

Water services franchising partnerships: Business analysis case study: schools sanitation O&M

Kevin Wall & Oliver Ive

Report to the
Water Research Commission

by

CSIR & Amanz' abantu Services (Pty) Ltd

WRC Report No. TT 432/7/10

May 2010

Obtainable from
Water Research Commission
Private Bag X03
Gezina, 0031
South Africa

orders@wrc.org.za

The publication of this report emanates from a project entitled *Water Services Franchising Partnerships* (WRC project number K5/1610).

This report forms part of a series of seven reports. The reports in the series are:

- Going with the franchise flow: An exploration of franchising partnerships for the operation and maintenance of water services infrastructure. **(Report TT 432/1/10)**
- Water services franchising partnerships: Overview of the concept of franchising and its relevance to water services. **(Report TT 432/2/10)**
- Water services franchising partnerships: Review of policy, regulation and legal aspects. **(Report TT 432/3/10)**
- Water services franchising partnerships: Modelling of selected water services operational elements. **(Report TT 432/4/10)**
- Water services franchising partnerships: Institutional review for the application of franchising. **(Report TT 432/5/10)**
- Water services franchising partnerships: Establishing criteria for the selection of water service franchisors, partnerships and franchisees. **(Report TT 432/6/10)**
- Water services franchising partnerships: Business analysis case study: schools sanitation O&M. **(Report TT 432/7/10)**

Report TT 432/1/10 (*Going with the franchise flow: An exploration of franchising partnerships for the operation and maintenance of water services infrastructure*) is the only one in the series that has been printed. The rest are available on the WRC web site (www.wrc.org.za) from where they can be downloaded.

DISCLAIMER

This report has been reviewed by the Water Research Commission (WRC) and approved for publication. Approval does not signify that the contents necessarily reflect the views and policies of the WRC, nor does mention of trade names or commercial products constitute endorsement or recommendation for use.

ISBN 978-1-77005-968-9
Set No. 978-1-77005-961-0

Printed in the Republic of South Africa

Executive summary

Background to the project

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, and no experience in South Africa – although some existing partnerships have some of the characteristics of the franchise partnership 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 mitigate 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 no such models for the water sector) 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 water services authority, franchisor and franchisee alike, to improve efficiency, and to provide improved service reliability and quality.

To investigate this approach, the Water Research Commission (WRC) initiated a study (completed in 2005) that 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. The study 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. (Wall, 2005.)

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

The study 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, small-, medium- and micro-enterprise (SMME) development and black economic empowerment (BEE).

Objectives of the project

The objectives of the project are:

- To further explore the concept of franchising and its relevance to the water services delivery chain.
- To identify and determine those elements in the water services delivery chain which offer the greatest scope for franchising partnerships.
- To review the legal, technical, financial, regulatory etc. aspects which would impact on franchising partnerships.
- To develop franchising partnership models for a selection of the areas identified by the research, with consideration for the legal, regulatory etc. aspects.
- To conduct a case study of an element in a hypothetical situation, to see how the model will work.
- To set out the way forward to eventual pilot implementation of franchising partnerships, and inter alia recommend areas for further research.

In summary, the ultimate objective of the project was to identify the scope for franchising partnerships for the operation and maintenance of selected water services infrastructure, to establish the viability of franchising partnerships, and to make a case for outsourcing to franchises to be considered by water services authorities and water services providers.

The context in all instances is South Africa.

Focus of this report

This report presents a hypothetical case study of a water services franchising partnership. The purpose of this case study is to illustrate the concept of water services franchising partnerships within the context of a real situation. The situation chosen was the provision of specific operation and maintenance (O&M) services to rural schools in the Eastern Cape Province of South Africa.

The report identifies the environment within which the rural schools exist and function. The challenges facing these schools are discussed. A possible solution is described in depth, utilising microenterprise service providers supported by an established and specialised franchisor company which provides these franchisee microenterprises with inter alia management, technical and training support.

The research of the state of rural schools in the Eastern Cape draws on interviews, site visits and an overview of various reports undertaken by the provincial Department of Education. The operational research includes a review of a pilot project undertaken by Amatola Water on behalf of the provincial Department, with funding from the national Department of Science and Technology. This pilot project, which has been undertaken over the last two years, set out to train micro-enterprises in cleaning and maintaining school sanitation facilities. The lessons learnt from the practical activities undertaken on the pilot project have been used as the basis for the hypothetical model.

The hypothetical case study presents a brief picture of the microenterprise (initially as a non-franchised stand-alone entity, and thereafter as a franchisee) and its role, functions and a typical organisational structure. It then looks at the role and structure of the franchisor and identifies certain key characteristics, and processes and procedures that will be essential if the franchise is to develop.

A simplistic financial model of the first three years of the franchise operation has been produced in order to demonstrate the feasibility for this approach from a financial perspective.

From the case study, it can be concluded that the franchising partnership approach has many benefits, including providing an incentive for local entrepreneurs to own and develop businesses, fulfilling the government's goal to stimulate local economic development and, not least, providing in an economically affordable and sustainable manner operations and maintenance of the water and sanitation infrastructure of rural schools.

Acknowledgements

The help and guidance of the following is much appreciated:

- WRC, Pretoria: Jay Bhagwan.
- For information related to the Schools Sanitation Pilot Project:
 - Craig Thompson, Unathi Mngokoyi and Gert Deysel (Amatola Water)
 - Wayne Ketteringham, Colin Richter and Martin Gardiner (UWP Consulting Engineers)
- Interviews with microenterprise entrepreneurs engaged in the Amatola Water Schools Sanitation Pilot Project;
- Wayne Birkholtz and Mbuyiseli Deliwe (Amanz' abantu Services); and,
- all the members of this project's Reference Group that are not among those listed above.

Contents

Executive summary	iii
Acknowledgements	vi
Contents	vii
List of figures	ix
List of tables	ix
Notes	x
Abbreviations and acronyms	xi
Definitions used in this report	xii
1. Introduction	1
1.1 The purpose of Chapter 1	1
1.2 Background to and objective of the project	1
1.2.1 Rationale and motivation for the project	1
1.2.2 Objectives of the project	2
1.2.3 Methodology	2
1.3 Purpose of this report	4
1.4 Structure of this report	4
2. Selection of business case study	5
2.1 The purpose of Chapter 2	5
2.2 The approach to the case study	5
3. Market analysis and conceptual definition of services	6
3.1 Overview of the clients and the opportunities	6
3.2 The business environment and marketplace	6
3.2.1 Situation	6
3.2.2 The public sector role-players	7
3.2.3 The civil society role-players	8
3.2.4 The private sector role-players	8
3.2.5 The Consumers	8
3.2.6 Innovations towards accelerated delivery	9
3.2.7 PEST Scan	10
3.2.8 Identifying and recruiting suitable workers	11
3.3 Schools sanitation	11
3.3.1 Eastern Cape schools sanitation - current situation	11
3.3.2 Eastern Cape Schools sanitation – a current initiative	15
3.4 Clinics sanitation	19
3.5 Process and regulation	19
4. Modelling a sustainable schools sanitation business	22
4.1 The purpose of Chapter 4	22
4.2 Current issues	22
4.3 Role-players	23
4.4 Planning and procurement	25
4.4.1 Planning for sustainability of the SMME microenterprises	25
4.4.2 Procuring and contracting parties	25
4.4.3 Information collection and management	27
4.5 Proposed programme: methodology and role-players	27
4.5.1 Operational methodology	27
4.5.2 Criteria for appointing SMME microenterprises	29
4.5.3 A typical SMME microenterprise	29
4.6 Broad overview of the franchising partnership approach to schools sanitation	31
4.7 The franchisor	34
4.8 Operational linkages and the role of the franchisor	36
4.8.1 Linkages	36

4.8.2	Management functions	37
4.8.3	Administration functions.....	37
4.8.4	Marketing functions.....	37
4.8.5	Procurement functions.....	38
4.8.6	Operational support functions.....	38
4.8.7	Management systems, processes and procedures	38
4.8.8	Safety Health and Environment	41
4.8.9	Training.....	43
4.9	Chapter 4 conclusions	43
5.	The financial model	45
5.1	Approach	45
5.2	Assumptions used in the financial model.....	45
5.3	The financial model	46
5.4	Summarised Balance Sheet and Income Statement for the typical franchisee	48
5.5	Income Statement for typical franchisee.....	49
5.6	Summarised Balance Sheet and Income Statement for the franchisor	50
5.7	Income Statement for franchisor.....	51
5.8	Chapter 5 conclusions	52
6.	Conclusions and recommendations	53
6.1	Observations from the case study	53
6.2	Risks and their mitigation	53
6.3	On the objective of this report.....	55
	References.....	56
	Website addresses.....	56
	Annexure A: Functions allocated to schools in terms of legislation.....	57

List of figures

Figure 1:1: Water services franchising partnerships: project schematic	3
Figure 3:1: Eastern Cape municipalities.....	7
Figure 3:2: Illustrating some of the problems relating to schools sanitation	15
Figure 3:3: Role-players and approach to regulation of on-site sanitation activities	21
Figure 4:1: Organogram of schools sanitation operation and maintenance programme	26
Figure 4:2: Microenterprise employee emptying excess liquid from pits.....	28
Figure 4:3: Solid waste deposited around the school premises	29
Figure 4:4: Organogram of a typical SMME microenterprise	30
Figure 4:5: Organogram of franchised schools sanitation operation and maintenance programme	32
Figure 4:6: Organisational arrangement for the provision by franchising partnerships of sanitation services to schools	33
Figure 4:7: Role and activities of the franchisor	35
Figure 4:8: Linkages between the franchise partners	36
Figure 4:9: The three-tier Quality Management System	40
Figure 4:10: Continuel improvement.	42
Figure 4:11: Quality Management System process model based on the 23 sub-clauses.....	42
Figure 5:1 Example of SMME work order	47

List of tables

Table 3:1: PEST Scan.....	10
Table 4:1: Stakeholder roles and responsibilities.....	24

Notes

Words or passages enclosed by square brackets [], within quotations from other texts, are the current researchers' interpolations.

All references to or quotations from policy, statutes, regulations and so forth are to the best understanding of the researchers up to date to August 2007. Developments (if any) since that time have not been captured.

Throughout the text "the researchers" or "the current researchers" or "the team" means the team appointed by WRC to undertake the current project.

Throughout the text "the project" or "the current project" means WRC Research Project K5/1610, the "Water Services Franchising Partnerships" project.

Throughout the text "the report" or "the current report" means "Report TT 432/7/10: Business analysis case study".

Abbreviations and acronyms

Amanz' abantu	Amanz' abantu Services (Pty) Ltd
BBBEE	broad based black economic empowerment
BEE	black economic empowerment
CBO	Community based organisation
CSIR	Council for Scientific and Industrial Research
DEAT	Department of Environmental Affairs
DoE	Department of Education
DoH	Department of Health
DPLG	Department of Provincial and Local Government
DST	Department of Science and Technology
DWAF	Department of Water Affairs and Forestry
DPW	Department of Public Works
EIA	Environmental Impact Assessment
EPWP	Expanded Public Works Programme
H & H	Health and Hygiene
HR	Human Resources
IRR	Internal rate of return
ISD	institutional and social development
ISO	International Organisation for Standardization,
LDV	light delivery vehicle
NGO	non-government organisation
NPV	Nett present value
O & M	Operational and Maintenance
OHS	Occupational Health and Safety (as in the OHS Act, Act 85 of 1993)
PEST	political, economic, social and technological
PIA	Project Implementation Agent
PPE	Personal protection equipment
PSP	Private Sector Participation
PSTT	Provincial Sanitation Task Team
PTA	parent teacher association
QMS	Quality Management System
SALGA	South African Local Government Association
SGB	Schools Governing Body
SHE	Safety, Health and Environment
SMME	small, medium or micro enterprise
TLB	Tractor-loader-backacktor (multipurpose excavation plant)
TQM	Total Quality Management
VIP	ventilated improved pit latrine
WRC	Water Research Commission
WSA	Water Services Authority
WSP	Water Services Provider

Definitions used in this report

Frequent reference is made in literature to “**community-based**” or organisations that are “based in the community”. It is often not clear if it is intended that these terms exclusively refer to non-profit organisations, or could include profit-seeking organisations. Is the intention of referring to an organisation as “based in the community”, to indicate that it is geographically located in the community that it serves, and draws most if not all of its personnel (whether they be volunteers or paid) from that same community? The South African Local Government Association (SALGA) has in a recent document made its interpretation clear. A “community-based organisation (CBO)” is “a not-for-profit organisation within a specific community, with community representatives, that provides a service to that community with the community's mandate or is representing the overall interests of the community.” (SALGA 2005:3).

For the purposes of this report, the term “small, medium and micro enterprise”, or SMME, indicates a profit-seeking organisation that might or might not be based in a community, drawing personnel from that community, and serving that community. Usage by the researchers in this report of “CBO”, is less rigid, but is generally intended to indicate a non-profit organisation. If, however, the reference to CBOs is a quotation or a paraphrasing from another document, then the meaning intended by the authors of that document is that which rules.

“**Delivery**” embraces not just the placing in service of infrastructure, but the appropriate operation, including maintenance, of that infrastructure for the whole of its designed life.

“**Maintenance**” is in this report used as a generic term to include repair of infrastructure, refurbishment and renewal, and provision for replacement of that infrastructure.

The following definitions are direct quotations from the Water Services Act (South Africa 1997:10).

- “**Water services**” means water supply services and sanitation services.
- “**Water services authority**” means any municipality, including a district or rural council as defined in the Local Government Transition Act (South Africa 1993), responsible for ensuring access to water services.
- “**Water services institution**” means a water services authority, a water services provider, a water board and a water services committee. This institution can be a statutory authority, private company, group of individuals, or an individual, or any combination of these.
- “**Water services provider**” means any person who provides water services to consumers or to another water services institution, but does not include ... any person who is obliged to provide water services to another in terms of a contract where the obligation to provide water services is incidental to the main object of that contract.”

Note that whereas all WSAs are municipalities or groups of municipalities, not all municipalities are WSAs. Nonetheless, in this report the terms “WSA” and “municipality” are used interchangeably unless only one of “WSA” or “municipality” is intended and these specific instances are clearly indicated.

Similarly, in this report the terms “customer” and “end user” are used interchangeably unless only one or the other is particularly intended – which specific instances are clearly indicated.

1. Introduction

1.1 The purpose of Chapter 1

The purpose of Chapter 1 is to:

- briefly motivate the current research project;
- state the objectives and phasing of the project, and introduce the project team; and
- outline the objectives and structure of this report.

1.2 Background to and objective of the project

1.2.1 Rationale and motivation for the project

In the past decade local government, assisted by DWAF and other players, has been remarkably successful in answering the challenge of services provision. Large numbers of households are now supplied with water services of a wide variety as a result of 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 provides the seedbed for future problems. As the number and complexity of water services systems increases, so the operations and maintenance workload escalates. The rising challenge now is to ensure that local government WSP organisations can manage all the new systems sustainably.

Conventional wisdom, supported by research, indicates that the capacity of many local governments in South Africa to adequately provide even basic levels of water services to all their citizens on a sustainable basis is in question. The challenge of exploring a range of options to support these organisations 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, for optimum development impact.

Both Rand Water and DWAF have for a number of years considered that the potential for franchising in the water services industry water ought to be investigated. For various reasons this has never been done.

The barriers to entry for the smaller or start-up company are substantial. But if these could be overcome, perhaps through franchising partnerships, then there will be many opportunities for local economic development. The twin driving forces of the franchising partnership 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.

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 WRC and CSIR during the course of the 2003/2004 and 2004/2005 financial years undertook pioneering research into the concept of water services franchising in South Africa. (Wall, 2005a). The study explored the concepts of franchising and its relevance to the water services delivery process. The outcome indicated opportunities in the water services delivery chain, and recommended that these be further explored.

1.2.2 Objectives of the project

- To further explore the concept of franchising and its relevance to the water services delivery chain.
- To identify and determine those elements in the water services delivery chain which offer the greatest scope for franchising partnerships.
- To review the legal, technical, financial, regulatory etc. aspects which would impact on franchising partnerships.
- To develop franchising partnership models for a selection of the areas identified by the research, with consideration for the legal, regulatory etc. aspects.
- To conduct a case study of an element in a hypothetical situation, to see how the model will work.
- To set out the way forward to eventual pilot implementation of franchising partnerships, and inter alia recommend areas for further research.

In summary (not using the words of the contract agreement), **the ultimate objective of the project was to identify the scope for franchising partnerships for the operation and maintenance of selected water services infrastructure, to establish the viability of franchising partnerships, and to make a case for outsourcing to franchises to be considered by water services authorities (WSAs) and water services providers (WSPs).**

In this report, WRC Research Project K5/1610, the “Water Services Franchising” project, is referred to as “the current project” or “this project”.

1.2.3 Methodology

The project was divided into two phases, in order to facilitate the achievement of the objectives of the research project in an ordered and logical way. (Refer also to “Project schematic” (Figure 1.1)).

The first phase consisted inter alia of –

- survey of water services provision that has like-franchising elements;
- determination of relevance of franchising partnerships to water services delivery, and determination of the magnitude of that potential;
- review of service delivery mechanisms, and identification of generic funding streams;
- review of policy, legal, regulatory and other aspects which impact on water services;
- identification of those elements in the water services delivery chain which offer the greatest scope for franchising partnerships for the operation and maintenance of their infrastructure, and setting out the results of the business analysis (i.e. modelling) of possible franchising of selected elements.

The second phase, of which this report is part, consisted of:

- identification of potential franchisors and WSAs in principle;
- identification of generic criteria for selection of franchisees and franchisors, and for selection of pilot areas; and
- case study of an element in a hypothetical situation.

A further two phases, not part of this WRC project, would be needed in order to take the work into pilot implementation. These phases comprise pilot project preparation, and then pilot project implementation.

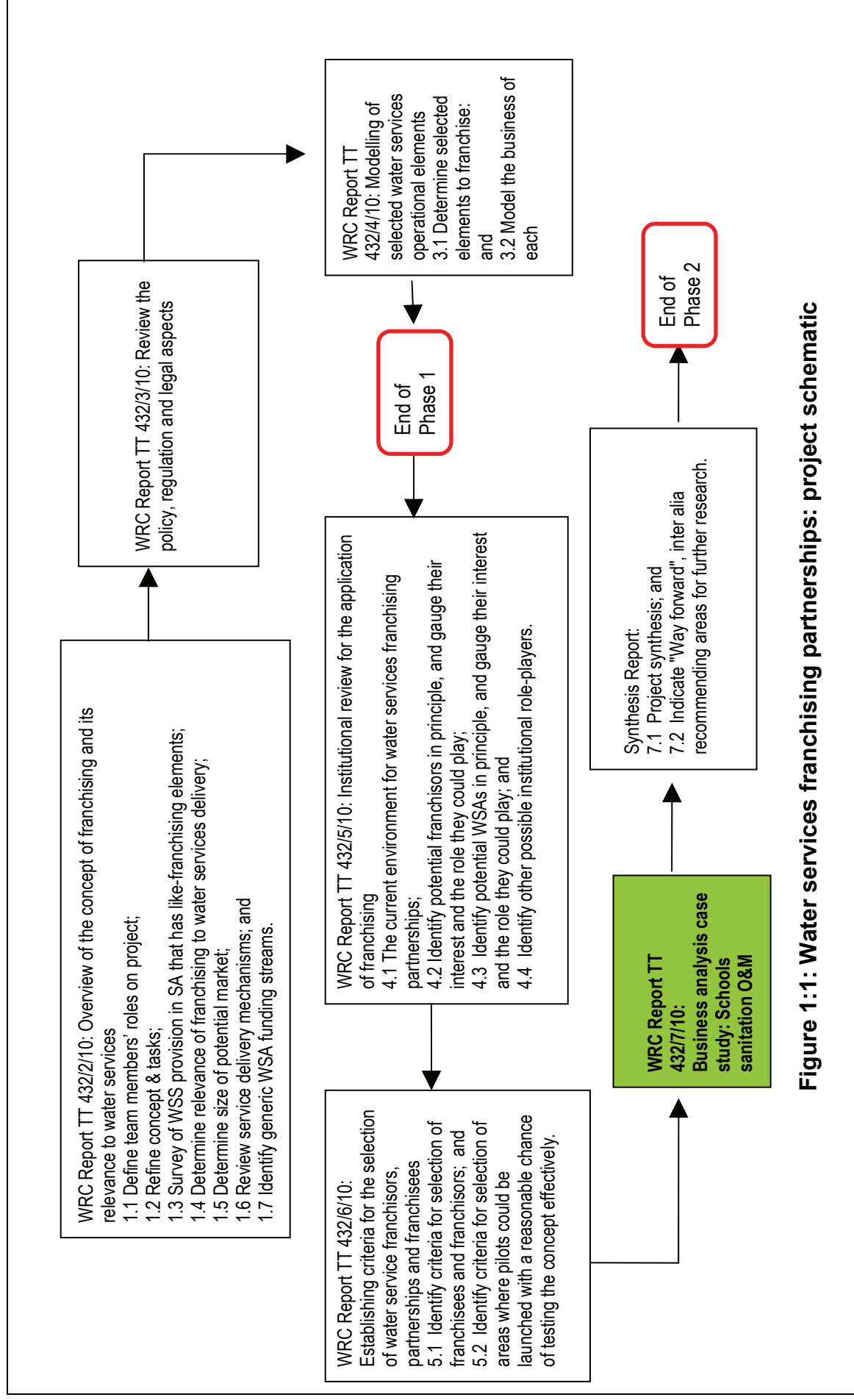


Figure 1:1: Water services franchising partnerships: project schematic

1.3 Purpose of this report

In a nutshell, the purpose of this report is to select a water services element and an area, and to model that element as a franchised business in that hypothetical situation.

The modelling must systematically analyse the opportunity that has been identified for provision of the chosen water services element. The reader needs to be constantly reminded how each part of the analysis fits into the whole model.

The model must enable the modellers to determine from a theoretical perspective the viability or otherwise of this hypothetical opportunity, prior to it being considered for pilot testing in the field.

In the sense of the opportunity being appraised as a business proposition, the modelling is also a “business analysis”.

The objectives of the modelling/analysis must be borne in mind at all times. Most importantly, the modelling/analysis must provide a basis for a comparison of performance of the element by franchising with performance of the element by other means.

After all, the ultimate objective of the project is to identify the scope for franchising partnerships, and to identify the viability of franchising and/or to make a case for franchising to be considered by water services authorities (WSAs) and water services providers (WSPs).

This “Report TT 432/7/10: Case study business analysis of hypothetical situation” is hereinafter referred to as “the report” or “this report” or “the current report”.

1.4 Structure of this report

The structure of this report reflects its objective (described in Section 1.3.2 above). Thus the report consists of an introduction (Chapter 1), followed by four chapters that deal with the objective of the report. Chapter 6 draws conclusions.

The following chapters thus respectively:

- Chapter 2 describes the motivation for the selection of the case study;
- Chapter 3 is an overview of the market analysis, and the role-players within this marketplace, together with the identification and scoping of the services which are required;
- Chapter 4 is the business analysis of the schools sanitation servicing business; and
- Chapter 5 illustrates the hypothetical financial model in order to conduct a first order test of the business viability.

2. Selection of business case study

2.1 The purpose of Chapter 2

Report TT 432/4/10 of this research project explored the water services value chain in order to identify those elements of the value chain which could be further investigated for opportunities for outsourcing to SMMEs and, in particular, to SMME of a microenterprise size and which are organised within a franchising partnership framework.

From these elements identified, it was apparent that there are many such opportunities, and these opportunities vary in character from low-tech to high tech, and vary in the type of disciplines and levels of skills required

In that report, three separate elements of the value chain were chosen for initial modelling, and first order models were undertaken in order to identify their suitability for outsourcing to franchised microenterprise SMMEs. The examples chosen included:

1. A sustainable community-level caretaker business (Report TT 432/4/3/10, Chapter 5);
2. A sustainable schools sanitation business (Report TT 432/4/10, Chapter 6); and,
3. A sustainable pressure control management business (Report TT 432/4/10, Chapter 7).

The sustainable schools sanitation business was selected from these three examples as the hypothetical case study for further consideration. This case study that is the subject of the current report draws on the information used in the TT 432/4/10 model, and seeks to develop the case further within the actual context of the Eastern Cape (Figure 3.1), and in the light of actual interviews and overviews of the situation currently being experienced.

2.2 The approach to the case study

The approach by the team in developing this case study has been to formulate the hypothetical case with the view to testing the concept from a theoretical perspective. If this case is found to be suitable, it would place the team in a position to proceed to the next phase as a pilot project.

The modelling in this report is of an innovative approach to resolve a serious sanitation problem in the Eastern Cape.

But the report goes beyond the requirements of the current project. It is more than only a modelling of a hypothetical instance – it is a first draft outline business analysis of a currently proposed innovative approach to resolve the serious sanitation problem mentioned.

3. Market analysis and conceptual definition of services

3.1 Overview of the clients and the opportunities

In order to be able to select the potential clients and the opportunities, the following steps were undertaken:

- First define the “product and service”, or more particularly the range of services, to be rendered by the franchised SMME microenterprises. (This has been done conceptually and through performing certain investigations and on-site trials in order to determine what this range should be.)
- The next step was then to interview potential client organisations in order to determine their needs and their willingness to outsource work to local area-based microenterprises.
- The initial response from the identified authorities was very positive, so a more in depth market analysis was undertaken. The following is a summary of certain of the findings.
 - Providing institutional sanitation services is a specialised business. Thus if clients (e.g. Department of Education, Public Works, Department of Health etc.) were to call for expressions of interest from service providers which are linked to franchised business models, it is probable that established companies already working in the water services sector would form commercial entities with the resources and structure suitable to act as franchisors.

Typically, it is envisaged that the SMME to perform the envisaged service will be a local area-based microenterprise, led by an entrepreneur or entrepreneurs, with:

- a willingness to work in the sanitation sector and
- sufficient knowledge of the approach and type of work needed to refurbish and maintain on site sanitation facilities – or the resources to hire personnel with this knowledge.

All references in this report to “SMME” should be construed as including stand-alone microenterprises and also franchisee microenterprises unless otherwise stated.

3.2 The business environment and marketplace

3.2.1 Situation

This section will focus on the provision of sanitation services in the rural areas generally and in schools in particular, using the Eastern Cape (Figure 3:1) as an example.

This situation presents a classic case of institutional failure in the following respects:

- both chronic need and demand are established,
- finance is both adequate and readily available
- the commodity or service is scarce,
- suppliers, although initially virtually non-existent, are now relatively readily available,
- yet there is no delivery of the service to meet both the need and the demand; and therefore
- finance remains idle.

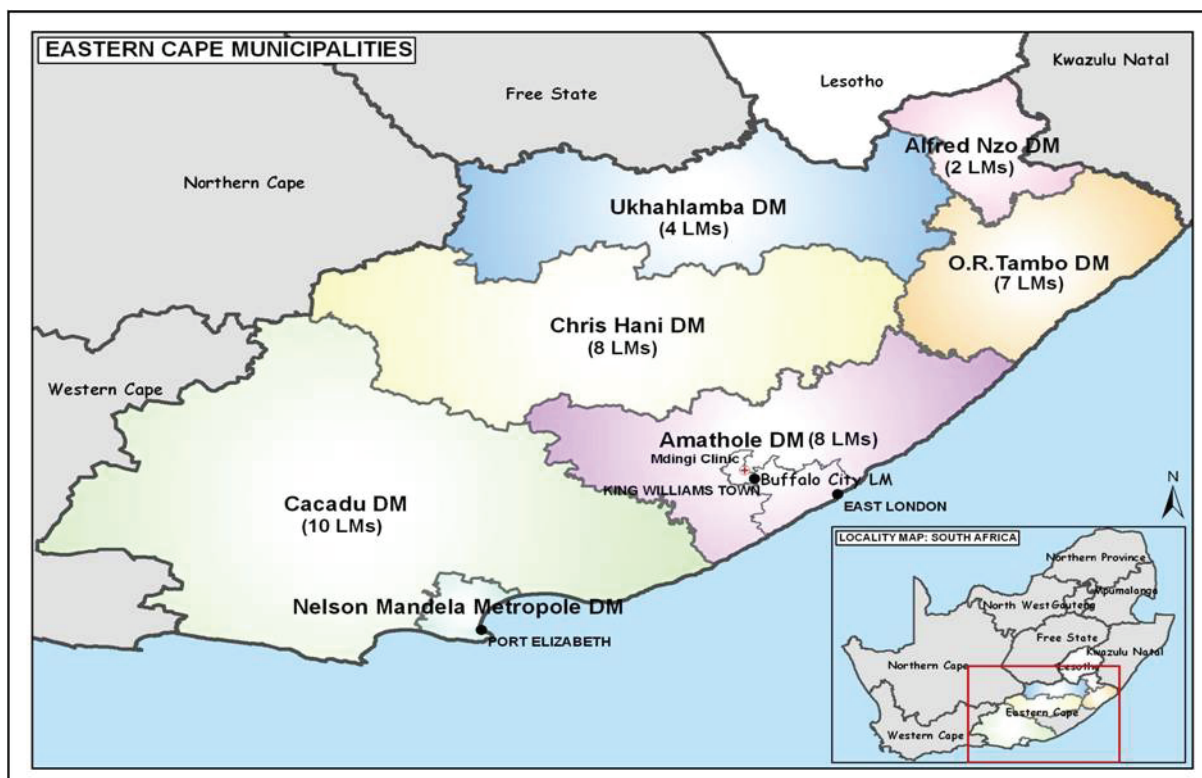


Figure 31: Eastern Cape municipalities

3.2.2 The public sector role-players

The major player is the public sector. However this does not mean that this is uncontested territory within the public sector, itself. Some of the turf wars entail:

- Methodologies favoured or evolved by either the public sector or the private sector:
 - An example is whether to follow a CBO/NGO route or to innovate the use of SMMEs as agents of service delivery.
- Who takes ultimate responsibility between, on the one hand, the (national and/or provincial) Department of Education (DoE) as funders of school sanitation and as having responsibility for all school related activities and, on the other hand, the local authorities who are charge of, inter alia, providing sanitation facilities in a geographical area, but may have no budget provisions for school sanitation.
- Although the DoE is the holder of funds, it does not have the technical competence to manage Supply Chain Management issues in sanitation
- Although it is understood that DWAF exercises policy and political oversight over water and sanitation issues in the Republic it is not an implementing agent as this is a competency shared out between provincial administrations and local authorities. DWAF is essential to ensuring compliance with both the legal and policy framework, but its power to enforce its decisions is untested.
- The Department of Health recognises sanitation as a key factor in the delivery of health services, but sanitation lies with DWAF, and schools are the responsibility of the provincial

DoE, while local authorities have overall responsibility for delivery of local health related services.

- DPLG and the Provincial Departments of Local Government exercise oversight over local authorities services, but have to respect division of labour with sister departments of Health and Education as well as DWAF
- Public Works views sanitation facilities as state provided/managed infrastructure and therefore has a role in the planning of their provision, technical aspects of procurement and acquisition of service providers, the certification of service providers and the integration of the sanitation infrastructure with the rest of the government portfolio of assets. However, with due consideration to division of labour they neither initiate programmes nor hold funds for sanitation services.
- Water Boards remain relatively aloof, appearing to prefer confining themselves to issues of water provisions and getting cautiously involved in matters of sanitation by either giving technical advice or acting as a PIA.

The water services public sector as a whole, with the possible exception of the larger municipalities and water boards, has a sizeable technical expertise deficit.

3.2.3 The civil society role-players

The non-governmental organisation (NGO) community tends to negotiate the role of PIAs or social facilitation and public education. This sector has the potential of attracting and managing donor funding and banking information on all aspects of rural sanitation.

3.2.4 The private sector role-players

The private sector tends to be seen as providers of both technical and management skills and, as such, is at the front end of the value chain of the production of sanitary services. It suffers from the handicap of being suspected by the public sector (and, to an extent, by the general public), to be takers of excessive profits. It does not help much that most of the technical expertise the public sector had (or is perceived to have had) migrated almost wholesale to the private sector and is now offering the very same expertise at a premium back to the public sector.

The private sector has the potential to attract donor funding, in collaboration with NGOs, to provide sanitary services relatively independently of the public sector. Nonetheless, it has elected (perhaps for tactical reasons) to explore both the PPP route (which, of course, does not exclude attracting donor funding in collaboration with the public sector) and the normal route of providing services for a fee.

3.2.5 The consumers

The consumers of the service (the general public and, in this case, rural schools) are not necessarily the direct purchasers of the services but have the goodwill of funding stakeholders (the public sector) with whom they form a coherent customer group. Although provision of these services may be costly, finance, at least in the intermediate term, is not an issue as considerable funds have been made available to provincial Departments of Education and to local authorities. The major problem seems to be the filtering and the processing of information and the consequent slowing of decision making. Also, although the need is established it is not adequately conceptualised and, therefore, range of options for intervention are poorly mapped out.

The provision of infrastructure in the rural areas has always been neglected. Such delivery as there has been (for example in the “homeland” era) often appeared to favour appearance and quantity over quality and sustainability. The imperative to produce demonstrable short-term results

has usually, in some instances even up to the present time, outweighed long term considerations. Although there was creditable attention paid to the provision of education the focus was on classroom-based activities and little attention was paid to essential supporting infrastructure. Services like sanitation, when available (which was not necessarily always the case), were provided for at the barest minimum level with no consideration for quality, durability and sustainability. Operation and maintenance issues were never raised.

As a result, most rural school sanitation is currently one or other of:

- dysfunctional facilities that need radical interventions (extensive refurbishment or total rebuilding); or
- serviceable facilities threatened by deterioration if not given good operation and maintenance services.

Vestiges of the old attitude to rural sanitation services in schools still persist insofar as even now primary consideration tends to be given to either providing good facilities in schools that are to be built or to view sanitation in the context of the eradication of the bucket sanitation system in the South African society as a whole. What lies between gets attention when an incident that compels notice occurs (such as when young pupils fell into a dysfunctional school pit latrine).

Current concerns seem to revolve around the speed in which services can be delivered to enable the government to meet Millennium Goals. However there also is a gradual awakening to the importance of operational and maintenance (O&M) issues not just for the sake keeping sanitation facilities serviceable but also in recognition that, as part of the infrastructure, they are a valuable part of the state asset portfolio. But O&M needs to be extended across the board, covering schools to be built, schools with currently serviceable sanitation facilities and schools with dysfunctional facilities that need radical intervention.

3.2.6 Innovations towards accelerated delivery

The private sector has been innovative in helping government to evolve a methodology of delivering a sustainable quality service meeting all (or at least most) of the policy imperatives. One such innovation is persuading the state to look beyond short term solutions like the Expanded Public Works Programme (EPWP) and exclusive use of CBOs and NGOs to provide services in rural areas.

The notion of extending the incubation and the utilisation of SMMEs to rural areas within the BEE framework to act as locally based agents of implementation of government policies and strategies for local economic and social development has been a radical innovation. The involvement of microenterprises for delivering rural sanitation services, specifically in schools, has been explored along franchising lines with the “Drain Surgeon” model as an example.

The merits and demerits of this approach are argued elsewhere in the current study. However the microenterprises can undertake the scope of work listed below -- for which they need the basic skills also listed below:

- Scope of work:
 1. Clean inside the ablution facilities and effect minor repairs
 2. Remove foreign material and arrange for its proper disposal
 3. Dispose of solid waste material in within health & environment policy framework
 4. Remove excess liquid
 5. Irrigate the liquid within health and environmental policy guidelines
 6. Educate schools governing bodies (SGB) members on water and sanitation issues
- Basic skills needed
 1. Pit emptying using on site sanitation methods
 2. Occupational Health & Safety

3. Basic first aid
4. Environmental management practices
5. Health and hygiene education
6. Basic plumbing / rainwater harvesting
7. Pump operation and maintenance procedures

Represented in Table 3.1 below is a “political, economic, social and technological scan” (PEST scan) of this business environment and market place.

3.2.7 PEST Scan

Table 3:1: PEST Scan

Political & Policy Context:	<p>A political undertaking was made to the electorate that by 2010 not only would the bucket sanitation system be eradicated but that the South African population would have a sound sustainable and hygienic sanitation system throughout the country. The provision of such a system would be within the concept of a developmental state translated into the following policy and strategic frameworks:</p> <ul style="list-style-type: none"> • ASGISA: Infrastructure development in the rural areas • ISRDS: Rural local economic development; vulnerable groups; youth • BEE: Grassroots, rural, developmental, specialisation • Batho Pele: Accelerated service delivery in rural areas • IDPS: Rural local economic development • PGDS: Rural local economic development (skills, infrastructure) • EPWP: Employment • SMME: Local entrepreneurship
Economic & Financial Landscape	<p>The need for delivery of a sanitation system to the deprived people of the country in areas with poor or non-existent infrastructure and with high rates of unemployment. It is in this context that the enterprise needs to be part of national and local initiatives for social and economic development.</p> <p>South Africa is in the fortunate position of being able to fund the provision of rural school sanitation without having to resort to massive borrowing or a drive for aid and donor funding. Although various donor and development agencies have expressed both interest and willingness to assist with funding rural sanitary provision programmes, National Treasury has made funds available for provinces with the worst backlog.</p>
Social & Cultural Considerations	<p>The need is in areas of chronic deprivation that has been cultivated over a number of decades. The need therefore goes beyond just economic development but also entails social development. Partnership with the end users to ensure both correct use and minor maintenance to ensure a degree of durability is essential. Three issues, therefore, need attention:</p> <ul style="list-style-type: none"> • Acceptance by end users of the sanitary system chosen by the providers. (This includes convenience of use) • Ease of communication between end users of the service and the providers of expert services • Education of end users on proper usage and on minor maintenance
Technological & Skills Base Implications	<p>Since the services would be provided in relatively remote and deprived areas, both technology and skills base are of important consideration. The technology has to be safe, simple, portable, durable, economical and easy to repair and to replace. Management skills and system must ensure easy transference, standardisation, quality assurance, speed, easy communication and accuracy</p>

3.2.8 Identifying and recruiting suitable workers.

The process of identifying a suitable workforce to undertake the various elements for providing sanitation services should be conducted in a transparent and fair way. It should take into consideration the need to provide employment, and should be formulated to encourage people from the communities to be served to seek employment in the provision of these services.

3.3 Schools sanitation

3.3.1 Eastern Cape schools sanitation - current situation

Following studies which revealed that the sanitation facilities of a majority of schools in the Eastern Cape province are below the minimum standard, the team identified that there is an urgent need to redesign the approach to operating and maintaining an acceptable standard of sanitation facilities for schools. This led to a series of discussions with various officials, private sector and NGO sector representatives with a view to formulating an approach for the provision of these services which is both cost-effective and sustainable.

Major constraints to the provision of services in rural areas include the logistical difficulties related to the distances between the schools, lack of locally based service providers, and the poor transport and communication infrastructure (Table 3.2 refers.). These challenges call for a solution which will provide locally based and self motivated service providers. The franchising partnership approach, being locally-based and driven by motivated entrepreneurs, offers a suitable model as a sustainable solution to schools sanitation.

Table 3:2: State of sanitation in Eastern Cape schools: 2007

Sanitation system	Schools No.	Comments
Waterborne / flush	1108	Many toilets are blocked and leaking
Flush to septic tank	62	
Flush to pond/plant	134	
Ventilated Improved Pit	1619	High percentage of pit latrines are full
Pit latrines	2511	
Bucket	27	
Other	69	
None	887	
Total schools in Province	6417	55% of schools do not meet basic standards

An analysis of the management capacity of the provincial Department of Education, and the schools themselves, revealed that the schools not meeting the minimum standard were not able to refurbish, upgrade or carry out the basic operations and maintenance related to their sanitation facilities.

Furthermore:

- Whereas schools themselves (more accurately, Schools Governing Bodies (SGBs) and headmasters) are responsible for the maintenance function, few are equipped to undertake this task.
- Assuming the responsibility at the provincial level would result in prohibitively high costs.

Clearly this is an unacceptable situation, not least because schools sanitation should be setting the example to the community. For example, it would be intolerable if in a village the sanitation facilities at the school were inferior to those in private homes.

The photographs on the next few pages (Figure 3.2) have been selected to illustrate some of the problems observed at rural and peri-urban schools in the Eastern Cape. These have been included in order to inform the reader -- not as a shock tactic or as a means of criticism, but rather to raise awareness.



Poor condition of some toilets.



New ablution facilities look good from outside.



Animals in school premises are a common sight in rural schools. These pigs feed on human faeces.



New ablution facilities look neat from outside.



Toilets vandalized. Education required.



New ablution facilities. Good quality structures.



Emptying pit toilets.



Funding from Japan for new facilities.



Fairfield girl's toilets – before servicing.



Before servicing.



Before servicing.



Fairfield boy's toilets - dangerous situation!



After servicing.



Pits used for solid waste



Female teacher's toilets.



Damaged school toilets.



Education is a necessity.



Definitely NOT usable.



Damaged toilet pans.



Types of pump tested.



A typical microenterprise team.



Toilets after being serviced.



Dampness in toilets visible from outside.



Full toilets – Where to urinate?



Design details must be carefully considered for good operation & maintenance.



School toilets not serviced and totally unusable.



Incorrect type of toilets? Or insufficient education of end users?

Figure 32: Illustrating some of the problems relating to schools sanitation

3.3.2 Eastern Cape Schools sanitation – a current initiative

The Eastern Cape provincial Department of Education during 2006 resolved to appoint a Project Implementation Agent (PIA) to set up suitable arrangements to undertake the schools sanitation refurbishment, repairs and operation and maintenance programmes. It was stated that the private sector would be involved.

In January 2006, Amatola Water was appointed as the Department's PIA, and it in turn appointed a firm of consulting engineers as project managers.

First phase: refurbishment and training

The first phase of this programme is scheduled to run from January 2006 until January 2008. In this first phase, Amatola Water will focus on a programme which will include:

- Assessment of the existing schools water and sanitation facilities for the designated education districts.
- The refurbishment of existing water and sanitation facilities at schools, and the construction of new facilities
- The piloting of a programme for the training of SMMEs, of microenterprise size, to operate and maintain the water and sanitation facilities

Major refurbishment is being done under separate contracts, and prior to the operation and maintenance SMMEs starting work. For example, existing toilet facilities need to be brought up to the agreed minimum structural and hygienic standards.

Following adverts in the local newspapers, 16 microenterprises were trained and appointed:

- 4 in Mthatha
- 3 in Dutywa
- 5 in Libode
- 4 in Lusikisiki

Second phase: operation and maintenance

Once the refurbishment programme is complete, these trained microenterprises will individually be appointed by the Department of Education to operate and maintain the sanitation facilities in schools. Each will be appointed as the operations and maintenance service provider for the schools within a designated area – it is anticipated that each will be responsible for of the order of 50 schools. It is possible that 60 such microenterprises may eventually be required to service approximately 3000 rural and peri-urban schools on an ongoing basis.

The duties of each service provider will be:

- Refurbishment – minor upgrade and repairs,
- Maintenance – routine maintenance for facilities,
- Operations – pit emptying, treatment and process management,
- Health and hygiene (H&H) awareness,
- Other – basic plumbing services.

As far as the microenterprise service providers are concerned, inter alia:

- They would be responsible for minor structural refurbishment, including replacement of doors, windows and plumbing.
- Routine maintenance includes a monthly routine visit to each school to undertake cleaning, minor repairs, process inspection and reporting.
- Routine pit emptying would be undertaken on a planned basis as required for each facility. It is estimated that a typical facility with a conservancy / septic tank design will require emptying once every year. Pits will also require regular emptying, and, depending on the usage volumes and technology choices, this could also be as often as every year.

The service providers must have the necessary plant, equipment and trained staff to provide the ongoing services for these schools on a routine and call-out basis. They must also have access when needed to the expertise and equipment necessary for non-routine specialised and/or intermittent tasks, such as emergency pit/tank emptying, the removal and disposal of waste, and servicing of electro-mechanical equipment.

The current situation

Through follow up with the individual microenterprises, it was noted that due to delays in payments and other administrative requirements and complications, they have struggled to become self sufficient units, and a number have decided the environment is too difficult for them to continue.

At the time of writing (November 2007), it appears as if the programme is floundering. No SMMEs have been appointed to proceed to the second phase of the programme, much less have any assumed responsibilities.

Nonetheless, a number of lessons have been learnt. These should be considered and where necessary addressed, so as to ensure that future projects are sustainable. The initial project was initiated with funding from DST, and it is unlikely that the schools will be prepared to pay the amount that is being paid to the SMMEs for the limited work that they are doing at present. It is therefore necessary that a more structured and efficient approach be designed and adopted for any future programme.

The franchise alternative

The current initiative by the Eastern Cape Department of Education is being built around setting up and capacitating SMMEs, and then employing them as service providers.

It is very encouraging that the Department is committed to the SMME route. The Department clearly recognises the economy and efficiency advantages, over any feasible alternatives, of the local utilising and motivating of local area-based SMMEs.

Nonetheless, the Department should be cautious about parastatals or municipalities reformulating the basic concept, thereby seeking to “change” this SMME-based model away from what gives it its strength, i.e. the motivation and drive of the individual entrepreneurs due to their direct ownership of their businesses.

The initiative did not, as originally envisaged by the Department, consider that some of these SMMEs could be franchisees. Amanz’abantu has meantime however proposed that franchising be considered.

Amatola Water and the Department of Education have not yet decided on their preferred arrangement. It could be that the franchising partnership alternative is not accepted.

However, for the purposes of the current report, a franchised schools sanitation model has been formulated and is presented in this chapter.

In the opinion of the research team, the franchising partnership concept would be superior, not only to the current operation and maintenance by the Department and/or the individual schools, but also to the standalone SMME, even given the level of PIA support that is envisaged. A franchise arrangement would be the best to:

- give the initial and ongoing support to the SMMEs, and
- give the financial returns, and returns in terms of improved service, that would incentivise all three parties, viz. the Department and its agents, the franchisor and the SMME franchisee, to perform, and to continue to perform.

Microenterprise SMMEs need assistance from organisations that have sufficient capacity

Note that it is not relevant to this report’s case study of a hypothetical situation whether the Department does or does not accept the franchising partnership alternative. This hypothetical case study of water services franchising partnerships can be developed and described whether franchising of the operation and maintenance of schools sanitation in the Eastern Cape does or does not come to pass.

Franchising would, it does appear, address a real need, and appears to offer reliability and sustainability.

The benefits of a franchise system

A specialist franchise for on-site sanitation for any particular client (Department of Education in this instance) should offer the following benefits:

- The franchisor will be very knowledgeable of sanitation, and competent in the operation and maintenance of sanitation facilities.
- The franchisor will have extensive experience in institutional sanitation, and will have the capacity to undertake tasks needed, and not be a non-specialist PIA, implementing a short term contract, for which it tendered, and won partly on the basis of price.
- The franchisor will have experience in setting up sustainable SMME models.
- The franchisees will all receive extensive accredited training in sanitation related matters
- The franchisees will be able to start work in a particular area within a short period of time – no waiting for tenders to be processed, guarantees, etc.
- The quality of work that the franchisees perform will be audited by the franchisor.
- The franchisee would, through the franchisor, have access to the plant and expertise needed to accomplish its tasks.
- The institution utilising the services of the franchisee will have the guarantees of the franchisor that the work will be done correctly
- The franchisor will market the services of the franchisees to various institutions
- The franchise will not be a short term business project, but a long term business opportunity.
- The franchise will also be creating employment opportunities and assisting in alleviating poverty in various areas.

In addition:

- All provincial departments will have access to an organisation that is operating in all districts.
- Over and above routine operation and maintenance, the franchises could be appointed to assist with emergency interventions in any particular area – cholera interventions etc.
- Other clients, including municipalities, will be able to utilise the services of the franchise.
- The franchises will be able to offer a holistic range of services – waste management, institutional and social development (ISD), data collection etc.

In order to overcome the problem of poor sanitation in rural schools, the Department of Education needs to take a proactive approach. The key step would be to develop a proper plan and have a programme that will be constantly assessed and corrected, and thereafter replicated to other areas.

The following factors also need to be considered:

- Microenterprise SMMEs are area based
- Gender issues need to be taken into consideration
- Sanitation designs need to be standardized
- Waste management systems need to be introduced
- Problems around security at schools needs to be addressed – e.g. fencing
- School cluster managers need to be actively involved
- A structured sustainable preventative maintenance programme needs to be prepared.

A policy on addressing rural school sanitation needs to be developed, and a comprehensive educational programme, focusing on water and sanitation, needs to be implemented at schools.

3.4 Clinics sanitation

Following Amanz' abantu's discussions with the Eastern Cape provincial Department of Health, along with site visits to typical rural clinics, the researchers have concluded that the clinics of the Eastern Cape require a sanitation servicing programme similar to that which is envisaged for the schools.

Recently, the national Departments of Health and Water Affairs and Forestry have embarked on a rapid delivery programme to eliminate the backlog of sanitation facilities at clinics around South Africa. DWAF has appointed the Mvula Trust as its national Programme Implementation Agent.

As part of the planning process for this programme, a survey of rural clinics was undertaken in May 2007 by The Mvula Trust on behalf of DWAF. Of the total of 870 rural health clinics in the Eastern Cape Province, a sample 265 clinics were visited as part of the survey. The findings of the survey indicated that infrastructure maintenance, not new construction, was the most pressing water and sanitation challenge facing these rural clinics.

Of the assessed clinics:

- 29% (76) clinics have VIP type toilets, and of these 48% were half-full and 18% were full.
- The vast majority of clinics (92%) have rainwater harvesting systems in place. Most of these were in need of minor repairs, such as leaking taps, broken pipes etc. (McDonnell and Nonxuba, 2007)

It is therefore important for the Department of Public Works (DPW) to appoint a service provider or providers to undertake routine maintenance at these clinics. It is also clear that the focus from local and national government must expand from a primary focus on new infrastructure to include the maintenance of the existing infrastructure.

The scope of work for the routine maintenance of rural clinics could be similar to that of the schools maintenance programme, i.e. small contractors will do minor maintenance works at the clinics, such as servicing / cleaning toilets and repairs to rainwater harvesting systems. These small contractors will call at these clinics every 3 to 6 months and do any necessary minor repairs.

By aligning a rural clinics water and sanitation servicing programme to the rural school water and sanitation project, the benefit of scale would improve the efficiencies of the SMMEs which in turn would result in cost savings to the respective authorities.

The contents of the pits at some clinics would need specialist interventions in handling the waste because of the nature of some of the material in some of the pits, e.g. the presence of medical waste, which would need to be treated as hazardous.

3.5 Process and regulation

In order to act responsibly and within the municipal and national regulatory environment, it is necessary to ensure the processes and procedures followed to undertake the work are in compliance with the parameters laid down by the local and national authorities.

In particular, this will apply to the manner in which the work is undertaken (e.g. the Occupational Health and Safety Act, Act 85 of 1993), the impact the work may have on the environment (the National Water Act (South Africa 1998) and the National Environmental Management Act (Act 107 of 1998, South Africa) as well as any other local regulations that may be applicable.

The procedure of the emptying and disposal of the contents of the pit latrines has been identified as an activity which should be carefully managed and monitored.

Issuing of permits for disposal of waste:

The National Water Act makes provision for the issuing of permits or licences to service providers, to enable them to dispose of waste on-site.

The registered user must comply with a comprehensive set of requirements. These include following “acceptable construction, maintenance and operational practices to ensure the consistent, effective and safe performance of the wastewater irrigation system, including the prevention of:

- 1) waterlogging of the soil and pooling of wastewater on the surface of the soil
- 2) nuisance conditions such as flies or mosquitoes , odour or secondary pollution
- 3) waste or wastewater entering any surface water resource
- 4) the unreasonable chemical or physical deterioration of , or damage to the soil of the irrigation site
- 5) the unauthorized use of wastewater by members of the public.

All reasonable measures must be taken to provide for mechanical, electrical, operational, or process failures and malfunctions of the wastewater irrigation system.

All reasonable measures must be taken to collect stormwater runoff containing waste or wastewater emanating from the areas under irrigation and to retain it for disposal.” (General Authorizations, in terms of Section 39 of National Water Act (South Africa 1998))

The authority that issues the permit / license also needs to:

- 1) Meet with local and district municipalities and explain the benefits
- 2) All relevant stake holders must be consulted
- 3) Prepare a set of documents that will be required by the permit / license holder to undertake this task , such as the amount of liquid that is discharged at each school
- 4) The compliance of the user after the license / permit has been issued
- 5) O & M service providers need to be pre-approved to ascertain that they:
 - Have proven quality assurance systems
 - Have the necessary expertise
 - Have necessary technical personnel
 - Have adequate financial capacity
 - Have sufficient plant & equipment
 - Registered office in the area
- 6) The issuing of the license – i.e. is it a license or permit
- 7) Is the license / permit issued for a period of time
- 8) Is the license linked to a specific client , i.e. Education department etc.” (ibid)

The issuing of a permit should be to the service provider (e.g. WSP), who in turn will issue the contractor with a license to undertake certain tasks. The license will be for the duration of a specific contract. It will be the responsibility of the service provider to evaluate the work done by the contractor.

Figure 3.3 below illustrates the role-players and the envisaged process of issuing permits in order to control and regulate these activities.

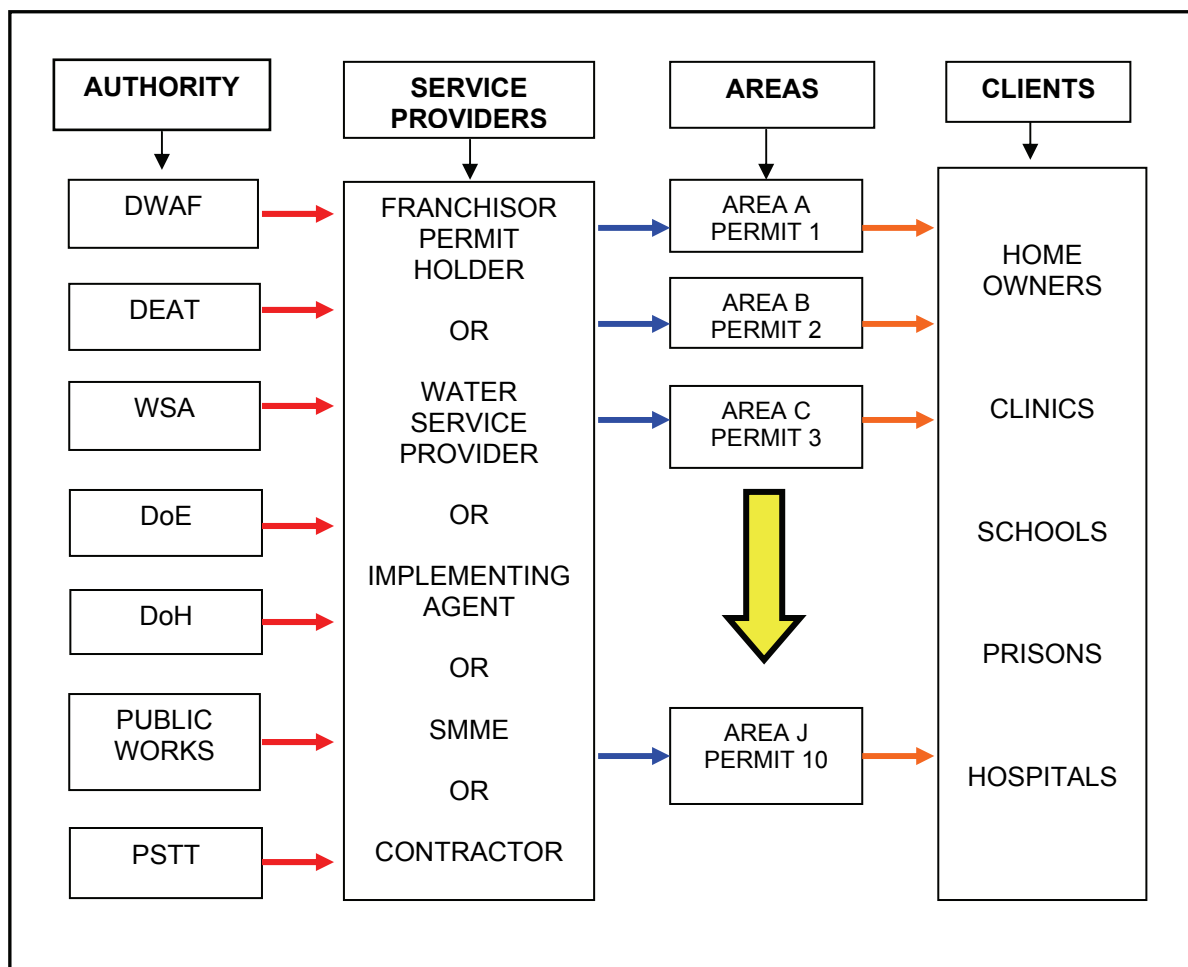


Figure 33: Role-players and approach to regulation of on-site sanitation activities

4. Modelling a sustainable schools sanitation business

4.1 The purpose of Chapter 4

The purpose of Chapter 4 is to model (other than financial modelling, which follows in Chapter 5) a sustainable schools and sanitation business for microenterprise SMMEs in the Eastern Cape. While the context is not solely one of rural schools, the emphasis is on rural schools.

Emphasis in the first half of the chapter is on SMMEs rather than on SMME franchisees. If the business is viable for SMMEs, then it will be viable for SMME franchisees.

Which is not to say that a business might not be sustainable for a franchise even when it is not sustainable for standalone SMMEs. As the findings of the earlier reports that have come out of the current project have already made abundantly clear, the franchise arrangements support franchisees in many ways that contribute to their sustainability – from facilitating bank loans for franchisees' working capital, through providing a replicable operational model and start-up assistance, to inspection and quality assurance – and in many other ways. And all of these contribute to sustainability – for example by lowering franchisees' costs, getting franchisees more rapidly up to speed, assisting franchisees when necessary to press their clients for on-time payments, and reducing the likelihood (and probably the consequences also) of franchisees not performing to contractually committed levels.

Accordingly:

- Section 4.2 sketches current issues;
- Section 4.3 identifies role-players, franchising partnership or not;
- Section 4.4 describes planning and procurement – again, franchising partnership or not;
- Section 4.5 describes operational and methodological issues – again, franchising partnership or not;
- Section 4.6 overviews the SMME franchising partnership approach to schools sanitation;
- Section 4.7 describes the role of the franchisor;
- Section 4.8 describes operational linkages, and in particular the role of the franchisor; and
- Section 4.9 draws conclusions.

Note that sections 4.2 through 4.5 are general to all SMMEs, including franchisees, whereas Sections 4.6 through 4.9 are specific to franchises.

4.2 Current issues

The pilot project at the time of writing (November 2007) in the process of being implemented in the Eastern Cape, part of the 2006-2008 appointment of Amatola Water, is used as the basis for identifying the problems and as the basis for the formulation of future programmes and methodology.

In the pilot project, Amatola Water undertook an assessment of the current sanitation situation. This assessment was made to confirm that it is possible to service the various school ablution facilities and also to inform the SMME microenterprise what type of sanitation system is available at the school – i.e. a large single pit with access or inter-joined pits with no access etc. The assessment found the following primary reasons for non-performance of the existing school ablution facilities:

1. Perceptions of sanitation alternatives that did not accord with what was provided, and hence rejection of the facilities.
2. Inadequate design of toilets.

3. Insufficient training of users.
4. Neglect or deliberate abuse of facilities.
5. Ineffective solid waste management plans
6. Cost (e.g. of servicing using vacuum tankers, when needed)
7. No preventative maintenance programme.

With respect to the first of the above:

- It is important to advise and inform the school on the different types of sanitation systems that are available in rural areas, and explain when waterborne sanitation is not practical.
- Also, it is important that assumptions are not made without proper input from the school as to what will be best for the school. (After all, if the school is to take responsibility for operation and maintenance of the facilities, then the school also needs to have a say in what is chosen).

The second problem, i.e. inadequate design of toilets, can be overcome during the rehabilitation of the toilets.

The remaining problems can be overcome by getting the schools to take responsibility for the users and for the operation and maintenance. To achieve this, the following methodology is proposed:

- During the pit emptying and rehabilitation of the toilets the educators, school principals and school governing bodies must be asked to participate in the process, to monitor the work done and signing off payment for the microenterprise service providers. They will then be able to get an understanding of the risks and costs incurred through the incorrect use of the toilets.
- The school must also take responsibility for maintaining the ablution facilities to an acceptable standard, including for keeping the pits free of solid waste.
- A study has revealed that some pupils are washing their hands after coming from the toilets, but only if water is available. It is therefore important to have water available that is close to the ablution facilities.
- The facilities must be inspected regularly.
- The possibility of having a mini waste disposal site at each school needs to be considered or alternatively contact needs to be made with the local municipality to collect solid waste. This will alleviate a number of problems.

As part of the normal school lessons, pupils should be educated on all the relevant aspects of sanitation. An educational programme should be implemented prior to emptying and needs to be continued for a period thereafter.

4.3 Role-players

Schools differ in their management based on their assessed capacity and their allocated responsibilities and authorities in accordance with the SA Schools Act (Section 21 of Act 84 of 1996). This Act permits the provincial Department of Education, on the basis of its assessment of the capacity of the school and the school governing body (SGB), to grant certain schools the power to manage their finances. Briefly, schools that are on the Section 21 list may deal directly with suppliers and contractors for the relevant budgeted items in accordance with standard procurement procedures. They must keep documents as evidence of correct dealing with such suppliers and contractors, and records of how the materials and services were used, and produce such documents or records at the request of officials from the provincial DoE and for audit purposes. Schools that are not on the Section 21 list are not been granted approval to procure their own goods and services, and must procure with the assistance of DoE officials and from a budget allocation held by the DoE. (Annexure A provides more detail.)

The principal stakeholders, franchising partnership option or not, are:

Table 4:1: Stakeholder roles and responsibilities

Stakeholder	Role and responsibility
Water Services Provider (i.e. municipality or other external WSP)	Provision of municipal water and sanitation services to DoE, i.e. to the boundaries of school properties
Provincial Department of Education (DoE)	Employer – appoints Provincial Sanitation Manager who is the Employer's Representative. District Inspectors of the DoE have an ongoing responsibility for schools inspection.
DWAF and national Department of Environmental Affairs (DEAT)	Regulation Water resource management Environmental authorisation and monitoring
School (Headmaster and School Governing Body)	Acts as local Client and on behalf of DoE for matters relating directly to the individual requirements for each school.
Microenterprise SMME	Contractor – provider of sanitation services to schools
Parent Teacher Association	Dissemination of health and hygiene (H&H) information Special fundraising activities for facility improvement etc.
Pupils	Users of toilet facilities Beneficiaries of the H&H awareness activities
Other funders	Funding from corporate clients that could assist the sponsoring of schools as part of their social programmes, or, various bi-lateral funding could be channelled as part of overseas development assistance programmes.

The services provided by the SMME should be fairly routine, well within the skills and size constraints of microenterprises, and predominantly involve manual labour. It is anticipated that each microenterprise would be based in and would operate within the area where the schools assigned to it are located. Proximity to the schools reduces costs.

Most microenterprises would need to be directly employed and supervised by a larger, established, service provider until such time as they had gained the necessary basic skills to operate more independently. They would at that point cease to be subcontractors, and would become SMMEs. (If the franchising partnership route is taken, then they would become franchisees, and the established provider would become their franchisors.)

Over time these microenterprises, when ready, would be able to assume greater responsibility and would be able to develop their own asset and skills base, while remaining located in the area they serve.

It is anticipated that a typical SMME microenterprise would have the following staff, plant and equipment:

- A small store and workshop, along with a simple office and telephone / fax facility.
- Owner / manager, who would also be responsible for the day-to-day management of the business, and the direction and oversight of the sanitation servicing team/s.
- Two sanitation teams each with a LDV equipped with basic safety clothing, tools and equipment. Other labour from the local communities will be employed for labour-intensive work.

- Storeman/office clerk responsible for procurement and management of plant and equipment, tools, as well as the spares and materials necessary for servicing the school toilet facilities.

The microenterprises would hire the following when needed:

- Special equipment, including slurry and diaphragm pumps, pressure jets, water tankers and sludge tankers etc;
- Specialised technical expertise;
- Specialised cleaning teams (known as “Frogs”) which are equipped with breathing and safety suits, enabling them to enter pits in order to undertake specialised cleaning.

4.4 Planning and procurement

4.4.1 Planning for sustainability of the SMME microenterprises

Once the frequency and cost of operation and maintenance has been determined, it must be ensured that the cost thereof is allocated in the budget of each school.

The microenterprise will also be able to do other sanitation work in the rural area where it is situated. Most rural homes have Ventilated Improved Pit latrine (VIPs) -- these toilets need to be serviced, and the local municipality can be contacted to enable the microenterprise to render a service to the community. The service delivery model needs to be sustainable and to be seen as a “holistic” approach to finding solutions to different problems, i.e. servicing toilets at schools and at homes. This will have an indirect impact on the community through the creation of the sustainable employment that will result.

The Department of Public Works has embarked upon a programme of Expanded Public Works (EPWP). The SMMEs could therefore also be sourced from the DPW data base.

The Department of Education (DoE), through its various agents, is building new ablution facilities at schools in the various provinces, and these school sanitation facilities need to be serviced regularly. These schools must therefore be added to an existing preventative maintenance programme.

4.4.2 Procuring and contracting parties

From the perspective of the DoE, in order to comply with governmental procurement policy and legislation, it is necessary to follow an open and fair process in appointing service providers. It has been recognised that in order to manage the disposal of human and other waste and wastewater, this process must be properly authorised and regulated, and both the DoE and DWAF have requested that there be a process of accreditation / licensing for the prospective service providers (whether they be SMMEs or not), thereby enabling the authorities to monitor their activities and where necessary to regulate the activities related to handling and disposal of the waste.

The above discussion has led to the conclusion that the most appropriate way for the DoE to procure services will be to appoint service providers through a two stage process. The first stage would be the call for registration by prospective service providers, with the requirement that they thereafter follow a process of accreditation. In the second stage, tenders for appointment as sanitation service providers will be called for the specified areas where the schools sanitation services are required.

Typically, a schools sanitation service area will have between 50-100 schools in its area, and its boundaries will be determined to allow for a logical grouping of the schools with consideration of:

- Access roads
- Location of towns where financial services, material supply and repair services can be sourced

- Educational Districts
- Municipal boundaries.

The appointment of a Programme Implementing Agent has been proposed by the DoE, due to the existing capacity limitations within the Department. The PIA would be appointed to act as the provincial wide agent for the department, and the PIA would be responsible for managing the individual contracts with the SMME microenterprises, rather than relying on the individual schools to be responsible for procuring and managing these services.

This “Schools Sanitation PIA” would be the contracting party with which franchisee microenterprises would contract in order to deliver the services on the ground.

This has led to the arrangement illustrated in Figure 4.1 being proposed.

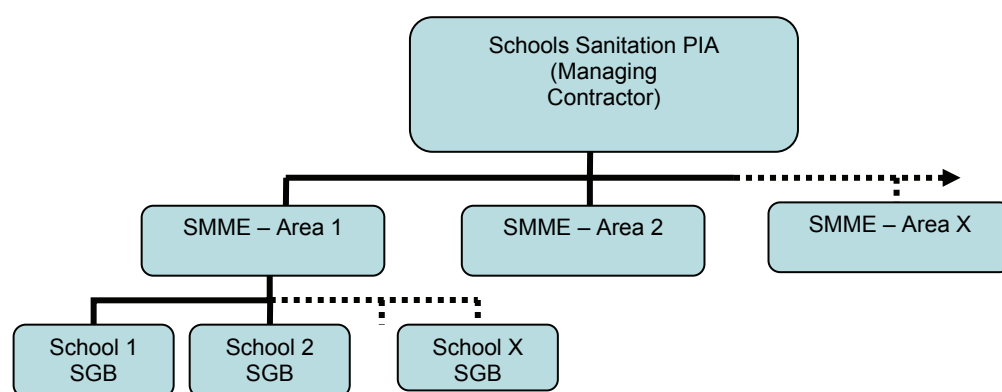


Figure 4:1: Organogram of schools sanitation operation and maintenance programme

The PIA (or managing contractor) would be appointed by the Department to implement this programme and, in terms of the appointment, the PIA will be required to source the services of the accredited microenterprises in order to undertake the work. The function of the PIA will be:

- Advertise for microenterprises in different areas
- Appoint microenterprises in different areas
- Formulate the overall programme
- Evaluate each school and group schools into service areas
- Procure microenterprises for each work area
- Issue work orders for the servicing of the schools
- Evaluate work done by microenterprises
- Prepare payment certificates for microenterprises
- Liaison with other stakeholders – DWAF, Local Municipalities etc.
- Monthly reports to client on progress
- Compile a data base on schools serviced.

Contracts should be for 3 years or more, thereby enabling the microenterprise to raise finance to invest in equipment and facilities which over time once fully paid off would provide the necessary assets for it to properly undertake the work. The added security of contractual service agreements would provide it with confidence to invest in building its business.

4.4.3 Information collection and management

In order to enable the programme to proceed, certain information will need to be gathered and processed, stored and maintained. The Schools Sanitation PIA would be entrusted with this activity, and the information would be collected through various means including through appointment of professional service providers (possibly a role for franchisors) and the daily activities of the service providers.

Data collection

It is important to have the correct information prior to starting work at any of the schools in a particular educational district. A comprehensive assessment needs to be done to first assess the level of service that is needed at the schools. This will allow the DoE to make an informed decision on what is required at each school. It will also allow the microenterprise to have the correct materials to accomplish its task.

Surveys – emergency interventions

The PIA will accumulate large amounts of information that will be available to the relevant role players. The assessment documentation will contain information that is relative to each department. This will allow the various departments to make decisions based on the information received on a monthly basis. This will also allow the departments to be pro active and allowing them to implement change management procedures prior to a potential emergency situation.

Challenges

The programme might face challenges in terms of policy, financial support, implementation, and sustainability. In trying to address the challenges, the first step would be acknowledgement or recognition of such challenges. Therefore, the Department of Education needs to consider and proactively try to address them.

Policy

No clear policy document is currently available regarding the approach and methodology for servicing on site sanitation at schools. It is recommended that the DoE utilise the information from the pilot project to write a policy document for sanitation at schools.

The policy needs to provide sufficient priority to the programme so that it covers all the rural schools within the province with water and sanitation facilities, and hygiene education. Each area should develop an action plan in order to be able to achieve set targets. The policy should influence, foster and support interdepartmental coordination at all levels to be able to meet the programme goals and targets.

4.5 Proposed programme: methodology and role-players

4.5.1 Operational methodology

As noted above, Section 4.4 describes operational and methodological issues common to all SMMEs doing the kind of work in mind. Section 4.5 takes these issues further, viewing how franchising partnership would approach the same issues.

The PIA will first determine what types of systems are present at each of the schools. Once this has been established, the microenterprises appointed for each school will be able to proceed. In some instances, it may be determined that certain rehabilitation or structural modification may be necessary in order to enable the microenterprise to service the sanitation facility. For example,

certain facilities have been designed and constructed in a manner which does not allow easy access for cleaning, in some cases, pits do not have waste water discharge to soak aways which results in premature overflow. This rehabilitation (conversions) or modification could be done by a contractor under a different contractual framework (e.g. the schools sanitation facility construction programme)

The scope of work will consist of the following:

- Clean the area within the ablution facility
- Empty the excess liquid in the pit area (Figure 4.2 illustrates)
- Remove the 'foreign' material in the pit area
- Ensure that information posters are present
- Educate SGB, teachers and pupils
- Do minor repairs when necessary
- Do conversions where needed. (Conversions will be done after consultations with DoE officials)
- Prepare a solid waste site (The necessary authorities need to be consulted prior to establishing a site)



Figure 4:2: Microenterprise employee emptying excess liquid from pits

Environmental assessments

From work done on the pilot project, it became clear that the environmental aspects relating to school sanitation must be formally addressed and managed. In future programmes, it has been proposed that a formal Environmental Impact Assessment (EIA) should be undertaken. This should cover a large scope (for example this could be done by educational district) and should be done by qualified environmental consultants.) From this assessment, environmental plan and checklists will be compiled for controlling the activities at each of the schools. The environmental assessment for each school will be undertaken by a trained area supervisor and not by the SMME. The assessment will effectively be a specialized “mini” EIA focusing on the method that will be used to service the school ablution facilities.

If the local environmental assessment turns up a negative assessment then the DoE will be notified and the school will be placed on the infrastructure building programme.

To ensure that the groundwater does not get polluted, the following need to be investigated by the PIA:

- That the school is not situated on a aquifer
- If there is a water source close to the school
- If the ground is rocky
- The permeability of the soil
- If there are boreholes close to the school

- If there are springs close to the school
- How the pits could be emptied.

The emptying of single pits containing fresh faeces could present problems because of the active pathogens in the sludge. It is therefore important that adequate precautions are taken with the removal of the sludge. (DWAF 2005)

Once the scope and methodology has been clearly defined, a work order will be agreed with the designated SMME, which will then be required to service the school facility in terms of the agreed contract and programme.

Solid waste disposal

A frequent problem of schools at present is that the schools have no facilities for the disposal of solid waste. This results in the toilets being used as a waste disposal site. (Figure 4.3)



Figure 4.3: Solid waste deposited around the school premises

4.5.2 Criteria for appointing SMME microenterprises

The foremost criterion for the selection of a SMME microenterprise will be the character of the prospective owner/manager. Its success is inextricably linked to the enthusiasm of its owner to participate in the business opportunity, the motivation of the owner to build his business in the chosen sector, the skill of the owner, and the integrity of the owner to conduct the business according to the laid down principles and procedures.

The requirements for the SMMEs that will be participating in the programme will include the following:

- Ownership of a reliable vehicle , preferably an LDV
- Bank account
- Telephone
- Located and established in designated area
- Have some basic equipment of his/her own – small tools etc.

4.5.3 A typical SMME microenterprise

Organisational structure

The SMME typically utilised in the business case of the hypothetical project would be an owner-managed microenterprise, operating from a small office / store / workshop situated centrally within

the designated franchisee area. The model set out below is based on the following staff complement, although this will vary depending on the requirements and capability of the microenterprise:

- 1 x Owner / Manager
- 1 x Clerk / Storekeeper
- 2 x Team Leaders
- 2 x General Workers

The organogram is depicted in Figure 4.4.

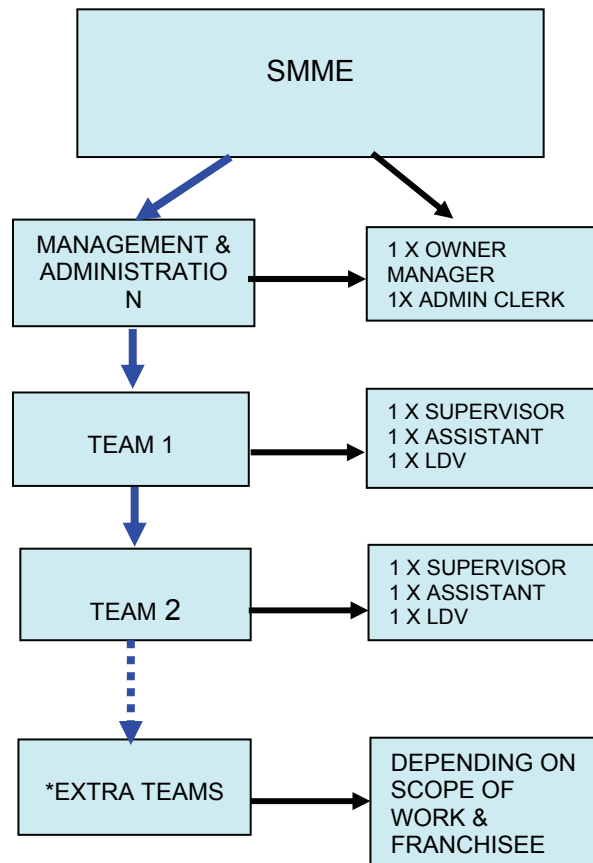


Figure 4:4: Organogram of a typical SMME microenterprise

Equipment

This would include:

- Disposable gloves
- Rain suits
- Dust masks
- Overalls
- Gumboots
- Full face mask with 1 extra canister
- Builders buckets
- 25 l water containers with taps
- Heavy duty toilet brushes
- 500 m danger tape
- First Aid kit
- Steel rakes

- Shovels
- Spades
- Picks
- 450 mm brooms
- Steel box
- Safety signs
- Pump

Employment of staff

The microenterprises would typically not employ full-time staff other than a very small number of key personnel. The labour that would be needed would be sourced from the school, and will generally be limited to of the order of 4 labourers.

Labour needs would need to be discussed with the PIA and the SGB members, in order to offer employment opportunities for the local community.

Start up capital

The microenterprises will require start up capital, which may be in the form of a loan, in order to cover the costs of:

- Initial training (operational, safety, quality and administrative)
- Certain small tools and plant (pump, screens, Personal Protection Equipment (PPE), special tools and equipment
- Computer hardware and software

They might also need financial assistance for equipment and operational expenses. Loan finance will probably be required to assist them with working capital e.g. repairs to motor vehicles etc.

4.6 Broad overview of the franchising partnership approach to schools sanitation

As noted in Chapter 3, Amatola Water and the Department of Education have not yet decided on their preferred arrangement. It could be that the franchising partnership alternative is not accepted.

However, for the purposes of this report, a franchised schools sanitation model has been formulated and is presented in the remainder of Chapter 4.

It is postulated that the franchising partnership concept would be superior, not only to the current operation and maintenance by the Department and/or the individual schools, but also to the standalone SMME, even given the level of PIA support that is envisaged. A franchise arrangement would be the best to:

- give the initial and ongoing support to the SMMEs, and
- give the financial returns, and returns in terms of improved service, that would incentivise all three parties, viz. the Department and its agents, the franchisor and the SMME franchisee, to perform, and to continue to perform.

A franchising partnership arrangement would provide these additional benefits, through enabling the SMMEs to provide improved and more reliable – and maybe less costly – services. This includes provision by the franchisor to the franchisee of:

- Training and recruiting
- Quality assurance systems and audits
- Improved safety systems and procedures

- Administration systems and support
- Access to specialised plant and equipment (e.g. mini-excavators (“Bobcats”), tractor-loader-backhoes (TLBs), specialised pumps, vacuum tankers etc.)
- Specialised cleaning and maintenance support teams (“Frog teams”)
- Process advice.
- Management assistance and advice
- Legal and contractual support for the franchisee.
- Helping franchisees to get loans (for the usual reason that lenders prefer franchisees to standalone SMMEs, everything else being equal).

The franchisor will be required to provide ongoing financial and administrative support, financial advice and basic management support for the franchisee.

Human resource support relating to legal and practical HR management will also be required.

This model builds on the proposed arrangement discussed in Section 4.4 above, by introducing a franchisor organisation which through a franchising partnership agreement provides the franchisee with support and expertise necessary to perform the work to the satisfaction of the client (in this case the Department of Education together with its PIA for the Schools Sanitation programme). (Figure 4.5)

It is envisaged that the DoE will through a process of accreditation, issue “licences” to the prospective franchisors who in turn will be encouraged to enter into franchise relationships with microenterprises which will tender for contracts in the designated areas.

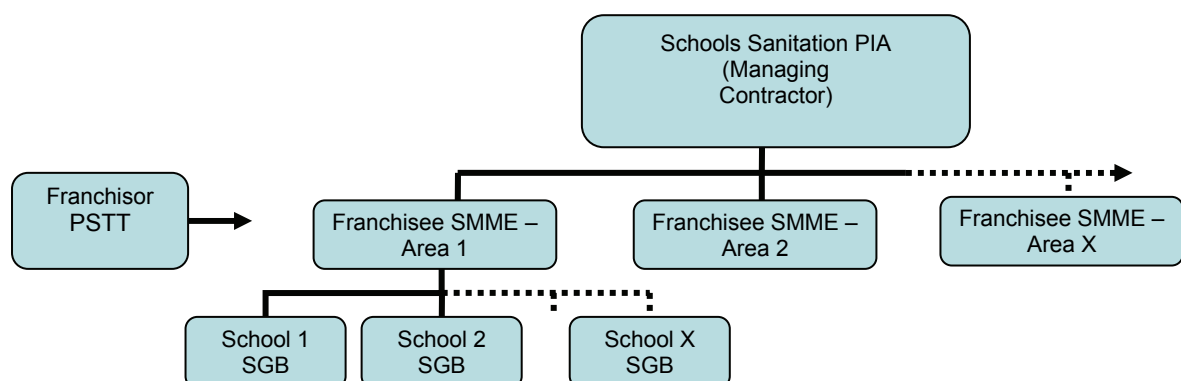


Figure 4:5: Organogram of franchised schools sanitation operation and maintenance programme

The franchisor needs to be an organisation with suitable expertise and resources including:

- Technical know-how relating to the construction and process elements of schools sanitation
- Capability to mobilise loans or capital to enable the franchisee has the necessary support in raising and managing working capital
- Access to the required specialised plant and equipment
- Administrative and contractual capability
- Knowledge of the water services sector and environmental legislation and procedures
- Knowledge of the public sector procedures, in particular procurement and supply chain management
- An establishment in and a working knowledge of the geographic areas required for coverage by the programme

- An ability to support the franchisees in their training and development
- Capability to manage Health and Hygiene awareness and training programmes
- Ability to implement Quality Assurance and Occupational Health and Safety requirements
- Suitable ownership and structure to be able to meet the broad-based black economic empowerment (BBBEE) criteria of the public sector.

The schools would themselves manage their water services through having direct access to their service providers (the franchisees), which in turn would be supported through the franchising partnership arrangement. This franchised approach would empower the schools to undertake their responsibilities in managing their facilities as delegated through the Department of Education to the School Governing Bodies. Those schools which under Section 21 of the Schools Act, are managed from the province, should be well supported by their district inspectors and the appointed PIA for water and sanitation, the franchisor will need to have a well structured and transparent relationship with the PIA and district inspectors.

The relationship is shown in Figure 4.6.

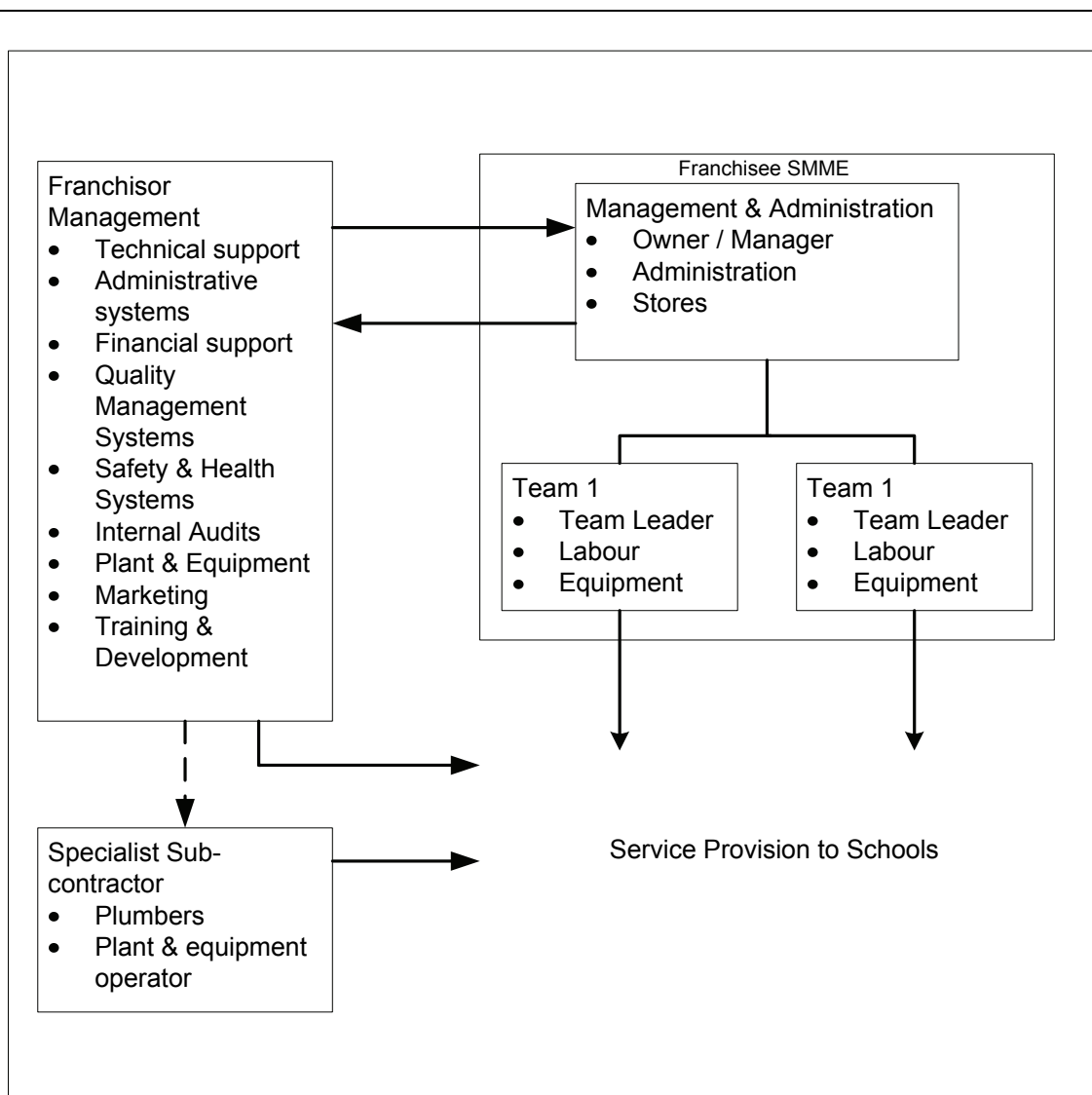


Figure 4:6: Organisational arrangement for the provision by franchising partnerships of sanitation services to schools

For this model to work would require the Department of Education to structure a framework which would enable the schools to procure the necessary schools sanitation services in accordance with their specific needs. It is anticipated there will be sufficient interest from existing private sector organisations to undertake the franchisor role and provide the capacity needed to support the franchisees.

4.7 The franchisor

The franchisor will typically be a company or department linked to a larger organisation from which it is able to draw in the necessary specialist skills. The franchisor will need to be focussed on its specific support role for the franchisees and as such will need to have its own management structure and full-time staff complement for its core functions.

The franchisor will need to be a specialist sanitation practitioner, and to have suitable experience in undertaking the kind of work required. Also, it will need to have well developed operational processes and procedures. In addition to having these existing management and operational systems, the franchisor will need to invest effort into continually developing its systems, based on the lessons learnt in the field and best practice.

The franchisor would need to take into account on the start up costs and ad-hoc specialist services which it may be required to provide to the franchisees, and also of the income that it might derive from these and also from franchise management fees.

The franchisor may be required to assume additional consulting work beyond its primary functions of support to the franchisees.

Training courses of varying levels will need to be continually facilitated for a number of areas, including:

- The Quality Management System
- Safety (including basic first aid courses)
- Administration and financial management
- Operations and basic technical skills
- And many other specialist courses

The specialist resources required by the franchisor will include the following:

- Specialised plant, such as tractor/loader/backactor (TLB) combinations, vacuum tankers and water tankers etc.
- Specialised personnel – to remove material from pits that equipment is unable to remove – i.e. removal by hand
- The franchisor would have personnel that could service equipment for the franchisee and offer loan equipment if required – this alleviates any down time

In summary, the franchisor will offer the following services to the franchisee:

- Assistance with contracts
- Assistance with sourcing and maintaining equipment and plant
- Quality controls and external quality audits
- Safety advice, assistance and the supply of standard personnel protective equipment
- Marketing of business at a regional and national level
- Training for the various functions
- Human resource support and advice
- Administration support – invoice books, wage sheets etc...
- Financial assistance – arranging working capital, loan finance and advice
- Health and hygiene awareness specialists
- Technical and management expertise

- Bulk and specialist procurement of materials and plant.

The typical roles and activities undertaken by the franchisor are illustrated by Figure 4.7 below:

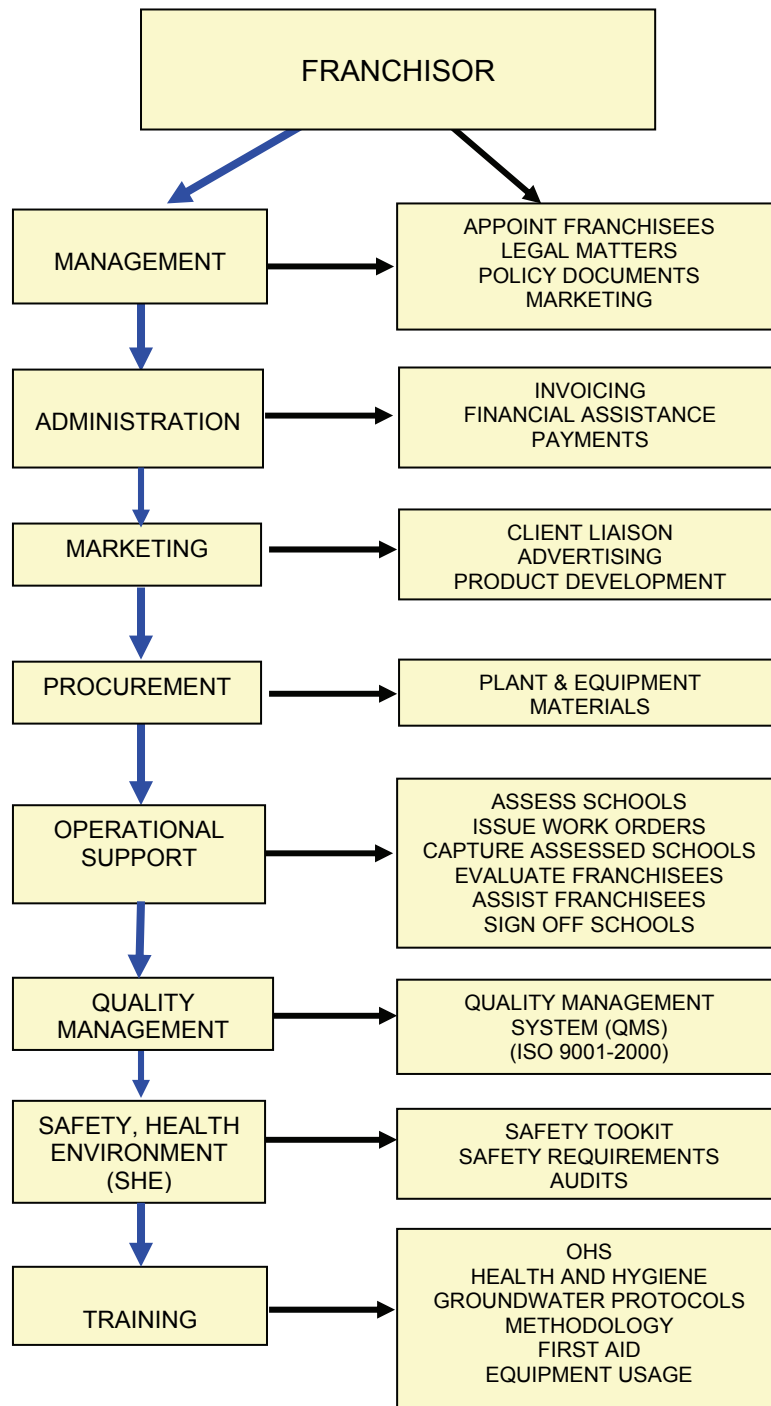


Figure 4:7: Role and activities of the franchisor

4.8 Operational linkages and the role of the franchisor

4.8.1 Linkages

The operational linkages between the franchisor and the franchisees would be many. The motivation for both the franchisor and franchisee to work closely together is strongly driven by the requirement of the respective parties to maximise their financial and operational performance. Figure 4.8 illustrates some of the linkages between the organisations.

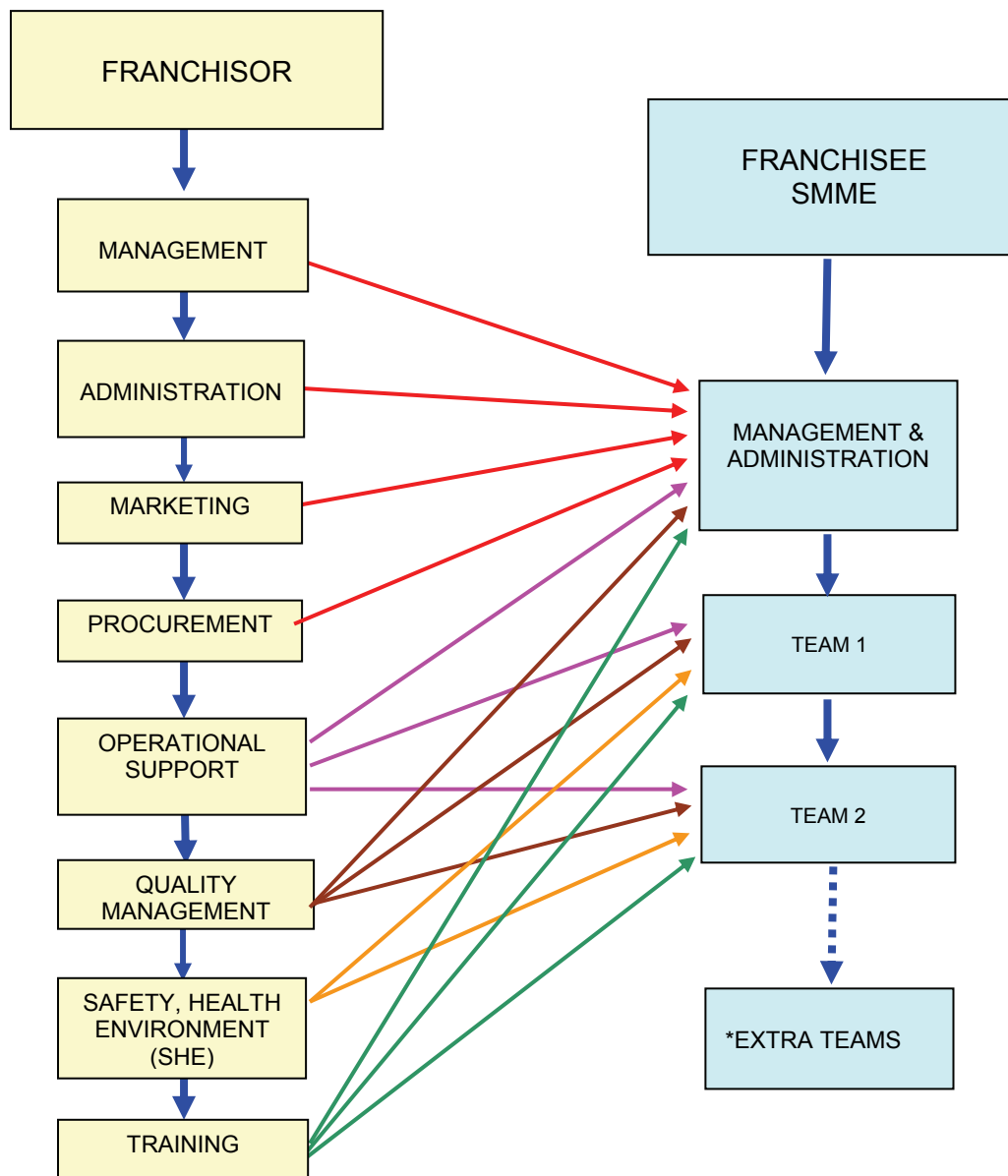


Figure 4:8: Linkages between the franchise partners

The need to generate turnover through franchise and other service provision fees will drive the franchisor to continually seek to work in the best interest of the franchisees, and also to market his expertise.

The franchisee should be motivated to actively seek the support of the franchisor, in order to receive the full benefit associated with the franchise fee. This will include seeking the franchisor's assistance and advice in the running of the day-to-day business and in the training and development requirements of the franchisee staff.

4.8.2 Management functions

The management functions within the franchisor would focus primarily on the management of the business of the franchisor. This will include all aspects of the general management of the franchisor company, including its business strategy, decision-making regarding the use of its resources and generally ensuring the organisation as a whole remains focussed on its objectives and motivated towards meeting these objectives.

A key activity of the general management of the franchisor will be to develop and oversee the legal and contractual framework under-pinning the franchise organisation as a whole.

Buy-in from financial organisations needs to occur while the franchisee is in the "incubation" stage of the contract. This will allow financial organisations to qualify microenterprises in order that they will eventually get access to the necessary capital finance in order to become fully fledged franchisees.

4.8.3 Administration functions

The administration department of the franchisor will be responsible for the financial and general administration of the franchisor internal activities, and in addition this department will be required to develop and manage the administration system and procedures for the franchise business as a whole.

Although each franchisee is a separate legal entity to the franchisor, it will be required to utilise the financial and administrative systems of the franchise operation. This will include the approach to accounting, reporting and general record keeping.

The administrators of the franchisor will be required to work closely with the designated franchisee personnel to ensure the franchisees have access to the required support to administer their businesses in accordance with the standards and procedures of the overall franchise.

4.8.4 Marketing functions

The marketing arm of the franchisor would be required to continuously scan the developments and strategies of the client organisations. This will generally be done through maintaining a close relationship with the client organisation, through regular meetings and interviews, and participating closely with the clients through providing them with feedback and other information on a continuous basis.

The marketing effort will seek to brand the franchise as a whole with the intention of developing brand loyalty within the client, and pride and a sense of belonging and teamwork amongst the franchisees.

It is anticipated that the franchisor will promote the franchise through:

- Internet web-sites;
- Printed media in the form of newsletters, brochures etc.;
- Advertising in targeted publications;
- Targeted promotions through stands at conferences and other events as well as regular presentations of activities and developments to clients and the sector; and,
- Direct one on one interactions with sector stakeholders.

4.8.5 Procurement functions

The franchise would use its grouped buying power to negotiate preferential prices for many services and goods, further benefiting each franchisor, which, under normal circumstances, would be prejudiced through location and size in their ability to secure the best deals.

Goods and services which can be grouped for procurement purposes include for example:

- Financial services, including banking, auditing and insurance;
- Motor vehicles;
- Plant and equipment;
- Printing and stationery; and,
- Protective clothing and equipment.

Whilst franchisees will be required to manage their day-to-day procurement, they will be supported by the franchisor through internal notices and direct communication regarding the best price and quality for standard goods and services.

4.8.6 Operational support functions

Operational support to the franchisees is a key core function of the franchisor, central to performance by the franchise of the technical aspects of the business.

These functions include:

- Development of operational procedures;
- Ongoing research into best practice and new methods;
- Acting as a communication channel in assisting franchisees with resource levelling through shared staff and equipment;
- Training of franchisee field teams;
- Operating the franchise Plant Department.

The franchisor's Plant Department will comprise a small workshop and store with the capability to service the pumps and specialised equipment for a service exchange system offered to the franchisees. Certain specialised equipment could be held by the franchisor for internal (by franchisees) or external hire. This plant could include pumps of various types, vacuum tankers, TLBs and other necessary plant and equipment.

The franchisor would also be able to offer specialised services.

It will be essential that the franchisor's Operations Manager and his/her staff have excellent communication skills, as the function will include maintaining ongoing technical advice to franchisees as part of the basic service rendered by the franchisor.

4.8.7 Management systems, processes and procedures

One of the key areas of support that the franchisor must provide to the franchisee is to pass on to the franchisee the operational know how and methodology. This transfer of knowledge and shared learning needs to be embodied into a written management system which is a living system which requires ongoing revision and expansion on as the experience and operational procedures develop. This approach will enable the benefits of innovation and learning to be collected and refined by the franchisor for the benefit of all the franchisees. In addition, the systems approach will enable the franchisor to ensure uniformity of service as well as the quality of services provided by the franchisees.

The approach used by many established organisations is to adopt a systems approach. One such approach is that of the International Organisation for Standardisation (ISO) which has developed

its ISO 9001:2000 quality management system. As this system has been developed and tested over many years and across many organisations, its adoption can be used to provide a framework for the management system of the franchise. For this case study, it is thus useful to have an overview of such a Quality Management System.

ISO promotes the adoption of a process approach when developing, implementing and improving the effectiveness of a quality management system. For an organisation to function effectively, it has to identify and manage numerous linked activities. An activity utilising resources, and managed in order to enable the transformation of inputs into outputs can be considered as a process. A “process approach” is the application of a system of processes within an organisation, together with the identification and interactions of these processes. (SABS ISO 9001, 2000)

The Quality Management System

The franchisor would be the custodian of the Quality Management System (QMS) of the franchise. The system will follow the ISO 9001-2000 approach as developed further by the South African Bureau of Standards. This QMS is a three tier system of quality management, and forms the backbone of all business processes within the wider organisation.

Tier 1: Quality policy document

- Statements
- Organisational structure and company profile
- Responsibilities

Tier 2: Quality processes

- The five general processes required for Total Quality Management. These processes cover 23 sub-clauses, each of which contains a brief policy statement pertaining to the subject addressed.

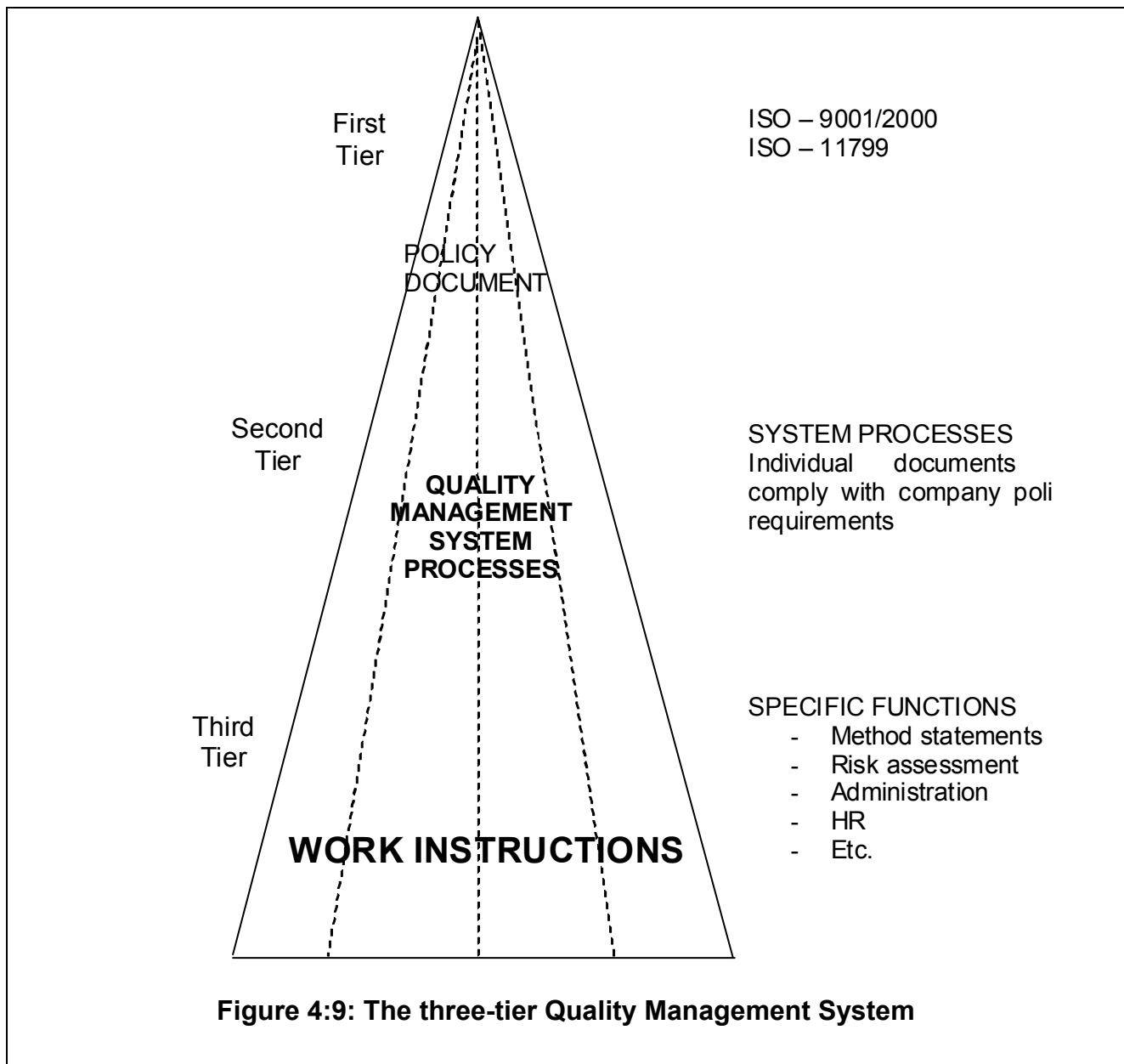
Tier 3: Work instructions

- The work instructions are written procedures which describe in detail the steps to be followed for specific functions, making use of quality control plans, specifications, checklists and risk assessments. These instructions establish the quality standards for the specific elements of work undertaken in the implementation of the work

Figure 4.9 illustrates this approach.

In terms of ISO 9001-2000 there are eight “essential” Quality Management principles for leading and operations within the organisation, aimed at continually improving performance by focussing on customer satisfaction. These are:

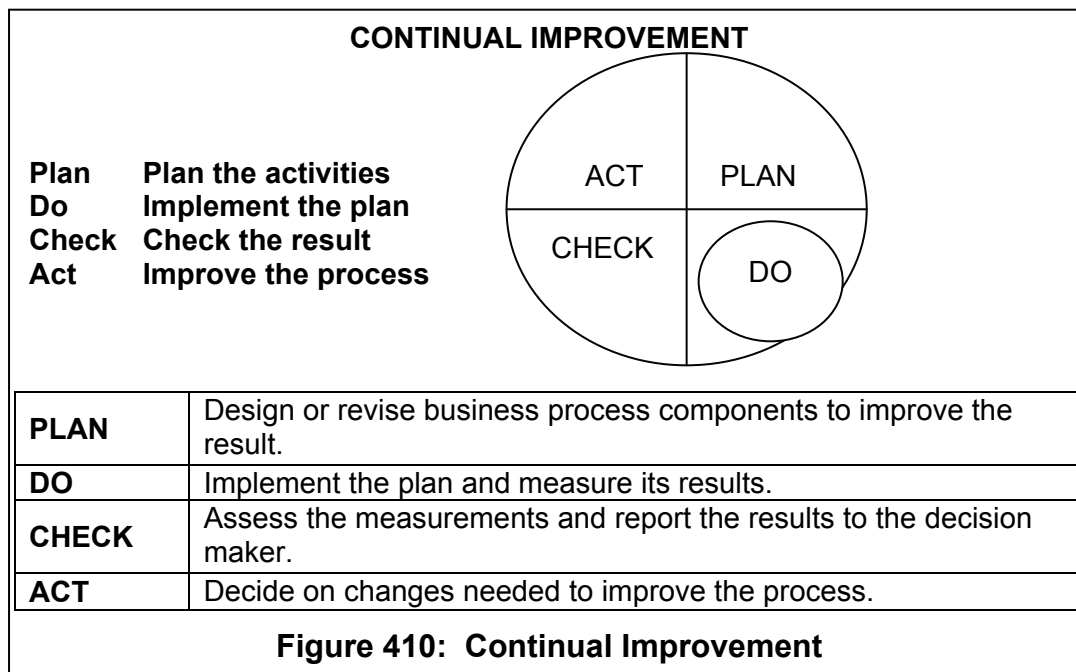
1. Customer focus
2. Leadership
3. Involvement of people
4. Process approach
5. System approach to management
6. Continual improvement
7. Factual approach to decision making
8. Mutually beneficial supplier relationships



The continual improvement principle can be illustrated by the Deming Circle as illustrated in Figure 4.10 below:

The ISO 9001-2000 approach focuses on ensuring that the entire organisation is committed to total quality management and that this should be driven from the top management down throughout the entire organisation. This approach is particularly useful for a franchised operation, as it provides both the culture and entrenched management ethos to work towards the implementation of quality management throughout the organisation.

Franchisees will be required to conform to the overall QMS, and will also be encouraged to initiate new Work Instructions for inclusion in the QMS of the franchise thereby entrenching the principal of the systems approach and continuous improvement.



The three tier approach requires the processes of the organisation to be identified and then documented in order for the QMS to be properly communicated, adopted and implemented by the organisation as a whole. Figure 4.11 below illustrates this process approach to quality management based on the areas defined by the ISO 9001-2000 23 sub-clauses.

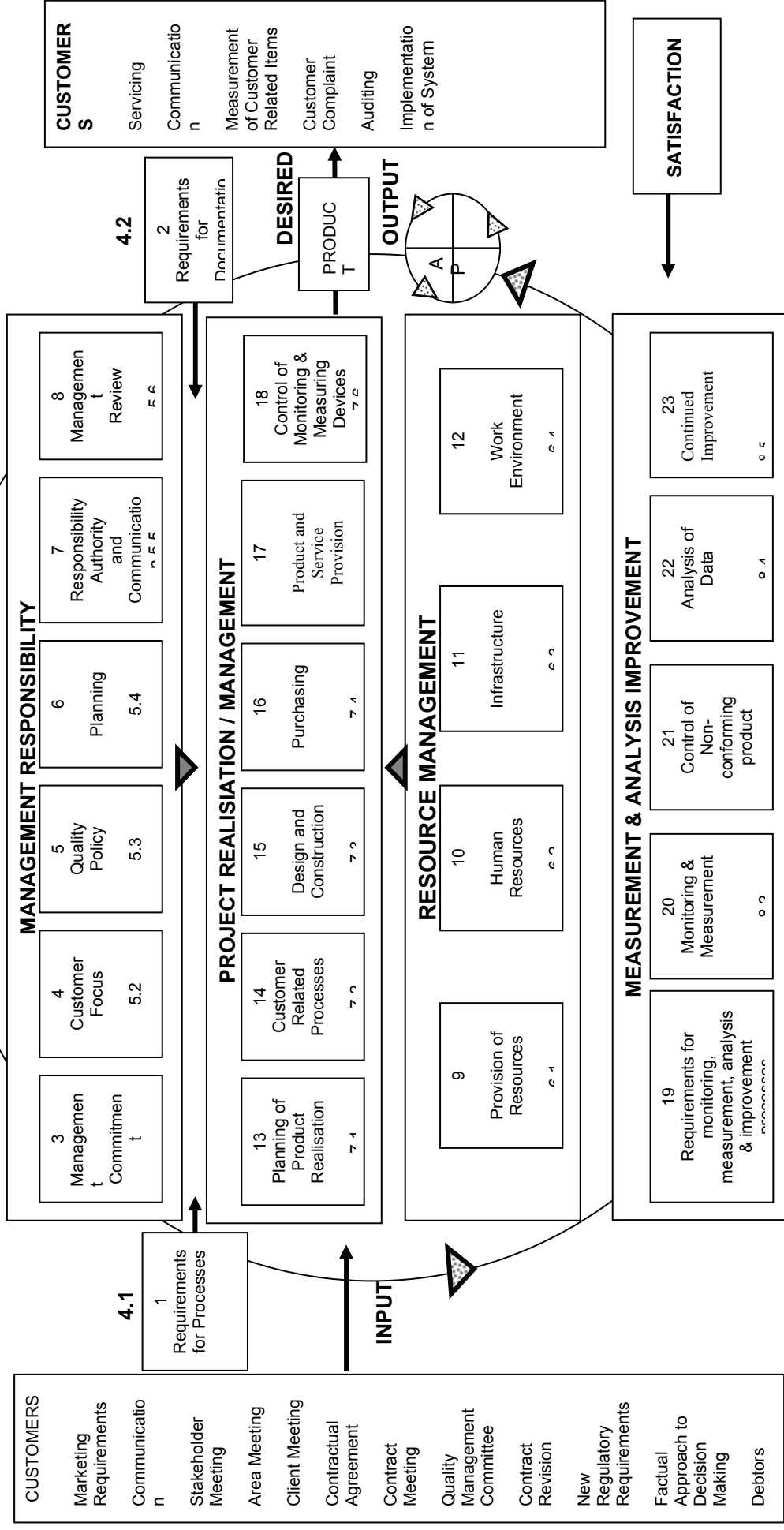
The QMS process model, if properly managed, becomes the “glue” which will stick the organisation together. It allows for innovations to be documented, adopted and entrenched into the operations, and it enables the franchisor to conduct regular audits both internally and externally on the franchisees, as part of the implementation of the QMS. This approach ensures that franchisees are not perceived as being “singled out” for punitive audits, but these audits are rather correctly seen as normal business activity in terms of the QMS.

4.8.8 Safety Health and Environment

The franchisor would be responsible for developing and maintaining a Safety Health and Environment (SHE) Management System, as required in terms of the Occupational Health and Safety Act (Act 85 of 1993) (“OHS Act”), for the franchise as a whole. This SHE system would spell out the policies and procedures for the implementation of safety across the wider franchise organisation. It would be managed in terms of the Quality Management System.

In order to assist the franchisees to be compliant with the OHS Act, the SHE Management System would act as a “compliance kit” for the franchisees. The franchisor’s safety personnel would assist the franchisees to understand the SHE procedures, and introduce them to the SHE Management System. Regular safety audits of the franchisees would be conducted by the franchisor.

A risk assessment will be done prior to any work being undertaken by the franchisee. This will enable the franchisor to develop a comprehensive safety plan that will enable the franchisee to accomplish his / her tasks. The risk assessment and safety plan will be directly linked to the scope of work that the franchisee will be undertaking. The work orders would stipulate which safety plan must be utilised for the tasks that are to be preformed.



Based on the model by SABS ISO 9000, "Quality Management Systems – Fundamentals and vocabulary". SABS ed. 2/ISO ed. 2, 2000

Figure 4.10: Quality Management System process model based on the 23 sub-clauses.

4.8.9 Training

The franchisor would be responsible for:

- Developing and managing all training programmes that the franchisees would need
- Identifying and evaluating the specialist training service providers
- Scheduling regular training courses for the identified training areas
- Recording training activities.

Franchisees will receive initial basic training as part of their start-up fee -- this initial training for the franchisee will be compulsory. Any other additional training required by the franchisee will be for his own account. It is therefore important for the franchisee to first start off as a managed subcontractor standalone microenterprise and then progress to a franchisee – i.e. so that he/she will receive sufficient training during the 'incubation' period. The training of the franchisees would be even more needed should the client change to change the initial scope of work from that for which the franchisee was initially trained.

Training courses that will be made available to the franchisees would need to include:

- Business and administration skills training
- Financial management training
- Computer skills training
- Quality Management
- Safety, Health and Environment Management
- Operational training
- First aid
- AIDS awareness and other basic health and hygiene awareness training
- Human Resource training, including basic instruction on:
 - Disciplinary procedures
 - Grievance procedures
 - Personal performance
 - Communication skills training

4.9 Chapter 4 conclusions

For the purposes of the current research, a franchised schools sanitation model has been formulated and is presented in this Chapter 4.

This schools sanitation programme provides an excellent opportunity to both –

- ensure satisfactory and improving provision of an important service, and
- foster the development of small business within a business environment suitable for ongoing opportunity which should lead to the emergence of sustainable small entities.

Amatola Water and the DoE have not yet decided on their preferred arrangement. It could be that for their current purposes they do not wish to go the franchising partnership route. This does not by any means close the door to one or both of them choosing that route in future.

It is postulated that the franchising partnership concept would in important ways be greatly superior, not only to the current operation and maintenance by the DoE and/or the individual schools, but also to the standalone microenterprises, even given the level of PIA support that is envisaged. A franchise arrangement would be the best to:

- give the initial and ongoing support to the microenterprises, and

- give the financial returns, and returns in terms of improved service, that would incentivise all three parties, viz. the DoE and its agents, the franchisor and the franchisee, to perform, and to continue to perform.

Franchising would, it does appear, address a real need, and appears to offer reliability and sustainability.

In addition, the franchisees, once up and running successfully, and having acquired the necessary experience and financial stability, would be in a position to offer similar services (sanitation operation and maintenance) to new clients, including clinics, local business and households, thereby further expanding their businesses.

Success will largely be dependent on the credibility and capability of the franchisor to provide the necessary support and training to the franchisees. This dependency, and the dependency of the franchisor on the franchisees for at least part of his income, will ensure that the franchisor will provide the necessary support. However, if the franchisee fails to deliver the service, the franchisor may find it necessary to step in and take over its management until it is once again able to perform – or, if preferable, it is replaced.

As the franchisor's business will depend on the ongoing success of all its franchisees, the franchisor will need to ensure regular quality audits and that effective reporting is maintained. The franchisor will interface with the DoE at a provincial and regional level, whereas the franchisee will interface directly with the SGBs, headmasters and designated staff of the schools. The dual level of communication will ensure the needs at both levels are satisfied, thereby overcoming the current problem of poor communication between the schools and the province relating to their ongoing water and sanitation requirements.

The franchise model offers an alternative whereby the DoE would be able to standardise on the technology choices, equipment and methodology, thereby streamlining the activities with the associated cost and efficiency benefits. A further benefit is the flexibility that outsourcing offers to the DoE. Provided they are given enough notice, franchisees would within reason be able to grow or shrink their activities to suit the requirements of the DoE.

Note that it is not relevant to this report's case study of a hypothetical situation whether the DoE does or does not accept the franchising partnership alternative. This hypothetical case study of water services franchising partnership can be developed and described whether franchising of the operation and maintenance of schools sanitation in the Eastern Cape does or does not come to pass.

5. The financial model

5.1 Approach

The financial model described in this chapter is kept as simple as possible. The purpose of this chapter is solely to test, from a financial point of view, the feasibility of the schools sanitation franchising partnership model in the Eastern Cape. Its purpose is not, for example, to go into the level of detail that would convince an investor.

The approach is to make use of averages, generic structures and generalisations rather than detailed and specific costs and structures. Too much detail is a constraint when undertaking iterations with the model in order to come to a workable business structure and model.

The financial model is directly based on the franchised schools sanitation business described in Chapters 3 and 4. The costs used to build up the model are based on June 2007 average costings.

The first three years' financial results, for both the franchisee and franchisor, are presented as summarised and simplified financial statements.

Discounting modelling methods (to determine (Nett present value (NPV), Internal rate of return (IRR) etc) are not used in this simple financial model, as the business is primarily a servicing business with small capital investment, and it is considered that the three-year period will provide sufficient information regarding the financial sustainability of the overall business.

5.2 Assumptions used in the financial model

The following are assumed:

- Franchisees will be contracted to each service a typical area with an average of 50 schools.
- The franchisor would need to have a regional structure in place, which is easily accessible to franchisees. In order to be commercially viable, sufficient franchise fees would need to flow to the franchisor in order to cover the minimum staff structure required by the franchisor to provide the necessary administrative and technical services to the franchisees in a region. It is for present purposes assumed that the regional franchisor business would be viable starting with a minimum of 10 such franchisees, and that this number will grow as the programme is rolled out.
- The franchisee staff complement will comprise an owner/manager with an administrator, storeman, two team leaders and two general workers.
- The franchisee will have a small office, store and workshop located at a central point in its area.
- The workshop and store will act as a local depot for the two maintenance teams per franchisee. Each team will be equipped with LDVs and the necessary tools and equipment.
- The franchisee will enter into a 3-year service contract with the DoE through the Department's appointed PIA, and the contract will be measured monthly on the basis of certain fees, rates and cost-plus activities for the provision of materials and specialised services. These fees and rates are assumed to have been established through an open tender process.
- The routine work will be undertaken by the franchisee with its directly employed staff and plant. (Figure 5.1 refers)

- However, where specialised work is needed (e.g. electrical and mechanical repairs and maintenance, specialised training, professional consulting, tanker services, provision of specialised plant and equipment, laboratory and process support and assistance with procurement) these will be provided by the franchisor through the franchise service agreement, and at a pre-agreed cost to the franchisee. (Alternatively, specialised service providers could, with the assistance of the franchisor, be procured from external service providers.)
- The franchisor will charge a franchise fee based on the established franchising principles and in accordance with the franchise agreement. This fee will cover the normal support services provided by the franchisor (e.g. administration, contractual and quality management systems, etc), but not the specialised work that is described in the bullet point above.

5.3 The financial model

A three-year hypothetical financial model was formulated in order to assist with conceptualising the flow of money and to test the financial merits of the proposed business.

The model indicates that there is a minimum size requirement for a franchisee for it to be reasonably self-sufficient, yet still retaining the flexibility offered by the small size.

The franchisor would be best structured as a department or subsidiary of a larger organisation, as, particularly in the early months, in order to remain financially viable, the franchisor may need to have part-time staff, or alternatively staff who are multi skilled and who can perform more than one of the required functions as part of their job descriptions.

In order for the model to offer the required higher level aspects of the services, including maintaining the Quality Management System, safety, and a strong operations department, the franchise (including franchisor and franchisees) would need to be of a minimum critical mass.

Summarised three year balance sheets and income statements are presented (in Sections 5.4 through 5.7) to illustrate the financial picture developed by the modelling. The overall view is more important than detail and specific numbers.

From the following financial model, with 40 franchisees, as was used in the model below after 3 years, the approximate annual turnover of the entire operation would be $40 \times R1.8m = R72m$. This would service approximately 3000 schools annually. Assuming an average of 500 pupils per school, this would cost less than R50 per pupil per year, or R4.00 /pupil/month.

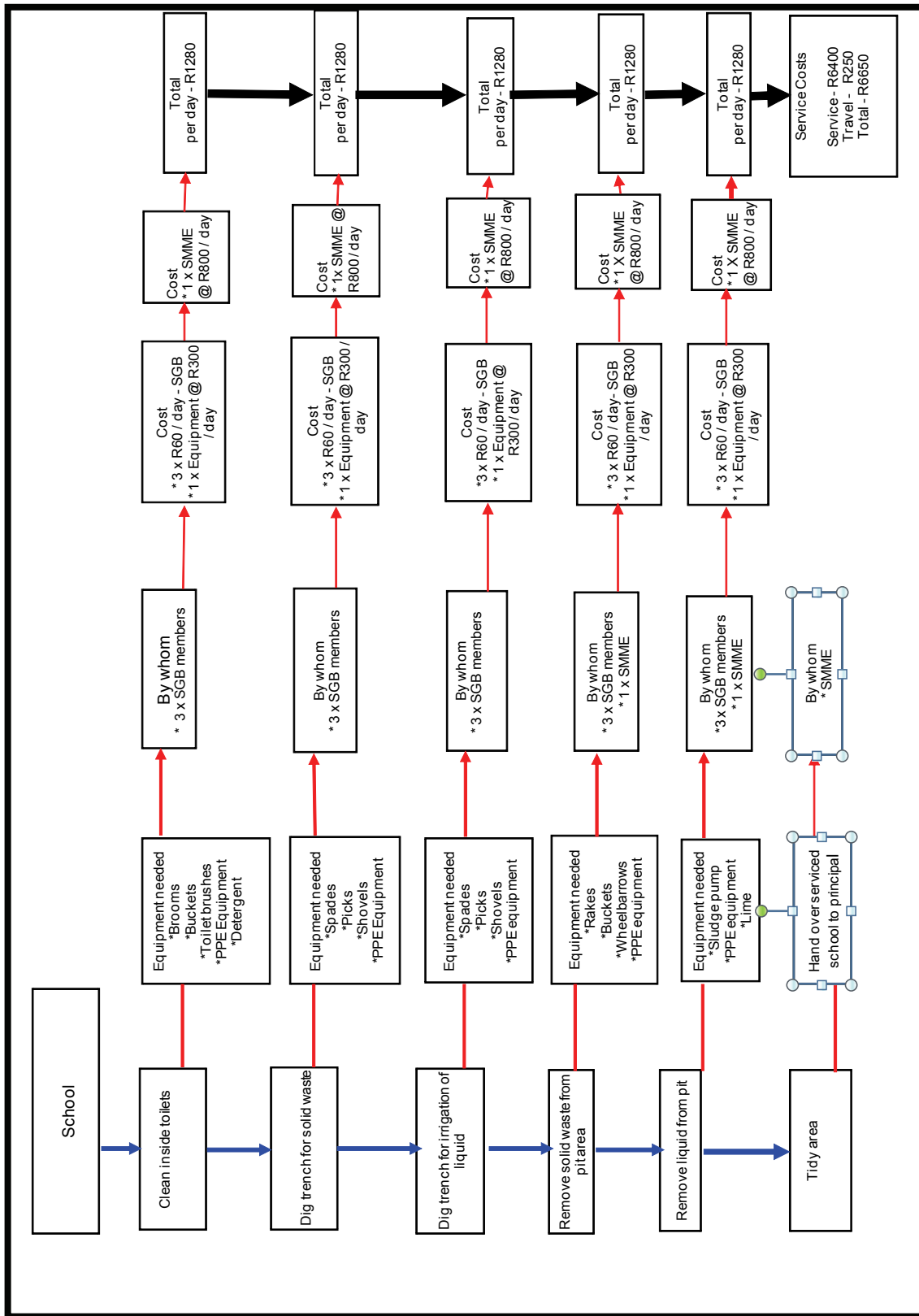


Figure 5:1 Example of SMME work order

5.4 Summarised Balance Sheet and Income Statement for the typical franchisee

BALANCE SHEET				
	Jun-07	Jun-2008	Jun-2009	Jul-2010
Capital Employed				
Equity and Reserves	400,000	412,415	446,980	541,613
Dividends				
		412,415	446,980	541,613
Employment of Capital				
Fixed Assets		440,000	341,000	238,000
Working Capital				
Accounts Receivable		296,400	320,112	345,721
Cash at bank		(55,227)	79,781	270,590
Accounts Payable		(263,438)	(279,100)	(272,141)
Taxation		(5,321)	(14,814)	(40,557)
		412,415	446,980	541,613

INCOME STATEMENT				
Total Revenue	1,560,000	1,684,800	1,819,584	
Operating Profit/(Loss)	668,145	742,862	870,935	
Expenses	618,410	657,483	700,862	
Profit / (loss) before interest	49,735	85,379	170,072	
Interest (paid) / received	(32,000)	(36,000)	(34,883)	
Profit / (loss) before tax	17,735	49,379	135,190	
Taxation	(5,321)	(14,814)	(40,557)	
Current year earnings	12,415	34,565	94,633	
Retained Earnings	12,415	46,980	141,613	

CAPITAL EXPENDITURE				
Computer Software	20,000			
Computer Hardware	25,000			
Office Equipment	30,000			
Other equipment (GPS etc)	60,000	20,000		20,000
Furniture and Fittings	20,000			
Motor Vehicles	400,000			
Total Capital Expenditure	555,000	20,000		20,000

5.5 Income Statement for typical franchisee

DESCRIPTION	Total Y/E Jun-2008	Total Y/E Jun-2009	Total Y/E Jun-2010
Revenue - Sanitation	1,560,000	1,684,800	1,819,584
Contract Costs - Sanitation			
Labour	109,200	121,500	67,710
Materials	66,000	71,280	76,982
Equipment (Incl Vehicles)	78,000	84,240	90,979
Fuel	46,800	50,544	54,588
Salaries	482,655	513,286	549,216
Subcontractor	109,200	101,088	109,175
Total costs	891,855	941,938	948,649
Gross Profit	668,145	742,862	870,935
TOTAL REVENUE	1,560,000	1,684,800	1,819,584
TOTAL CONTRACT COSTS	891,855	941,938	948,649
GROSS PROFIT	668,145	742,862	870,935
OFFICE COSTS			
Advertising and Promotion	1,200	1,284	1,374
Audit Fees	2,400	2,568	2,748
Bank Charges	1,200	1,284	1,374
Computer Maintenance and Support	1,200	1,284	1,374
Depreciation	115,000	119,000	123,000
Electricity and Water	1,800	1,926	2,061
Entertainment and Refreshments	2,400	2,568	2,748
Insurance – General	7,200	7,704	8,243
Franchise Management Fee	156,000	168,480	181,958
Office Cleaning and Maintenance	2,400	2,568	2,748
Office Equipment rental	12,000	12,840	13,739
Office Rental	9,600	10,272	10,991
Printing and Stationery	4,800	5,136	5,496
Quality Control	-	-	-
Safety / Protective Clothing	2,400	2,568	2,748
Salaries & Wages – Office	249,370	265,196	283,760
Staff Training and development	14,640	15,570	16,660
Sundry Expenditure	1,200	1,284	1,374
Telecommunications	19,200	20,544	21,982
Travel and Accommodation	12,000	12,840	13,739
Vehicle Costs	2,400	2,568	2,748
Total Office Costs	618,410	657,483	700,862
Profit before Interest & Tax	49,735	85,379	170,072
Interest Paid / (Rec)	32,000	36,000	34,883
Interest other			
Total Interest	32,000	36,000	34,883
Total Taxation	5,321	14,814	40,557
NET PROFIT	12,415	34,565	94,633

5.6 Summarised Balance Sheet and Income Statement for the franchisor

Franchisee Data	Start-up	Financial Y/E		
	Jul-2007	Jun-2008	Jun-2009	Jul-2010
No. of Franchisees	10	30	35	40

BALANCE SHEET

	Jun-07	Jun-2008	Jun-2009	Jul-2010
<u>Capital Employed</u>				
Equity and Reserves	2,000,000	1,773,564	1,583,907	2,174,792
Dividends				
		1,773,564	1,583,907	2,174,792
<u>Employment of Capital</u>				
Fixed Assets		1,558,139	1,895,806	2,063,472
<u>Working Capital</u>				
Accounts Receivable		296,400	320,112	345,721
Cash at bank		233,443	(62,330)	709,942
Accounts Payable		(473,176)	(496,676)	(536,821)
Taxation		158,758	(73,004)	(407,522)
		1,773,564	1,583,907	2,174,792

INCOME STATEMENT

Total Revenue	4,552,912	8,018,311	10,604,300
Operating Profit/(Loss)	1,635,903	2,573,728	4,124,157
Expenses	2,093,097	2,510,381	2,945,750
Profit / (loss) before interest	(457,194)	63,347	1,178,407
Interest (paid) / received	72,000	(180,000)	(180,000)
Profit / (loss) before tax	(385,194)	(116,653)	998,407
Taxation / Deferred Tax	158,758	(73,004)	(407,522)
Current year earnings	(226,436)	(189,657)	590,885
Retained Earnings (Cumulative Loss)	(226,436)	(416,093)	174,792

CAPITAL EXPENDITURE

Computer Software	50,000	30,000	30,000
Computer Hardware	100,000	20,000	20,000
Office Equipment	80,000		
Other equipment (GPS etc)	60,000		
Furniture and Fittings	80,000		
Motor Vehicles	400,000		
Total Capital Expenditure	770,000	50,000	50,000
Plant (Vacuum tankers, pumps etc)	1,000,000	800,000	800,000

5.7 Income Statement for franchisor

	Jun-2008	Jun-2009	Jun-2010
DESCRIPTION	Total Y/E	Total Y/E	Total Y/E
Revenue – Training	276,662	500,561	666,380
Revenue - PSP Services	140,000	283,000	360,000
Revenue - Plant Hire Services	1,211,250	1,831,350	2,299,584
Revenue - Franchise Fees - Institutional Sanitation	2,925,000	5,405,400	7,278,336
Total Contract Revenue	4,552,912	8,020,311	10,604,300
Contract Costs			
Training Sub-contractors	82,999	150,168	199,914
Plant & Equipment Maintenance (Incl Vehicles)	484,500	915,675	1,379,750
Depreciation of Plant & Equipment	200,000	360,000	520,000
Fuel	60,563	91,568	114,979
Operations Salaries	1,942,698	3,656,902	3,901,583
Operational Costs		270,270	363,917
Total Contract Costs	2,770,759	5,444,583	6,480,144
TOTAL REVENUE	4,552,912	8,018,311	10,604,300
TOTAL CONTRACT COSTS	2,917,009	5,444,583	6,480,144
GROSS PROFIT	1,635,903	2,573,728	4,124,157
OFFICE COSTS			
Advertising and Promotion	60,000	60,000	60,000
Audit Fees	48,000	48,000	48,000
Bank Charges	19,200	19,200	19,200
Computer Maintenance and Support	24,000	24,000	24,000
Depreciation	142,333	152,333	162,333
Electricity and Water	19,200	19,200	19,200
Entertainment and Refreshments	18,000	18,000	18,000
Insurance – General	30,000	30,000	30,000
Legal Fees	36,000	36,000	36,000
Office Cleaning and Maintenance	24,000	24,000	24,000
Office Equipment rental	54,000	54,000	54,000
Office Rental	240,000	240,000	240,000
Printing and Stationery	66,000	66,000	66,000
Profit & Loss (Sale of Assets)	-	-	-
Quality Control	21,600	21,600	21,600
Safety / Protective Clothing	6,000	6,000	6,000
Salaries & Wages – Office	837,950	1,203,637	1,615,868
Staff Training and development	55,613	97,211	110,349
Sundry Expenditure	42,000	42,000	42,000
Telecommunications	60,000	60,000	60,000
Tender Documents	19,200	19,200	19,200
Travel and Accommodation	102,000	102,000	102,000
Vehicle Costs	168,000	168,000	168,000
Total Office Costs	2,093,097	2,510,381	2,945,750
Profit before Interest & Tax	(457,194)	63,347	1,178,407
Total Interest	72,000	(180,000)	(180,000)
Total Taxation	(158,758)	73,004	407,522
NET PROFIT	(370,436)	170,343	950,885

5.8 Chapter 5 conclusions

This chapter has undertaken a modelling of the hypothetical case over the first three years of the franchised business. It has assumed the business would roll out its services by increasing its capacity through initially starting with 10 franchisees and ending with 40 franchisees for the end of the third year of operation.

It would appear from the analysis that the franchised small business model for providing schools with sanitation refurbishment, repairs and monthly operational servicing is likely to be financially viable.

The franchisees have been modelled as separate owner-managed microenterprise operations each employing two field teams and averaging an annual turnover of sales of between R1.5 to R2.0 million. The franchisor manages its resources in accordance with the scale of the operation and receives franchise fees from the franchisees for the support services rendered.

Whilst the model is of a hypothetical nature, it has been based on current real costs with an allowance for cost and revenue escalation over the three years.

A discounting approach was not followed, as the nature of the work is primarily that of a service, with limited capital investment, and the sustainability of the business can be easily judged directly from its annual results. From the foregoing, it can be concluded that the business will be profitable in its third year, provided that the anticipated levels of turnover and the planned number of franchisees are achieved.

6. Conclusions and recommendations

6.1 Observations from the case study

The following conclusions can be drawn:

Firstly, irrespective of franchising partnership:

- The SMME approach should prove more cost-effective than the alternative option of the Department of Education employing full-time schools support teams.
- SMMEs would be free to enter into contracts with other clients (e.g. clinics) for the provision of similar services, thereby improving their viability.

Then, relating to the franchising partnership alternative:

- The SMME microenterprise will require start-up capital, administrative support and specialist support relating to contract, technical and methodology. These support functions can be provided through a franchised business approach.
- Whereas the geographical spread of the rural schools requires self-regulating and self-supervising entities due to the remoteness of the operations from the larger centres, franchising partnerships can provide both the expertise for this and the incentive to deploy that expertise.

Whilst it is clear the SMME model is appropriate for the provision of sanitation services to the schools (and other institutions), it is also clear that without a business support structure, such as a franchising partnership arrangement, the SMMEs would have great difficulty in developing their businesses beyond a mere hand-to-mouth approach.

The sustainability of the franchisees is significantly dependent on the support they receive from the franchisor. The franchisor, in turn, is dependent on the franchise fee revenue streams. This inter-dependency ensures that the respective franchise partners will hold each other accountable for the quality and reliability of their portions of the overall supply chain.

6.2 Risks and their mitigation

This section summarises the risks facing standalone SMMEs in the kind of sanitation service provider situation described in this report – and then proceeds to summarise how franchising can mitigate these risks.

Risks to be considered include:

- The capacity of the clients to provide the necessary leadership and direction, and to manage their side of the contracts.
- Political stability, particularly within the political situation at local level.
- Crime and particularly the stability of the community and school children with respect to civil obedience and behaviour.

Procurement risks include:

- Availability of spares and materials.
- Possible price increases which may not be covered by the contractual escalation formula.
- Suppliers who may default in the scheduled time for supply, or who may default through quality or faulty material or spares.

However the highest risk of all is the risk that the clients (the DoE or the schools, depending who has the responsibility and budget, and how the contracts are structured) will not pay in full and on time, or will not pay at all. With a schools sanitation contract probably representing the main income source for a SMME, or possibly even its sole income source, even late payment could jeopardise its financial viability.

This payment risk would need to be substantially reduced through ensuring that good contracts and systems are implemented – that would be necessary irrespective of the presence or absence of franchising partnerships. However:

- a franchisor would have the incentive to ensure that contract arrangements were fair and equitable; and
- in addition, the franchisor could assist the franchisee by engaging with the Department on behalf of the franchisee, should there be problems relating to timeous payment.

Assessed operational risks, together with the mitigating measures that a franchise could put in place, include:

- **Insurance** is generally not well understood by SMMEs and is thus often neglected. These uninsured risks then revert back to the client thus placing the client in the position where it indirectly assumes the risk whilst not being in a position to directly manage it. Franchising would allow the clients to agree with the franchisor the insurance requirements and then the franchisor would ensure the appropriate insurances are in place. Day-to-day risks can which can be adequately insured against include:
 - ▣ Accidents and Injury to staff and third parties.
 - ▣ Theft (vehicles, equipment and material etc.)
 - ▣ Professional Indemnity (for design activities)
- Standalone SMMEs generally lack the financial management capacity to adequately manage **financial risks**. By being part of a franchising partnerships arrangement, the franchisor can provide the necessary information and assistance to enable the franchisee to manage these risks. Financial risks include:
 - ▣ The ability in the contract to accommodate fluctuation in the interest rates and inflation.
 - ▣ Cash flows, which will need to be properly managed through ongoing budgeting, monthly reviews of debtors and the proper planning of the cash management of the SMME businesses.
 - ▣ Bad debts due to the financial instability of clients, poor administration or unwillingness of client to honour their contractual obligations.
 - ▣ The risk of the business being unprofitable due to poor pricing, insufficient work or excessive costs.
- **Environmental risks** will need to be mitigated through agreeing procedures with the relevant national government departments (including DWAF and DEAT). The franchisor could undertake this process on behalf of the franchisees, thereby ensuring that procedures are agreed and systems are put in place together with the necessary internal monitoring for compliance. These include:
 - ▣ Disposal of waste.
 - ▣ Ground water pollution.
 - ▣ Land use.
- **Safety risks** will need to be managed through the adoption and implementation of clear safety plans. Franchisees will be required to adopt the safety and health procedures of the franchisor, as well as being subjected to regular safety audits by the

franchisor. This would in turn give greater assurance to clients who under the OHS Act are responsible to ensure adequate safety measures are undertaken by their contractors. Safety risks include:

- Risk to personnel through working with plant and machinery.
 - Health risk to personnel working with potentially hazardous waste, gasses and viruses etc.
 - Normal safety risks related to excavation, scaffolding etc.
- The **impact of external parties** such as trade unions, civic associations and competing business must be adequately assessed. By belonging to a franchised operation, the franchisees will be kept informed of the current developments and advised of possible risks. The franchisees will be directly assisted by the franchisor's HR/IR specialists in their negotiations with trade unions and labour.

Assurance that quality service is provided will assist in ensuring the client satisfaction with these services. The franchising partnership arrangement will greatly enhance the clients' confidence and reduce the risk of non-conformance.

6.3 On the objective of this report

The objective of this report was to model a selected water services element (schools sanitation operation and maintenance was chosen) in a hypothetical situation (the Eastern Cape was chosen). This modelling had to provide a basis for a comparison of performance of the element by franchising partnerships with performance of the element by other means.

This report has done that, and indeed has gone further than required. It is more than a model of a hypothetical instance – described in this report is a first draft outline modelling of a currently proposed innovative approach to resolve a serious sanitation problem in the Eastern Cape.

Assumptions have of course been made. Not the least of these has been in respect of the scope of work and extent of contracts, and the funding that the Eastern Cape provincial Department of Education would allocate -- and the revenues that would flow. A level of this revenue has been assessed by the team, but it is of course not known if the Department would in real life agree that this level is a fair one.

To conclude: franchising partnerships for schools sanitation operation and maintenance can in many circumstances, it would seem, be a feasible business proposition for both franchisees and franchisors. But the needs of franchisees and franchisors would on their own seldom be sufficient motivation to justify going the franchising partnership route.

It needs to be emphasised that the case for water services franchising partnerships to operate and maintain water services infrastructure owned by the public sector rests on the service quality and reliability improvements that can in many cases be anticipated.

References

Department of National Health and Population Development (1978). "Guide: Permissible utilization and disposal of treated sewage effluent." Report No. 11/2/5/3. Pretoria.

DWAF (2005). "Guidelines for pit emptying as a municipal service" – DWAF Report, Version 1 – September 2005. Pretoria.

Franchise Association of Southern Africa, The (2005). "How to franchise your business". The Association, Johannesburg.

McDonnell A and Nonxuba T (2007). "Survey of water and sanitation infrastructure at rural health clinics." Draft paper, based on a survey undertaken by The Mvula Trust on behalf of the Department of Water Affairs and Forestry.

South Africa "National Environmental Management Act" (Act 107 of 1998), Republic of South Africa)

South Africa "National Water Act" (Act 36 of 1998) Republic of South Africa.

South Africa "Occupational Health and Safety Act (Act 85 of 1993} Republic of South Africa.

South Africa "Schools Act" (Section 21 of Act 84 of 1996) Republic of South Africa.

South African Bureau of Standards (2000). SABS ISO 9000, "Quality Management Systems – Fundamentals and vocabulary". SABS ed. 2/ISO ed. 2, 2000

South African Bureau of Standards (2000). SABS ISO 9001, "Quality Management Systems –Requirements". SABS ed. 3/ISO ed. 3, 2000

World Health Organisation (1992). "A guide to the development of on-site sanitation". www.who.int/water_sanitation_health/hygiene/envsan/onsitesan.pdf.

Water Research Commission (1997). WRC Report No U 85/97, Edition 1. Water Research Commission, Pretoria.

Wall, K (2005). "Development of a framework for franchising in the water services sector in South Africa." WRC Report No. KV 161/05. Water Research Commission, Pretoria.

Website addresses

Department of Provincial and Local Government:	www.dplg.gov.za
Department of Water Affairs and Forestry:	www.dwaf.gov.za
Department of National Treasury:	www.treasury.gov.za
Franchise Association of Southern Africa (FASA):	www.fasa.co.za
South African Bureau of Standards (SABS)	www.sabs.co.za
Small Enterprise Development Agency (SEDA):	www.seda.org.za
Water Research Commission:	www.wrc.org.za
WISA:	www.wisa.org.za
Department of Education	www.education.gov.za
World Health Organisation	www.who.int

Annexure A: Functions allocated to schools in terms of legislation

In identifying the various stakeholders, it is necessary to consider the formal institutional arrangements as promulgated in the South African Schools Act (Act 84 of 1996). This Act requires schools to provide facilities and functions in accordance with the regulations standards and procedures as laid down by the Act.

In particular, matters which directly impact on the provision of sanitation facilities in the schools include:

- Section 8(1) specifies that a code of conduct must be adopted by the schools governing body. (This could include clauses dealing with learner and educator behaviour relating to sanitation.)
- Section 12(5) requires the school must take reasonable measures to ensure the facilities are accessible to disabled persons.
- Section 20(1) identifies the functions of the Schools Governing Body (SGB) in the running of the school including among others:
 - ▣ Adopting a code of conduct (S20(1)(d));
 - ▣ Administer and control the school's property (S20(1)(g)); and,
 - ▣ Encourage parents, learners, educators and other staff at the school to render voluntary services to the school (S20(1)(h)).
- Section 21 deals with the allocation of functions to SGBs. These functions include for:
 - ▣ maintenance and improvements to the facilities;
 - ▣ determination of the curriculum policy;
 - ▣ purchase of textbooks and educational material;
 - ▣ payment for services; and
 - ▣ various other functions.

This allocation of function is determined by the Head of the Education Department of the province based on the capacity of the school to perform such functions effectively.

- Section 22 provides for the withdrawal of functions allocated to school governing bodies at the discretion of the Head of Department.

The Act makes provision for SGBs to become progressively more responsible for managing aspects of recurrent expenditure. Section 21 provides that, subject to the Act, a school governing body may apply in writing to the Head of Department to be allocated any of the functions listed under "Section 21" above. Most pertinent to schools infrastructure is the possibility that the SGB could receive responsibility for maintaining and improving "the school's property, buildings, grounds, and hostel".

Each provincial education department must develop a "Section 21 list" of schools that have been allocated functions and may carry out their own procurements in this manner, and a list of schools that are not yet Section 21 schools. The lists must be revised each year. The Section 21 list is expected to grow as more schools acquire the requisite capacity. However, a school may be removed from the list if the governing body proves unable to undertake the additional functions, as provided in Section 22 of the Act.

Schools on the Section 21 list will receive a lump-sum, per learner transfer for the payments for which they have responsibility. Such transfers will be smaller for better-off schools than for poorer schools. If a school's bills for these services or items are lower than the lump-sum transfer, the SGB may allocate the transferred amount to the purchase of other education-related items. In general, such SGBs may vary the proportion of the funding devoted to such goods and services according to their own perception of education needs, taking provincial policy into account. Such expenditure must of course be accounted for.

School governing bodies that are on the Section 21 list may deal directly with suppliers and contractors for the relevant budgeted items in accordance with standard procurement procedures. They must keep documents as evidence of correct dealing with such suppliers and contractors, and records of how the materials and services were used, and produce such documents or records at the request of officials from the provincial DoE and for audit purposes.

Schools that are not on the Section 21 list, and have therefore not been granted approval to procure their own goods and services, must procure their goods and services according to existing departmental arrangements. However, the DoE will exercise administrative controls to ensure that the cost per-learner is maintained at a level consistent with these norms.

Such schools must be informed of their school's budget, even if it is a "paper" budget. This will prepare them to understand actual costs of running their school, and improve their ability to join the Section 21 list in due course.