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Franchising of water services - a viable business format that can be used to improve the cost and reliability of water services at schools and in poor communities.

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Abstract

The focus by authorities on the roll-out of new water and sanitation infrastructure for providing services for the previously unserved has often resulted in a reduced focus on maintaining the existing infrastructure and services. When working with previously unserved and poor communities, the operation and maintenance of the water services infrastructure offers a sustainable work opportunity for local people. Having observed the difficulties experienced by small operating enterprises in these communities, it was apparent that most of these small businesses do not survive beyond their initial contracts. Studies were then undertaken to investigate the small business sector to identify ideas that could be borrowed from business for application for the provision of public services. The franchising model was identified, studied and piloted with the intention of evolving the basic franchise model to one which could assist locally based small business to provide improved water services to their local communities. It was found that in addition to the direct socio-economic benefits of job creation and local economic development, the model could offer many operational benefits for the authorities, including improved incentives as well as benefits relating to cost, quality and regulation.

Water Services Franchising

Recent research conducted in South Africa has found that the operations and maintenance of water and sanitation services for poor communities generally does not meet the standards required (Wall and Ive, 2010:4). The research has also studied the institutional options available to the authorities, and having observed the private sector approach to the provision of services, it was postulated that the very successful business franchising models which have been developed in the private sector for providing a wide range of services, could be used to develop a public service provision model for water services. This water services franchising model could enhance and improve on the current range of institutional models for the operation and maintenance (O & M) of sanitation and water services currently being used by the authorities. In order to test this postulation, five stakeholders entered into a partnership to field test the theoretical model which was broadly proposed by the research. These parties signed an agreement in January 2009 (the "MoU") to implement the Butterworth Schools Sanitation and Water Pilot Project. The stakeholders include research organizations, the Water Research Commission (WRC) and the Council for Scientific and Industrial Research (CSIR), a public authority, the Eastern Cape Provincial Department of Education, a funder, Irish Aid, and a private company, Amanz' abantu Services (Pty) Ltd ("Amanz' abantu" is a Xhosa phrase which means "Water for People").

In order to respond to the special needs and character required for acting as a franchisor, Amanz' abantu Services established a subsidiary, Impilo Yabantu Services, to act as a water services franchisor in the Eastern Cape of South Africa. Impilo Yabantu (which is a Xhosa phrase for "Hygiene for People"), was contracted to undertake the O & M services for 400 school sanitation and water facilities. By training local people as franchisees and equipping them with tools and a set of procedures, they have been able to undertake much needed improvement to the condition of school

toilets. School toilets are an essential component of a school and are necessary for the facilitation of the learning environment for the school learners. This initiative is now entering the final stages of the pilot project, and, based on the lessons learnt from this pilot project, the parties have agreed to investigate taking this franchise model into other areas of the Eastern Cape. This paper reflects some of the key benefits and certain lessons learnt in a South African setting and thoughts as to how this franchise approach might be replicated.

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

Broadly, water services franchising can be described as a business-to-business partnership, whereby small locally based enterprises enter a business partnership with a larger established enterprise for the purpose of utilising a “tried and tested” approach for undertaking the activities required to ensure the sanitation and water facilities and systems are operating in a reliable manner and in accordance with suitable hygienic standards. The concept of “social franchising” is defined as “the application of commercial franchising concepts to achieve socially beneficial ends” (Montagu, 2002) and has been identified in the health sector as a model which can, among other things, assist in the provision of health services and distribution of pharmaceuticals. It can also be appropriate for other sectors, particularly where the costs of the service needs to be driven down through using competitive pricing, efficient marketing and proven delivery mechanisms.

In order to offer specialist, franchised, water services, Amanz’ abantu have adopted this concept of social franchising, which has taken the form of the application of business format franchising for the provision of public services mainly for the poor (health, water education etc), for its new subsidiary, Impilo Yabantu. This has enabled a pure commercial business model to be adapted and developed to address the failing infrastructure found in the poor communities who are settled in rural villages and dense settlements alongside the established suburbs of the cities and towns of the Eastern Cape.

Water services franchising is suitable for developing communities where there is a large poor population who need affordable municipal services, but in addition, who are looking for employment and an opportunity to develop their entrepreneurial and technical skills. The water services franchising model provides opportunity for linking “local economic development” and job creation with the provision of basic municipal services. Public service provision, which is by its nature is monopolistic, needs to be structured on competitive pricing rather than allowing “profiteering”, and it needs to be regulated as elements of this business impacts on the environment, public health and it needs to be affordable to the poor communities to whom the services are provided.

This water services franchising approach which is presently being piloted in the Eastern Cape Province of South Africa has been identified as a form of social franchising. In this pilot, trainee franchisees, who are mostly women from the rural villages, under the guidance of the franchisor, are undertaking the initial cleaning and routine maintenance of the water and sanitation facilities at the schools. The Butterworth schools sanitation and water servicing pilot project was initiated in early 2009, and its primary objective is the development of an outsourcing model which can be used for rolling out similar services to the rest of the more than 4000 rural schools across 23 educational districts in the province.

The Eastern Cape Province, South Africa’s poorest province, has a long history of education and local government crises. It is argued that the negative impact of poor sanitation and non-availability of clean water in schools contributes to the Eastern Cape achieving high matriculation failure rates because learners do not have the basic infrastructure support they need to allow them to focus on their studies. The health and social problems arising from the lack of these basic water services spills over into the society as a whole resulting in young people falling into the poverty trap.

As a business format, franchising has a proven track record in many areas in the private business sector, including fast food, retail and the provision of niche services, but can this successful business-

to-business partnership arrangement be applied to the water services sector, and can it be sustainable? The concept of mobilising business franchising-like partnerships for the operation and maintenance of water and sanitation infrastructure, is gaining increasing support from within the public sector in the Eastern Cape of South Africa. There is a growing recognition that the challenges relating to service provision in the rural and poor areas of the cities and towns have not been adequately addressed by the current government since its adoption of the Reconstruction and Development Programme (RDP) in 1994 and the subsequent adoption of various water services white papers and the “Strategic Framework for Water Services” in 2006, which incorporated the Millennium Development Goals as agreed at the Johannesburg Summit in 2002.

This water services franchising model provides for appropriate training, a quality management system and procedures, and it also offers the backup of off-site skills as held by the franchisor. The franchisor, as part of its business strategy has an incentive for identifying people with the appropriate skills, who are resident in the target area and who will be willing to enter into a franchise agreement. Key to the success of this model is the willingness of the public sector authority owning the infrastructure to outsource its operations, and the ability of the authority to procure, appoint and direct small businesses to undertake the work under the guidance of the franchisor.

Research findings from the Eastern Cape pilot indicate that many opportunities lie in applying the principles of franchising to a range of suitable activities within the water and sanitation services delivery chain -- that is, of readily systematised repetitive operation and maintenance activities.

Background

Within the South African context the provision of infrastructure in the rural areas has, for ideological and financial reasons, been neglected in the history of South Africa, and scheme design has often appeared to favour functionality and quantity over quality and sustainability. The imperative to produce demonstrable short-term results has generally outweighed long term considerations. Although there has been attention paid to the provision of education, the focus was on classroom based activities and insufficient attention was paid to the essential supporting infrastructure. Services like sanitation, when available (which was not necessarily always the case), were provided for at the barest minimum level with insufficient user consultation and consideration for the quality, durability and sustainability of the schemes. Repair and maintenance issues were often sidelined or ignored due to funding constraints, and consequently, the current state of rural school sanitation falls under two broad categories: Dysfunctional facilities that need radical interventions (extensive refurbishment or total rebuilding) or serviceable facilities threatened by deterioration if not supported by good operation and maintenance services.

Current concerns revolve around the speed in which the basic sanitation services can be delivered to enable the state to meet the Millennium Development Goals. There also is an awakening to the importance of O&M, not just for the sake of keeping sanitation facilities serviceable but also in recognition that, they are a valuable part of the state asset portfolio. It has been recognised by the education authorities that the on-going servicing of schools sanitation and water facilities needs to be improved across the board and should address the schools to be built, schools with currently serviceable sanitation facilities and schools with dysfunctional facilities that need radical intervention.

The current Eastern Cape situation presents a classic case of public sector services failure at the municipal, district and provincial spheres in the following respects:

- Whilst there is a good strategic framework in place with high level goals and a strong political will, the planning at the local level is insufficient and often unrealistic.
- Whilst the public authorities have a full staff complement, they lack the necessary level of skills required for their positions.
- Grant funding for infrastructure capital works is available, however the stringent processes required for planning and procurement provides a barrier to implementation.
- Whilst the “Equitable Share” grants for operation and maintenance of services falling under the government’s “Free Basic Services” policies is transferred to municipalities as an unconditional grant, this is perceived to be spent in funding internal staff salaries and other

institutional costs, resulting in insufficient funding being available to cover the direct operational costs for these free basic services.

- The rural district and local municipalities are not able to raise sufficient revenue from their established rates and tariffs in order to have sufficient to be able to cross subsidise the “free basic services” to their poor and indigent communities.
- Where the public authority has entered into supply contracts with small businesses, the inability of the authority to effect proper contract administration and regular and timeous payment frequently causes these businesses to fail -- or to abandon the contract because they are unable to operate in this difficult environment.
- There is not sufficient incentive for the officials to proactively drive the processes forward, and many appear to prefer to accept the bureaucratic log-jams rather than working proactively to find ways to solve these administrative delays and problems. This negative situation is reinforced by the fear of the officials that they may be held liable for wrongdoing if they make decisions that may be judged as un-procedural.
- The Provincial Departments of Education and Public Works have been struggling to manage basic repairs and maintenance of the rural schools. The main reason officials give is that there is a shortage of funding, however, on closer analysis, it appears that the systems relating to budgeting and disbursements, as well as procurement and the management of the delivery processes are failing.

The beneficiaries of the services (the householders and, in the case of the rural schools pilot project, the school governing bodies) are not necessarily the direct purchasers of the services, and this affects their relationship with the service provider. As they have not been party to the procurement and establishment of the contract of appointment for the service provider, it has been found necessary to adopt procedures which tie in the beneficiaries to the on-site activities. Where the service provider is an internal municipal department or worker, the beneficiary has even less influence or contractual oversight for the manner in which the services are rendered, and this can lead to frustration on the part of the beneficiary and a hands-off servicing culture on the part of the municipal workers.

In order to address these issues relating to O&M the idea to adopt a business franchising-like model was explored as it is offered a tried and tested model of proven success in the commercial field. Since the 1950s franchising has provided the potential to utilise the drive of entrepreneurship while minimising many business risks (Parker and Illetschko, 2007:9). Recent research by the WRC, CSIR and interest from Irish Aid and possible other funders (Wall, 2005; Wall and Ive, 2010) prompted Amanz’ abantu to embark on the creation of its new business entity (Impilo Yabantu Services) with the plan to apply the principles of franchising to the business methods and processes of the new company. The marketing of this new business approach received support from certain senior officials within the Provincial Department of Education, resulting in the agreement to pilot the model for O&M of schools water and sanitation facilities.

The Butterworth Pilot Project

The pilot project commenced in early 2009 after the completion of a research project into Water Services Franchising (Wall and Ive, 2010). This research had resulted in a series of reports (WRC Research Report No.TT432 with Sub-reports No: 1-7). In particular, Report No: 7 included a broad business plan for a water services franchising company. It was recognised that a significant period of time was needed to explore and understand the practicalities of managing the process and allocation of tasks for all parties involved which under the pilot project, and the partnership to develop the model further now included the Eastern Cape Department of Education (DoE).

Also early in 2009, Impilo Yabantu was established, work was agreed with the DoE and training and operation plans were developed.

Advertisements thereafter placed in Butterworth called for parties interested in becoming “water services franchisees” to come forward. A condition was that they had to be resident in the Butterworth area for two reasons:

1. To ensure that the work would be done by ‘local’ people drawn from the communities that they would serve; and,
2. In order to minimise travelling time and cost to Butterworth and to the schools that they would be servicing.

Distinct operational areas, based on accessibility and scope, were determined within the Butterworth District, and these were allocated on the basis of one for each “franchisee”. These franchisees were required to form themselves into small enterprises (SMMEs), known as “WATSAN SPs, and they were required to operate under the same brand of the “franchisor”, this being “Impilo Yabantu”. Furthermore, each of these WATSAN SPs would be required to have its home base at a central location within the service area to which they were allocated.

The prospective franchisees were screened, and those shortlisted were interviewed in more depth. Those selected received initial training in East London. Immediately thereafter the trainee franchisees met with the DoE Butterworth District staff and school headmasters in order to plan their programme schedules, and for works orders to be agreed.

Impilo Yabantu also established and trained an in-house WATSAN SP team, and has decided to keep this team in the field even when the franchisees are working satisfactorily. One purpose of this “internal” WATSAN SP team is to be available as a back-up should a franchisee drop out. The other purpose of the team is to provide the franchisor with benchmark costs and an opportunity to develop and test methodology and procedures.

It was estimated that approximately four franchisees would be sufficient for the task of regular servicing of the schools sanitation facilities in the Butterworth District. However, eight underwent training on the assumption that there would be drop out over the course of time.

Impilo Yabantu set up an office and stores in the rural town of Butterworth. Apart from the basics (cleaning equipment and protective clothing), and a light delivery vehicle (provided by the franchisee) with the Impilo Yabantu logo, each franchisee was supplied with a digital camera. The purpose of the camera is to take photographs of ‘before’ and ‘after’ the maintenance service, and it is on the basis of the completion reports, which includes photographs, together with a signing off of the works order by the school principal, that the franchisees would be paid.

Impilo Yabantu has developed and adopted a Quality Management System (QMS), which is applicable to all work conducted by both Impilo Yabantu as the “franchisor” and the Impilo Yabantu WATSAN SPs, as franchisees. The QMS provides a framework to ensure regular audits are undertaken, as well as providing a controlled management system which enables the franchisor to manage the documented works procedures. Spot checks are conducted by the franchisor on randomly selected schools to ensure standards of work are being maintained.

A key component of the service provided by the franchisee is that of inspection and reporting on the serviceability and suitability of the facilities. The photographs taken have assisted in the process of inspection and assessing schools future maintenance needs such as repairs and replacement of parts. Reports compiled from these inspections are submitted to the district managers of the DoE at the monthly meetings, and repair and maintenance lists are then agreed for implementation over the next month. In this manner, ongoing service relationships are developed between the franchisees, the school principals and the DoE’s district managers.

In terms of the MoU, the franchisees are billing the schools (or the DoE on certain schools’ behalf) each time they do cleaning and maintenance. But all of the development costs; developing the concept, developing the training schemes, doing the training, preparing the operations manuals, and so on, are being funded by Irish Aid and also by the in-kind contributions of Amanz’ abantu and the CSIR.

The franchisees themselves have taken out loans to fund the capital outlay for vehicles, equipment, and so on. Raising capital in these recessionary times is difficult if not impossible for small businesses. However, because the banks much prefer lending to proven business models, it has been found that franchisees have a far better chance of securing bank loans over stand-alone small businesses. Where loans have been taken out, it was estimated that these loans will be paid off over about three years from the revenues received from providing the maintenance service. Due to burden of the start-up costs, as well as their uncertain workload, franchisees are not expected to make net profits until their second or third year.

Impilo Yabantu has during this early phase of the pilot project been receiving the works orders directly from the DoE. However the intention is that the WATSAN SPs will, when able, manage their own order books directly with the schools in their areas. In effect, each order is a small contract -- for the preliminary round of maintenance, each order was between R 2000 and R 5000 (US\$ 250-650). During this start-up phase, Impilo Yabantu, as franchisor, has found it necessary to take direct responsibility for defining and securing the work orders, and it has then instructed the franchisees to perform the work. Effectively the potential franchisees are managed as subcontractors during this start up phase, although they are treated as franchisees for all other aspects of the operations. The main contractor, Impilo Yabantu, is required to assist the franchisees through the setting-up phase, including the basic business and administrative training, and the development and training of the operational methodology.

The intention is that when Impilo Yabantu is confident that the franchisees no longer need the comfort and safety net of a “subcontract” arrangement, the switch will take place to a full franchising-like arrangement, with the franchisees being appointed directly by DoE for the small contracts. Once these WATSAN SPs become fully fledged franchisees, they will be expected to manage their own interactions with the DoE. In particular, this means that they will have monthly meetings with the DoE district officials and they will need to ensure the school principals and the school governing bodies are satisfied with the result and approve the work done.

It is envisaged that once the schools servicing is working smoothly, the franchisees will then be able to offer their services to clinics, other public authorities, and to private business and households.

Roles and Responsibilities of key stakeholders:

Overall aims of the Franchise	The Franchisor	The Franchisee
Improvement of school sanitation provision and overall improvement of the learning environment	Technical training and support	Job and income and potential to develop their own business
Safe disposal of toilet content	Provision of start-up capital and provision of equipment to Franchisees	Empowerment
Address an existing service gap	Provision of a business model with all paperwork and forms to assist franchisee with dealing with the Education department	A reason to be proud of themselves and their work

A steep learning curve

The high start-up and development costs of the pilot have largely been covered by a grant from Irish Aid. The thinking is that within a 4-year period the system would be established and Impilo Yabantu would be financially self-sufficient from Amanz' abantu to be in a position to manage small contracts. Managing the process as a business enables individuals to develop new skills and gain experience of running a small business while benefiting from the associated technical skills of the franchise operator. It also ensures the sustainability of the project to the point that it is no longer reliant on funding purely from an outside organisation.

As the Franchisor, Impilo Yabantu had a very intensive role, not only managing the administrative part of the process (checking and compiling invoices and ensuring payment from the DoE), but also being responsible for ensuring random checks on franchises for quality control and processing the vast array of 'before' and 'after' photos from each school. Another key role of the franchisor is that of "fire fighting" - addressing problems and issues as they arise, which during the development of the process, was a common occurrence with problems such as payment delays, failure of equipment and the logistics of schools "not existing" or "not having any latrines".

While the intention was for Franchisees to become more independent as time went on this has not been possible. A benefit of the franchise approach is the provision of technical assistance; this is part of the reason for operating through Impilo Yabantu who can provide this technical support. However it has proved to require a lot of attention from the Franchisor, with limited benefits in the early stages. At the time that this report was being written Impilo Yabantu was about to undertake the last phase of this pilot which had been held up for a variety of reasons. The value of this business model has been clearly demonstrated, and despite some delays and difficulties as a result of internal problems experienced by the Department of Education, it is expected that soon the program will again be up and running again. The systems developed both by Impilo Yabantu as well as the DoE, together with the experience gained in the field, will be critical for ensuring any replication that may be planned will be able to benefit from this practical learning.

The Benefits

Franchising provides the opportunity of making small scale entrepreneurs more professional in their approach to business. Many subsidised programmes have been seen to have limited success that does not last beyond the periods of financial support and are not scalable models (Bramley and Breslin, 2010) "Professionalizing" these services not only creates job opportunities and encourages small business ventures to move into this sector, but it gives individuals a reason to take pride in having a career in sanitation that may have the stigma of being undignified and unrewarded. Instead of entering into a partnership with people who simply leave if alternative employment is offered, the contract between franchisee and franchisor provides a more stable relationship to ensure that the work commissioned by the customer is completed in a set time frame to an expected level of quality.

This redevelopment of the relationship between the user, customer and service provider encourages an ongoing association and provision of service. It transforms a social service into an established business that is guaranteed through the support of the franchise arrangement. The driving force behind this is the franchisees' ambition to succeed, as they have a clear incentive to make an income and run and grow their own business.

The Water Services Franchise model addresses one of the more neglected areas of service provision, viz the ongoing O & M of facilities. A continuity of service can be ensured through the investment and development of these "WATSAN SP" franchisees...

The Pitfalls

This pilot could not have succeeded without the support and funding of the partners; CSIR, Irish Aid and in-kind contributions from Amanz' abantu. The key to any business is that the service providers

(WATSAN SPs) are paid for their services otherwise they will have no interest in continuing the work, and rightly so. Due to the nature of government and how the public administration systems operate in South Africa there were issues with receiving payment for work completed in a timely manner. Payments to the WATSAN SPs had thus to be initially covered through partner funding and by Amanz' abantu, these costs being recovered much later from the DoE.

From this it has been learnt that government bureaucracy needs to be adapted to be friendlier towards the public sector and small businesses in particular. Whereas the technical and practical problems (i.e. doing the work) have, in this pilot at least, been resolved fairly easily, the majority of frustrations and pitfalls have come from structural issues of this nature.

Establishing Impilo Yabantu as designated project manager, an independent structure, ensured a focus was kept throughout the project on overcoming issues and challenges. It was accepted from the outset that Impilo Yabantu would not necessarily make money as it was intended to pioneer the franchise approach in such a project, and to overcome hurdles, ensuring that the project stayed afloat.

The DoE has stated that it is keen to roll this programme out to other areas in the Eastern Cape. However there is a need for wider support from other branches of local and national government to ensure support and funding. Most importantly changes will be needed to support the development and partnership with small businesses so that contracts and payment can be facilitated in an effective manner without some of the pitfalls that have been encountered (and overcome) throughout the pilot scheme.

Next steps

From our piloting of water services franchising in poor communities, it has become clear that government has a major role to facilitate the creation of the micro-economic environment which will lead to the stimulation of growth of business at the "bottom of the pyramid". C K Prahalad identified this need to develop what he calls "an ecosystem for wealth creation" (Prahalad, 2006). Whilst government should not be the active participant in this entrepreneurial activity, it can stimulate the activities by placing certain public service responsibilities into the hands of small businesses. By stimulating economic activity for small business in these poor and rural areas, the environment will become more conducive to value creation even beyond the provision of public services.

By spending time developing a usable and replicable business plan with a tried and tested operating procedures it is hoped that other competitors will enter the market and create competition for Impilo Yabantu. The management systems are important to ensure quality control over the operations, sustainability through economically viable pricing systems, and responsible health and safety and environmental management systems. These systems attract additional cost but they ensure responsible governance and enhance efficiencies throughout the franchise operation.

Technical methodology also needs to be developed. Impilo Yabantu and the pilot study research team have been actively monitoring the technical research and developments relating to the management of biological processes relating to the pit contents as well as the developments relating to mechanical equipment and techniques for pit emptying and sludge handling and disposal.

Impilo Yabantu is currently in the process of expanding its operations to provide a wider range of services. By broadening this range of services, Impilo Yabantu is seeking to increase its ability to generate turnover base, thereby enabling WATSAN SPs to become viable within a smaller geographic footprint, thereby enabling them to become more cost effective and therefore more competitive.

This service broadening process entails expanding the school sanitation programme by introducing additional services such as solid waste disposal. Expanding into local government for the provision of municipal services includes household level sanitation, solid waste management and water loss management. Buffalo City Municipality has opened discussion about a series of projects that could be outsourced to franchised service providers, and these include undertaking water and sanitation servicing in dense settlement and areas and communities living on the rural fringe, as well as solid

waste recycling and disposal, which has been identified as a natural extension to the on-site sanitation programmes due to toilets filling up with inorganic waste.

Conclusion

In spite of administrative and political hurdles which have delayed progress, the pilot has been successful in building small business, and other districts are considering similar programmes to undertake operation and maintenance of both institutional and household sanitation. The replication of such a model outside the Eastern Cape is yet to be explored, but there is clear potential that despite initial hard work, investment and frustration there are benefits to franchising operation and maintenance of sanitation, and potentially other utility type services as well.

To be a successful franchisor operating at the bottom of the pyramid, it most important to be benevolent and patient, whilst at the same time adhering to high standards. Unlike working with contractors, where there are clear cut conditions and contracts, working with franchisees requires nurturing, guidance and most of all patience, to ensure that a learning environment conducive to stimulating the growth of the franchisees is maintained.

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