of weather patterns ... in this case, the advance notice of the swing in Hurricane Katrina’s path enabled trucks to be reloaded and dispatched to the New Orleans area.. They did this so efficiently that a local mayor is quoted as having said: “the Red Cross and FEMA [the federal disaster relief agency] should take a master class in logistics and mobilisation from Walmart.” (Maspero and Ittmann 2008, page 182)

*The “nonchalant response” by Rollin Ford, Walmart executive vice president of logistics and supply chain, says it all: “**That’s what we do – we move mass volume very efficiently**”. (ibid — emphasis added)*

Humanitarian organisations, while praised for their sincerity, commitment and dedication, have sometimes been faulted for their

”lack of professionalism” when it comes to other aspects of their performance. In particular the logistics side has come in for criticism – “the underdeveloped state of logistics in the humanitarian sector closely resembles the state of corporate logistics 20 years ago, by displaying underinvestment, lack of recognition, and the absence of a fulfilling professional career path for those working in the humanitarian logistics domain”. (Thomas and Rock Kopczak (2005), quoted in Maspero and Ittmann 2008, page 181.)

The oft-stated message is that the humanitarian organisations should study private sector companies in which logistics plays a significant role, should learn from their business practices what is appropriate, and then should adapt their own operational principles accordingly. *“Humanitarian logistics has much in common with corporate logistics, yet the best practices from the corporate world ... have not crossed over.”* (Thomas, quoted in Maspero and Ittmann 2008, page 178 — emphasis added) Similarly, Beamon (ibid, page 179) is quoted as arguing “that the foundation of performance management in the private sector could be applied to humanitarian chains”. This includes:

- “Resource performance measures”;
- “Output performance measures”; and
- “Flexibility performance measures” (i.e. the extent to which the organisation is able to adapt operations and programmes as required by the circumstances).

In respect of water services operation and maintenance in South Africa, one could also say, adapting the words of Thomas as quoted above, that water services delivery has much in common with the delivery of some goods supplied by the private sector, yet the best of the appropriate practices from the private sector have also “not crossed over”.

Does that comment by the Walmart executive “that’s what we do” not sum it up – that there can be a case for the public sector to selectively learn from some of the private sector’s operating principles? For the petrol franchisor and franchisee, ensuring that the pumps work, that the petrol is not contaminated, that the forecourt is clean, that the petrol storage tanks never run dry — “that’s what [they] do”. It’s no big deal for them to do this reliably, day in and day out. For them it is “business usual”.

In contrast, for some WSAs and water services providers (WSPs), ensuring that the pumps work, that the drinking water contains no contaminants, that there is always a supply of the chemicals needed, and so on, is not something that they are able to achieve consistently. For them to achieve this consistently would have to be “business unusual”.

4. The case for water services franchising partnerships

The rapid rate of construction and commissioning of new water services infrastructure is severely challenging the institutions responsible for operating and managing this infrastructure. Innovative approaches to water service delivery are required. But even if all the existing institutions were coping with the water services delivery 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 role players to focus on their other responsibilities, and/or
- could offer a range of other advantages (including greater local economic development).

There is an alternative service delivery 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 of water services. However there is little experience of this approach anywhere in the world, although some existing partnerships share some of the characteristics of the franchise approach.

The barriers to entry for the smaller or start-up company are substantial. But if these could be overcome — and franchising is a way to overcome them — then there will be many opportunities for improved water services and for local economic development. The twin driving forces of the franchising concept are the existence of a successful business model that can be copied widely (there are currently very few such models for the water sector³) and the profit motive.

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.

3 Furthermore, much of the business information pertaining to these very few models 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.

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The WRC, in collaboration with the CSIR, has explored the concept of franchising, its relevance to the water services sector, and its prospects as an institutional option for water services operations and management. These studies have found that the franchising concept, if applied to water services delivery, could in favourable circumstances both alleviate problems encountered in, and raise the efficiency of, water services delivery. At the same time, franchising would have the added advantage of stimulating small business activities.

These studies have, further, described at a conceptual level how a water services franchise model could be made available to emerging entrepreneurs, and have concluded that franchising water services could be the basis of a viable local business. The franchise would be in respect of a component of the value chain that is suitable for small business because it can be readily systematised.

The WRC found an indisputable need for alternative water services provider systems, and for local economic development, and that there is potential through water services franchising partnerships to simultaneously:

- more consistently deliver water services to specification;
- improve water services efficiency; and
- promote local economic development and SMME development and broad-based black economic empowerment (BBBEE).

The research further found that it is essential to the success of water services franchising that, inter alia:

- Service to customers meets the specification in the franchise contract with the water services authority
- Suitable franchisors are willing and available
- Local entrepreneurs are willing to take up water services franchise opportunities
- Franchising proves to be a viable business for franchisor and franchisee alike
- Funding partners support water services franchising in just the same way as they support in comparable circumstances water services provision by other institutional means

On the last of these points: franchising partnerships must benefit from the funding streams (e.g. the Equitable Share Programme) to the municipality to the same extent as these streams are intended to benefit any other type of water services provider, including the municipality itself.

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 at a distance from the major urban centres, few of which can afford to employ competent qualified staff. As an illustration of the direct result of shortfalls in selected competencies, sample surveys of these municipalities' treatment works show frequent non-compliance with the performance standards laid down. (For one example only: DWAF and CSIR 2007.⁴) Significant improvements

4 For example: "The compliance level for completed bulk water projects is 20.7%, which means that almost 80% of the projects do not comply with policy requirements, norms and standards. [Emphasis in the original.] Of concern is the fact that less than 50% of the projects are reliable, less than a third meet technical quality standards, and only 20% are compliant when measured against technical quality criteria, all of which has an impact on sustainability.

A number of problem areas have been identified regarding breakdowns and slow repair times. Approximately 40% of the projects have not been operational at some stage in the past year. Other problems include a lack of storage facilities for chemicals and the unavailability of chemicals, while some projects indicated that their operators have not received any training in operation and maintenance and that the water quality is not being monitored. Technical problems reported included water pumps that were out of order or non-operational for various reasons, pipe leakages, illegal connections to pipelines, and reservoirs that were non-operational." (DWAF and CSIR 2007, pages 19 and 20.)

Recommendations in respect of completed bulk water projects are:

- Challenges and problems have been identified with technical quality, water treatment and reliability components. These include the following:
 - The reliability component is of critical importance owing to its possible impact on the long-term operation and eventual sustainability of bulk water systems. It is imperative that measures should be developed and put in place to improve maintenance, reduce causes of breakdowns and accelerate repair times.
 - Quality control or supervision should be enforced to ensure the technical quality of pumps, pipes, valves and valve boxes, as well as the regular availability and safe storage of chemicals for water treatment.
 - Measures and processes should be put in place to support the monitoring of water quality.
 - Regular and appropriate training of operators is vital for the effective long-term operation of the system." (Ibid, pages 23 and 24)
- Elsewhere in the same report, it is stated that recommendations include:
- "A proper and regular monitoring and reporting system to assist in identifying and rectifying problem areas"
 - "The requirements for detailed maintenance records and proper maintenance regimes should be enforced."
 - "Operating manuals should be standard issue and should be translated into the vernacular of the operator."
 - "Operators should receive appropriate and regular training and re-training." (Ibid, pages 24 and 25)

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 enter into partnerships with SMMEs 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, through them, to their municipal clients), and could provide other resources normally only available to larger water services providers. This type of partnership holds significant benefits for municipalities.

Thus there is ample scope for the SMME private sector to assist, and there is a range of ways in which entrepreneurship in water service provision can be encouraged and supported. If the entrepreneurs were not standalone enterprises, but were franchisees, they would enjoy competent franchisor support, 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.

The municipal client's competence to monitor performance and enforce contract compliance is key to it effectively using the SMME sector. However if a municipality is short of management resources, it would be putting these to more efficient use in managing the work of the contractor than in trying to cope with the operational issues itself. Given that there are currently not enough water services providers in South Africa, entrepreneurs should be offered the opportunity to assist with these operational issues.

Nevertheless, the argument for franchising 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 in some of the current activities of non-profit water services organisations in South Africa. For example, currently, a valuable asset to several predominantly rural municipalities is the practice of appointing large water services institutions as "support services agents" to support water services providers that are non-governmental organisations (NGOs) and/or small local community-based organisations (CBOs). Although this arrangement is not franchising, development of the franchising concept can definitely benefit from its experience, and it could in turn benefit from adoption of some of the characteristics

of franchising.

One parastatal and several private sector organisations that have the expertise and resources to play a franchisor role have expressed interest in playing such a role should the opportunities arise. There is little doubt that other capable organisations would be interested were they to see the potential.

It must be acknowledged that there are 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.⁵ They have not, or do not wish to, provide other elements, but they would like to sell their services to other than their current market niche (invariably private sector purchasers of their services). Their usual comment is that they would like to extend their services to infrastructure owned by the WSAs but do not find the environment conducive. One of the franchisors is however actively seeking opportunities to extend the range of elements of the water services delivery chain in respect of which it offers operation and maintenance services.

A major motivation for the research has been the WRC's wish to free up the environment, to break water services franchising out of its current niches, and to explore and pilot the application of franchising principles across operation and maintenance of a range of public sector water services delivery elements. And, with that, to place in the public domain the business information (e.g. methods, financial viability) pertaining thereto.

5. Overview of water services franchising

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

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

⁵ For example, 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.

Many South African water services authorities 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 SMME sector and to local economic development. Franchisees are SMMEs, but their association with a franchisor gives them considerable advantages — reflected in the better service that they can provide — over standalone SMMEs.

All choices of institutions for water services delivery — whether of the primary water services provider (WSP) or (more feasibly) of subcontractors to that WSP — are between alternatives. The water services delivery model in common use (i.e. a heavy reliance on water services authority's/ municipality's own in-house resources) is not intrinsically flawed. The reason why many of the owners of the water services infrastructure and/or their appointed water services providers are not able to operate this infrastructure satisfactorily lies in the implementation of the model, rather than in the model itself. Given the too-often inadequate state of operation and maintenance of much water services infrastructure under the current institutional regime, water services authorities need to consider different and potentially more successful options, and to give serious consideration to adopting them, or at least facilitating their participation.

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. As follows:

- Ensuring that the necessary steps are taken to allow NGOs, CBOs and SMMEs to compete on even terms with in-house providers. At very least, this must be done where in-house operation and maintenance is showing obvious signs of serious or repetitive nature of non-compliance.
- Addressing funding stream and municipal financial stability issues.
- Ensuring that a limited number of water services franchising partnerships pilots are up and running as soon as possible. These pilots will, through their success, demonstrate the potential of water services franchising.

National government is the key roleplayer in terms of addressing the first two of these priorities.

Research shows that municipalities are for the most part unlikely to

change in respect of the first of these priorities. Invariably, they tend to want to run operations and maintenance themselves, whether they are fully capable or not. They do not have a mindset that says “we cannot provide a fully compliant service, and therefore we must look for some other way of dealing with those aspects that we cannot”.⁶ If, therefore, national government wishes to see change, it is going to have to demonstrate strong leadership.

Research also shows that not many municipalities are able of their own accord to bring about significant change in respect of the second of these priorities. Again, therefore, national government is going to have to take the leadership itself. In this instance, national government has succeeded in bringing about some improvement, but much more needs to be done.

A “three-step breakthrough” is needed:

- The first step is the breakthrough to acceptance by water services authorities of outsourcing the operation and maintenance of infrastructure that they, the water services authorities, 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 SMMEs.
- The third step is the acceptance that these SMMEs could be franchisees. (This third step should not be a problem once the second level is in place.)

It should be easier to convince clients of the merits of franchised SMMEs than of the idea of SMMEs that are standalone. What is good or bad for SMMEs is good or bad for franchising. But the converse doesn't necessarily apply – or, putting it differently, a franchisee SMME, 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 standalone SMME, 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

⁶ Municipalities should be required to justify any choice that they make, rather than the current situation where they do not appear to be held accountable if they choose the in-house approach and it consistently fails to deliver reliable water services. If this were the case, there would be many more opportunities for outsourcing of operation and maintenance.

services, thereby achieving dual objectives, viz:

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

The next section puts in a nutshell the case for a partnership concept, making use of the principles of franchising, for improved water services infrastructure operation and maintenance.

6. Water services franchising in a nutshell: A partnership concept, making use of the principles of franchising, for improved water services infrastructure operation and maintenance

In the briefest possible terms:

- The WRC has found that a franchise partnership concept can assist municipalities with their water services responsibilities, specifically the operation and maintenance of infrastructure.
- The municipalities will continue to own the infrastructure.

Water services franchising is a means of:

- assisting municipalities by providing the higher-level expertise in water and sanitation infrastructure operations and maintenance that would very seldom if at all be found outside the metropolises and larger urban areas; while
- creating and supporting CBOs and small entrepreneurs who can provide locally-based and thus efficient service provider solutions; and
- building local economic development.

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 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. (For more detail, see box directly alongside.)

The franchisees would be SMMEs and CBOs. The franchisors would be any institution that has the required expertise, is willing to provide the service, and would not create a conflict of interest by providing the service.

An analogy would be a combination of:

- together with a maintenance plan (or purchasing the maintenance plan afterwards); and
- the vehicle maintenance is undertaken by a franchisee, with the continuous support of a franchisor.⁷

The WRC has modelled the franchising of selected elements of the water services value chain. Elements include: pressure management, meter reading, demand management, plumbing services, operating abstraction points, and operating treatment works.

This modelling has drawn upon first-hand knowledge of operating these same elements in contexts as close as possible to franchising. It has also drawn upon understanding of the small number of franchises already active in the water services sector, and upon understanding of the very much larger number of franchises in other fields.

Finally:

- Franchising offers significant potential for improvement in services quality and reliability, greatly assisting the good functioning of municipalities.

Through franchising partnerships, matching skills levels, and matching obligations, together with incentives to use the skills appropriately and effectively.

□ On most days at the (for example) treatment works, nothing extraordinary happens. Franchisee staff, who are lesser-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.

⁷ This analogy should suffice to demonstrate that outsourcing of operation and maintenance, whether to a branch of a larger business, a standalone business or a franchisee, is not a form of “privatisation”. The vehicle owner retains the ownership, irrespective of whether he outsources maintenance or does it himself. The same would go for the meters that are read, the pumps that are maintained, or the wastewater treatment works that is operated and maintained — ownership of the infrastructure remains with the WSA.

- Franchising offers significant potential for the capacitation and participation of SMMEs and CBOs, and for BBBEE.

7. Key points from WRC research

Key points, potentially of great value in planning and implementation of water services franchising partnerships, that emerge from the WRC work are:

- If the WSP or, more likely, a subcontractor to the primary WSP in a WSA, were a franchisee, this franchise alternative should not disturb present relationships between the WSA, other WSPs and others, but would simply add one more alternative to the array of possible WSP types.
- 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.
- Selection of a pilot site brings with it a WSA or another public sector institution that is the responsible authority for water services. In the initial stages of water services franchising partnerships development, selection of an element of the water services value chain is likely to bring with it only a limited choice (or no choice at all) of a business model and a franchisor coupled to that model.
- The sequence of events will probably be that franchisors 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 responsible. Finally they will offer the business to potential franchisees, or will attempt to nurture potential franchisees. As water services franchising in South Africa grows, however, the initiative may come from others — e.g. from the WSA, but to begin with it is highly probable that it will only be franchisors that initiate water services franchising proposals.
- Many potential sites for water services franchising partnerships already exist in South Africa, in the sense that much water services infrastructure is already in place but is not being operated properly at the present time. While these sites fall under the jurisdiction of or are owned by WSAs, and the reluctance of, or opposition of, what appears to be the majority of WSAs has been noted by the WRC, it is encouraging that a sufficient number of WSAs appear to be willing to consider undertaking, or permitting, water services franchising pilots.

- The participants in pilot implementation, and the sites where this piloting could be attempted, need to be carefully selected. If the pilot were to fail because of for example political or economic problems in the area, nothing about the merits of franchising partnerships would have been learned.
- Thus the selection of the initial pilot sites is principally constrained by the need to match:
 - water services infrastructure and
 - site, and its environment, and
 - willing WSA and
 - willing and competent franchisor, preferably with local experience and local credibility (i.e. credibility built from a track record of delivery and of working with local authorities, communities and local small contractors); and
 - (once the above have been brought together) willing and competent potential franchisees.
- As franchising spreads, business models will proliferate, and companies with the appropriate water services skills and resources will be attracted to the franchisor role.
- Organisations will of their own accord elect to set up as water services franchisors. How much success they will have will depend on their expertise, resources and track record before entering water services franchising and once they are in it — and their acceptability and that of the franchising proposals they put together. This acceptability will be judged by key stakeholders, principally WSAs and financial institutions, but also by DWAF and by affected communities.
- The franchise industry literature over and over again advises against franchising a business without a business model that has 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 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). The franchisor should preferably do this test 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, a strong case needs to be made 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 municipality/WSA and of other WSPs).
- A scan of South African franchising (not water services) literature found that franchisees need to have entrepreneurial attributes such as being highly motivated, hard-working, and willing to wait for reward. Specialist technical knowledge and/or operating licences are needed in some sectors.
 - Future water services franchisees will probably be drawn from among emergent independent operators already in the technology sector, or a franchisor's own employees, or community-based individuals or groups.⁸ Many (but by no means all) of these will probably need initial support from the franchisors or other external service providers.
 - 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.
 - Finally, a number of important issues need to be resolved before franchising partnerships to improve municipal water services operation and maintenance can become widespread.
 - One of these, clearly, is procurement procedures.
 - Another is budgeting — the SMME franchisee would need to be paid not the kind of budget that is so often allocated by a municipality to operation and maintenance, but would need to be paid the proceeds of a realistic, adequate budget.

⁸ Preference, all other factors being equal, could be given to women-owned organisations. Particularly in rural areas, women are very active in the water sector, and often the social status quo works against them. Whilst there is nothing stopping them from starting and managing their own small businesses, they often meet with resistance from the “traditional hierarchy”. Municipalities have and do follow targeted procurement, and the fostering of SMMEs (particularly in a franchise-like relationship) would provide a good vehicle for the development of new business units within a woman-friendly environment.

- Yet another issue is payment. No SMME 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 municipal financial department.
- A fourth issue lies in the essential services nature of water services — there has to be a backup contractual relationship between the franchisor and the municipality, that would oblige the franchisor to take over the franchisee’s responsibilities, even if temporarily, should the franchisee fail for any reason whatsoever.

8. Way forward

The way forward lies only to a limited extent in more modelling. It lies rather in piloting the concept, and learning from the pilots. It also lies in creating a more conducive environment – “environment”, that is, including matters relating to funding and financial control, accountability, performance regulation, service standards, capacity, outsourcing policy, procurement procedures, and other issues.

This section of the paper addresses modelling in a couple of paragraphs, then, in a few more paragraphs, piloting. The bulk of the section discusses advocacy – particularly advocacy designed to create a more conducive environment. How the themes of modelling, piloting and advocacy can support each other is described – for example how advocacy can (and already has in at least one instance) lead to an opportunity being perceived and resources being put together in order to commence piloting, and how the success with that pilot, once it is underway, will in due course strengthen the advocacy.

Whereas more research, and particularly the building of more models on paper (even if these models are thoroughly researched and backed by sound experience), would undoubtedly add great value ⁹, the main *need now is to start piloting the concept*.

The on-paper studies have been taken to the point at which the

9 The WRC research has already modeled:

- A sustainable community-level caretaker management business;
 - a sustainable schools and sanitation business; and
 - a sustainable pressure control management business.
- Other areas identified to have potential for franchising include: leak detection, borehole management, management of municipal treatment works, management of treatment package plants, meter reading, pit-emptying services, laboratory services, data management, and site and property management.

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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. Two companies that have seen the opportunity, and are indeed “seizing” it, are Amanz’abantu and Biwater, as described immediately below.

Piloting of the concept, after completion of the current study, is being promoted by the WRC. 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 water services providers, offering a full range of water services. (Call these “Type A”.)
- Proposals that would lead to the establishment of franchisees that would offer selected services under contract to water services providers (“Type B”).

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. Projects could be of either type.

Both Amanz’abantu Services and Biwater have expressed interest in playing the franchisor role, and are advanced with investigations into how they can expand their range of operations into the franchising arena. In the case of both companies, their interest is in Type B.

The Biwater initiative, in Mbombela (Nelspruit), would likely be as good a set of circumstances for a pilot project in water services franchising as might be found anywhere in South Africa. The experience of the company in water services, and the credibility that it has built with the municipality and the community, makes it very suitable for the franchisor role in the area. Also, the basis for potential franchisees has already been created, thanks to, through its Mbombela concession, the six-year track record that it has built of developing and utilising small water services contractors.

Amanz’abantu feels that it, too, has credibility, potential franchisees (already selected and trained, but currently working as direct subcontractors), and a good business model (for operating and maintaining schools sanitation facilities). The need for the service (the dire state of sanitation in many of the schools, and the inability of the school’s bodies to address this) has amply been demonstrated.

The provincial Department of Education has been approached, and appears willing to consider a programme that utilises SMMEs to operate and maintain schools sanitation facilities. A pilot has been embarked on by Amatola Water on behalf of the Department, and useful experience has been gained. The need is clear, but the decision-making process still needs to be concluded before the SMME contracts can be awarded. It has been proposed that franchising offers the best opportunities for supporting these SMMEs.

Now turning to advocacy:

As noted earlier (Section 5), 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 SALGA. 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 to advocacy and 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 way into acceptance by the municipalities of water services franchising partnerships is:

- The municipalities need to see the benefits of utilising SMMEs, compared to trying to employ their own staff to do the work.
- As they cannot (in terms of their procurement policy) directly exclude non-franchised SMMEs, the municipalities need to understand the benefit of using SMMEs who are franchisees (above those who are not).
- For work requiring a higher level of SMME, they can specify additional requirements for SMMEs as part of the job description (these are the differentiating qualities that will favour the franchisee above the stand alone SMME). Examples include, access to support of a technical financial or administrative nature, access to financial resources, specialist equipment, and a certified quality management system.
- In evaluating the appointment of the SMMEs, the higher level of services offered by the franchised SMME will then count in their favour.

In support of this process, and in order to create a more conducive environment so that more municipalities will be willing to consider outsourcing to franchisee SMMEs:

- WRC needs to step up advocacy to national government around the environment issues listed in the first paragraph of this section; and
- WRC needs to lobby for national government to proactively support SMMEs options, and particularly franchising options.

On the second of these:

If national government is as concerned about water services performance at local government level as it says it is, it should consider proactively supporting feasible solutions. If therefore DWAF is of the opinion that water services franchising is a valuable option, it should be seeking ways to nurture franchising partnerships. One way it could assist would be by supporting specific proposals put forward in the form of sound business plans.

A strong motivation for this suggestion is not primarily derived from need for compliance with standards (such as water reliability and quality standards) or about infrastructure asset management. It is also derived from the attractiveness of the returns from improving operation and maintenance of water services infrastructure neglected by water services authorities. 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 needs also to assist with focused initiatives to address funding stream and municipal financial liability issues. Potential franchisors are inhibited by the fear that, contractual commitments notwithstanding, municipalities may make due payments late or not at all. Ideas need to be found, and measures put in place, to remove the cause of these fears.

In summary, if national government wants to improve water services operation and maintenance, and wants to encourage more participation by CBOs and SMMEs in water services delivery, national government needs to review the procurement regime (i.e. how water services authorities implement procurement regulations) and also the budgeting and funding of water services operation and maintenance.

The several initiatives that have arrangements in place to support CBOs (e.g. by Mvula Trust) have been facing some of the same issues,

and their success (or otherwise) in achieving at local level the first step of the breakthrough should be observed. 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. This support needs to be not just in-principle, but active support for making the environment more generally conducive to outsourcing water services operation and maintenance, and in particular addressing the priorities identified in Section 5 as to what needs to be addressed if franchising is to be viable and is to provide the desired service.

Further to this advocacy, the WRC has flagged the need for seminars, for example seminars with the most pertinent national government departments, to get the concept across. It is encouraging that, at the NEPAD Projects Conference in Sandton, in October 2007, the SMME approach received high-level encouragement in a non-water services context. In particular, Minister Fraser-Moleketi and Eskom chairperson Reuel Khoza (also chairperson of the NEPAD Business Foundation) pointed to the success of South African companies in opening franchised businesses in Africa. The need now is to show, through pilots, how the principles of franchising can be applied to water services operation and maintenance.

Much more remains to be done in terms of dissemination and advocacy.

9. Conclusions

“Crossing over” to the public sector of selected “best practices from the corporate world [private sector]” can be justified where a strong case can be made for the appropriate application of skills, technologies and procedures from the private sector.

Not promoting any company, water board or other organisation in particular, but a shortlist can readily be drawn up of institutions in South Africa which could truthfully say, in respect of what is needed to respond to the “recommendations” listed in the long footnote to Section 4, “that’s what we do”. And “we” do “it” every day, “we” have a proven track record, and some (the private sector companies, anyway) are paid by results, so “we are penalised each time we fail to operate and maintain to the specification — and therefore we have strong incentive to perform”.

Among those “best practices from the corporate world” could, for some applications, be franchising partnerships for the operation and maintenance of public sector infrastructure. The corporate analogy in South Africa is that of an existing company that, through franchisees, is responsible for water and wastewater processes at a number of mines and food processing plants.

However the currently preferred institutional mode of delivery for public sector water services is:

public sector ownership of the infrastructure, with
public sector operation and maintenance.

Too often — unacceptably often — this mode fails to deliver reliable services.

A strong case can be made for trying out an alternative mode — or at least for trying it out on a much greater scale than it currently is. As follows:

public sector ownership of the infrastructure, with;
private sector or NGO operation and maintenance.

More specifically, given the need for essential services to be operated and maintained so as to provide a high level of compliance, the advantages of SMMEs that are part of a franchise support group, over SMMEs not part of such a support group, are undoubted. Therefore a strong case can be made out for trying:

public sector ownership of the infrastructure, with
franchisee operation and maintenance, with franchisor support.

Should there be any objections to using principles, adapted from the way in which the private sector delivers goods and services, and applying them to public sector service delivery, if it can be shown that public sector service delivery is thereby improved? The authors cannot see any reason why there should be objections. Especially given that, for water services, the ownership of the physical infrastructure would unquestionably remain with the public sector, as would user charges, levels of service, prioritisation (e.g. who has priority in receiving services), and other policy matters.

This opinion is supported by Burger, who finds from her case studies that “where monitoring and incentives have been effective, private outsourcing has been associated with increased responsiveness and efficiency”, and that “when the appropriate incentives are in place, private providers will act in the interest of the poor, offering cost-effective services, expanding services to the benefit of the poor and investing in local communities”. (Burger 2005, page 491)

Note that the above discussion is about the effective and efficient delivery of services. It is not about the tariffs that recipients of these services might be charged. If the amount spent on operation and maintenance remains the same, there is no reason why tariffs would change — irrespective of the nature of the institution responsible for operation and maintenance of the services infrastructure.

Considering, in this context, services to indigent households: welfare services, and services that meet basic human needs, are often fully paid for, or subsidised, by government, donor agencies, or more affluent users of similar services — and the cost of providing the service, and what the users have to pay for it (if indeed they have to pay anything), are not connected. Certainly, in respect of basic infrastructure services for the indigent in South Africa, the policy of “free basic services” was introduced specifically to make this separation.

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