FRANCHISING INNOVATION – PART 1

Social franchising partnership creates jobs

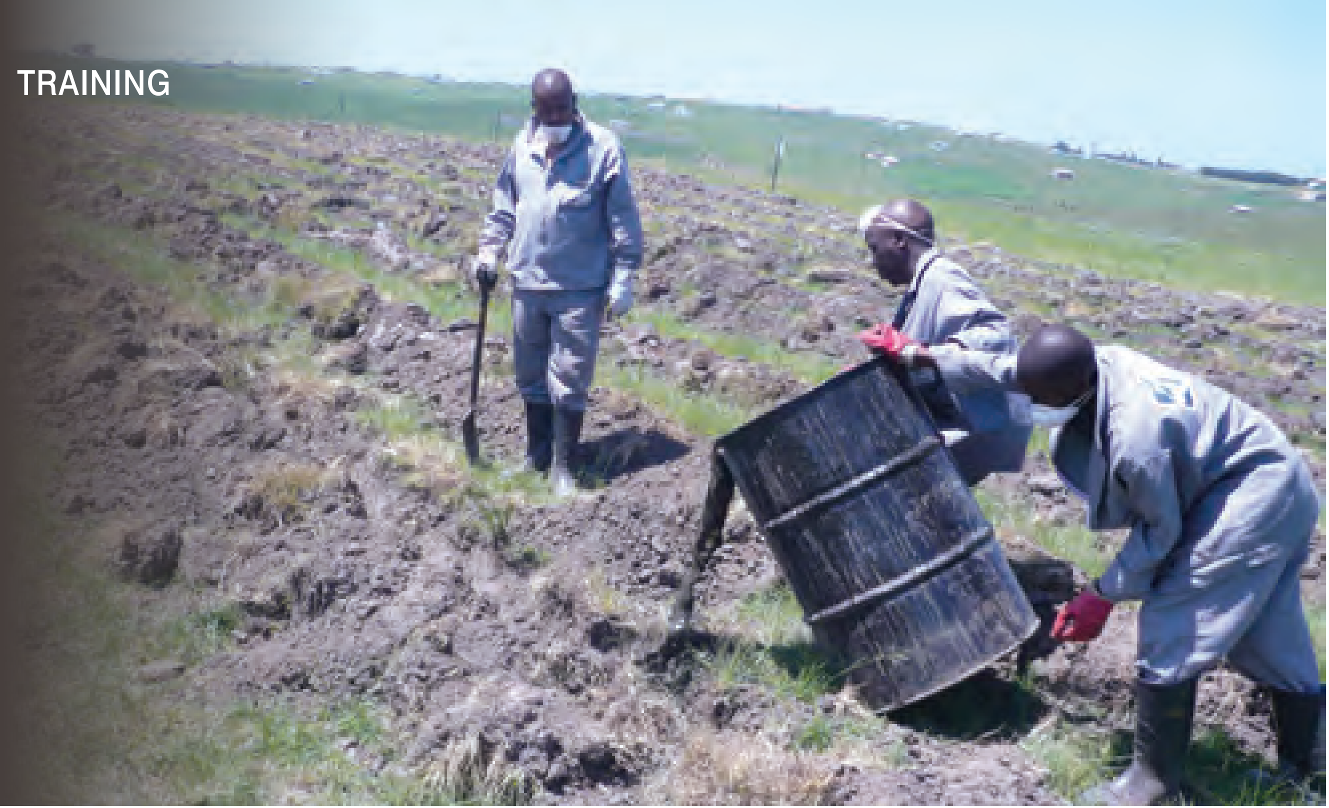
Based on a presentation at the annual IMESA conference "Municipal Engineering: Meeting People's Needs", held in Port Elizabeth, October 2013. **By Kevin Wall, Oliver Ive, Jay Bhagwan, Wayne Birkholtz, Nocawe Lupuwana and Esther Shaylor**

Franchisee Nocawe Lupuwane (front) with her team

AN INNOVATIVE Eastern Cape infrastructure and job creation project is meeting people's needs through quality service delivery for the community, by the community. In part one of this two-part feature, social franchising is defined and the training, expectations, services and projects of a pilot study are examined.

A number of pilot projects in the Eastern Cape have demonstrated how the institutionally innovative and very practical social franchising partnership approach can successfully be used for the routine maintenance of low-technology water and sanitation infrastructure.

Whereas other approaches have built capacity and developed skills in attempts to improve service delivery, many of them have had limited success because they have not enjoyed sufficiently strong incentive structures and support systems. The social franchising partnership approach, in contrast, is built



on a robust foundation of mutual support and incentives.

This paper describes how the franchise partners have been working with municipalities and provincial departments to address operational issues at a significant scale.

Many opportunities lie in applying the approach to further operation and maintenance (O&M) activities within the water and sanitation services delivery chain, and thereafter extending it to other types of infrastructure (e.g. roads and electricity reticulation).

Background

Year after year, the O&M of water and sanitation services (hereinafter water services) infrastructure in South Africa has too often been found to be noncompliant with the required standards (SAICE, 2011; DWA, 2012a &

2012b). Research has also shown that the main problem is most likely to be shortfalls in the skills and management of the institution responsible for the services.

These operation and maintenance shortfalls are particularly manifest in "the quality and reliability of basic infrastructure serving the majority of our citizens 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 are pointers of warning that serious turnaround strategies are required in South African municipal service delivery.

In 2012, the Ministerial Sanitation Task Team found that the Eastern Cape needed over 800 000 toilets to ensure all households have access to sanitation, the second highest backlog in South Africa. It was also highlighted that the lack of skills and capacity to manage existing facilities is a contributing factor for infrastructure failures. The 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" (Department of Human Settlements, 2012:70).

The Water Research Commission (WRC) has for a number of years funded studies of selected institutional options that could assist in the improvement of operation and maintenance. This research, led by the Council for Scientific and Industrial Research (CSIR) and the private sector water services provider Amanz' abantu Services, postulated that franchising partnership models, developed in the private sector for providing a wide range of services, could be adapted. The resultant social franchising partnership concept could be a valuable and viable addition to the current range of institutional models for the O&M of public sector sanitation and water services infrastructure (Wall, 2005; Wall, & Ive, 2010; Wall & Ive, 2013).

This research, and interest shown by public sector 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.

Whereas it was originally thought that municipalities would be the first to procure social franchising partnerships, and whereas many of the officials approached expressed interest, there was a reluctance to be the pioneer of this new and untested concept. Nonetheless, the first significant interest in utilising this innovative business approach came from key officials of the Eastern Cape provincial Department of Education (DOE), which 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.

ABOVE Franchise partner Noleen Mchubuakazi works to replicate tested sanitation procedures

BELOW The franchisor and the trainee franchisees have greatly improved the condition of the school toilets in the Butterworth region

The social franchising partnership approach is built on a robust foundation of mutual support and incentives

Particularly, they saw its potential for rural schools where harvested rainwater is generally the only water supply to the school, and the toilets are usually Ventilated Improved Pit Latrines (VIPs) or similar.

In less than three years, the franchisor and its trainee franchisees greatly improved the condition of the school toilets in the Butterworth education district of the Eastern Cape.

The partnerships defined

In the words of the Franchise Association of Southern Africa, a franchise is "a grant by the franchisor to the franchisee, entitling the latter to the use of a complete business package containing all the elements necessary to establish a previously untrained person in the franchised business and enable them to operate it on an on-going basis, according to guidelines supplied, efficiently and profitably" (Parker & Illetschko, 2007:15).

Water services 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 ensuring sanitation and water facilities and systems are operating in a reliable manner and in accordance with the specified availability, quality, hygiene and environmental standards.

The franchisor also developed and adopted a QMS, which is compulsory for all work of the franchise, whether of the franchisor or the franchisees

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 stake in making sure the venture is a success while benefiting from mutual learning and shared experiences (Ahlert 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 the service needs to be driven up and the cost of the service needs to be driven down through standardising on proven delivery mechanisms.

In contrast to commercial franchises such as McDonald's, an enterprise which not only seeks to cover costs but to also make the franchisee and franchisor a significant profit, social franchising seeks to develop an enterprising solution where people from the community "contribute towards meeting their needs either with money or time (or both)" (Norton, 2010). This approach, while still needing to cover costs and allow franchisees to make a living, is also motivated towards 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. 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.

The concept provides appropriate training, a quality management system (QMS) and procedures, and the backup of the off-site skills held by the franchisor. The franchisor identifies residents in the target area with the skills and temperament appropriate to run the franchisee micro-enterprises, and who, once they have been exposed to training, are willing to enter into a franchise agreement. Key to success is 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.

The Butterworth schools pilot project

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

The primary objective of the Butterworth Schools Sanitation and Water Servicing Pilot Project was to develop and test an outsourcing concept that could be used for rolling out similar services to most of the more than 6 000 public schools across the 23 education districts of the province.

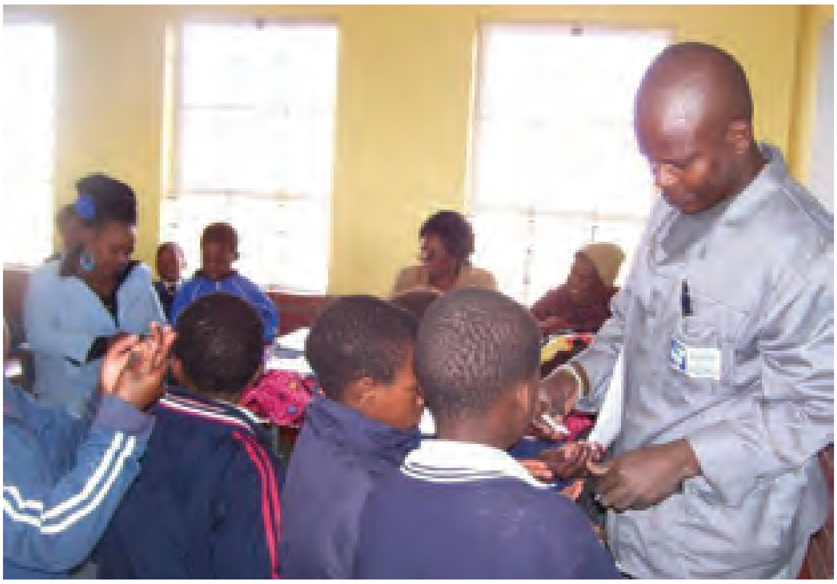
Research findings from the pilot indicate that many opportunities lie in applying the principles of social franchising partnerships to a range of suitable O&M activities within the water and sanitation services delivery chain – that is, of readily systematised repetitive operation and maintenance activities.

The provision of infrastructure in South Africa's rural areas has, for ideological and financial reasons, often favoured functionality and quantity over quality and sustainability. The imperative to produce demonstrable short-term results has generally outweighed long-term considerations. The focus of education authorities has invariably been on classroom-based activities. Insufficient attention has been paid to the essential supporting infrastructure. Services like sanitation, when available (not always the case), have been provided for at the barest minimum level with insufficient consideration of quality, durability and sustainability. Repair and maintenance issues have often been sidelined or ignored due to funding constraints. Consequently, much rural school water and sanitation infrastructure is either:

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

Over and above this, at local level 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 the 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, but sadly this is not happening.

In 2009, Irish Aid, the CSIR, the WRC, the DOE and Amanz' abantu Services signed a memorandum of understanding (MOU) to



ABOVE Learners experiencing good water and sanitation services at school

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 on and training and operation plans developed. Advertisements called for parties interested in becoming water services franchisees to come forward. A condition was that they had to be a resident in the Butterworth area for two reasons:

- to ensure that the work would be done by local people drawn from the communities that would be served
- to minimise travel 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 received initial training in East London. Thereafter the trainee franchisees and franchisor met with the DOE Butterworth District staff and school principals in order to plan their programme schedules and for work orders to be agreed on. These franchisees were required to operate under the Impilo Yabantu franchise brand.

The franchisor established and trained an in-house team. One purpose of this team is to be available as a back-up should a franchisee drop out. The other purpose of the team has been 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 providing 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.

This pilot repeatedly proved the value of the franchise arrangement

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 future repair (in some cases, replacement, because the facilities 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 then agreed on 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.

In terms of the MOU, the franchisees billed the schools (or the DOE on certain schools' behalf) each time they performed cleaning and maintenance. But all of the development costs – i.e. developing the concept, developing the training schemes, doing the training, preparing the operations manuals, and so on – were funded by Irish Aid, the WRC, the in-kind contributions of the franchisor and the CSIR.

The franchisees themselves took out loans to fund the capital outlay for equipment and so on. Because banks much prefer lending to businesses that follow proven models, it was found that franchisees have a far better chance of securing bank loans than stand-alone small businesses do. Due to the burden of the start-up costs, as well as (as it turned out) their fluctuating workload, franchisees were not expected to make net profits until their third year, nor did they. Only continuity of work would resolve this.

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. 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.

This pilot repeatedly proved the value of the franchise arrangement. Advantages such as the training and mentoring were anticipated. Less anticipated was the extent to which the franchisor was called upon to provide a buffer to bureaucratic inefficiency. For example, when payments from the DOE were delayed, the franchisor followed up on behalf of all franchisees, and it was therefore not necessary for each individual franchisee to come in from the field, costing time and travel expenses, and losing production. Given the difficulties encountered with the payment regime, it is unlikely that stand-alone micro-businesses would have survived for long – cash flow problems would have put them under. 3S

IN THE NEXT ISSUE OF IMIESA

In the next (March) edition of IMIESA, the concept of social franchising will be further explored in part 2 of this article, which will cover municipal pilot projects, the elements of a business case and costs, development opportunities and up-scaling.