



Province of the
EASTERN CAPE
TRANSPORT

Partnerships in Public Transport

Province of the Eastern Cape Case Study
Presentation to
2014 SABOA Conference

Background

- Integration into Province of the Eastern Cape of Republic of Transkei, Republic of Ciskei and portion of Cape Province a big challenge
- In Transkei a parastatal bus company, Transkei Road Transport Corporation (TRTC) operated
 - Had to be liquidated due to heavy losses
 - Left a vacuum in rural public transport
 - Negotiated with large bus company from Cape Town to deploy 100 buses
 - Could not cover whole area and contracts were negotiated with 148 small bus operators on a “flat rate subsidy” of R12,000 per bus per month

Challenges of Large Number of Contracts

- Unsophisticated business people not used to operation under a formal contract
- Bus fleet very old (average age of >13 years at the time: 1997/98)
- No preventative maintenance and safety checks scheduled
- Departmental officials did not have the capacity to administer large number of contracts
- Led to collusion between operators and staff

Route Viability Study

- Conducted **route viability study** on 166 routes:
 - Road condition
 - Route length
 - Passenger demand (incl. latent demand)
 - Maintenance facilities
 - Bus financing
 - Fuel/lubricant consumption
 - Operating costs
 - Fare income (based on 15c/km in 2004)
 - Bus occupancy rate
 - Fair profit
 - Subsidy level per route

Intervention by ECDOT

- **Intervention by Eastern Cape Department of Transport (ECDOT)**
 - Bus operators were organised in 5 regional associations, which led to undue competition and mistrust
 - Had mass meeting with all operators to propose a single legal entity
 - Eastern Cape Peri-Urban Bus Association (ECPUBOA) was formed
 - Project Steering Committee established with Development Bank of Southern Africa (DBSA), ECPUBOA and ECDOT

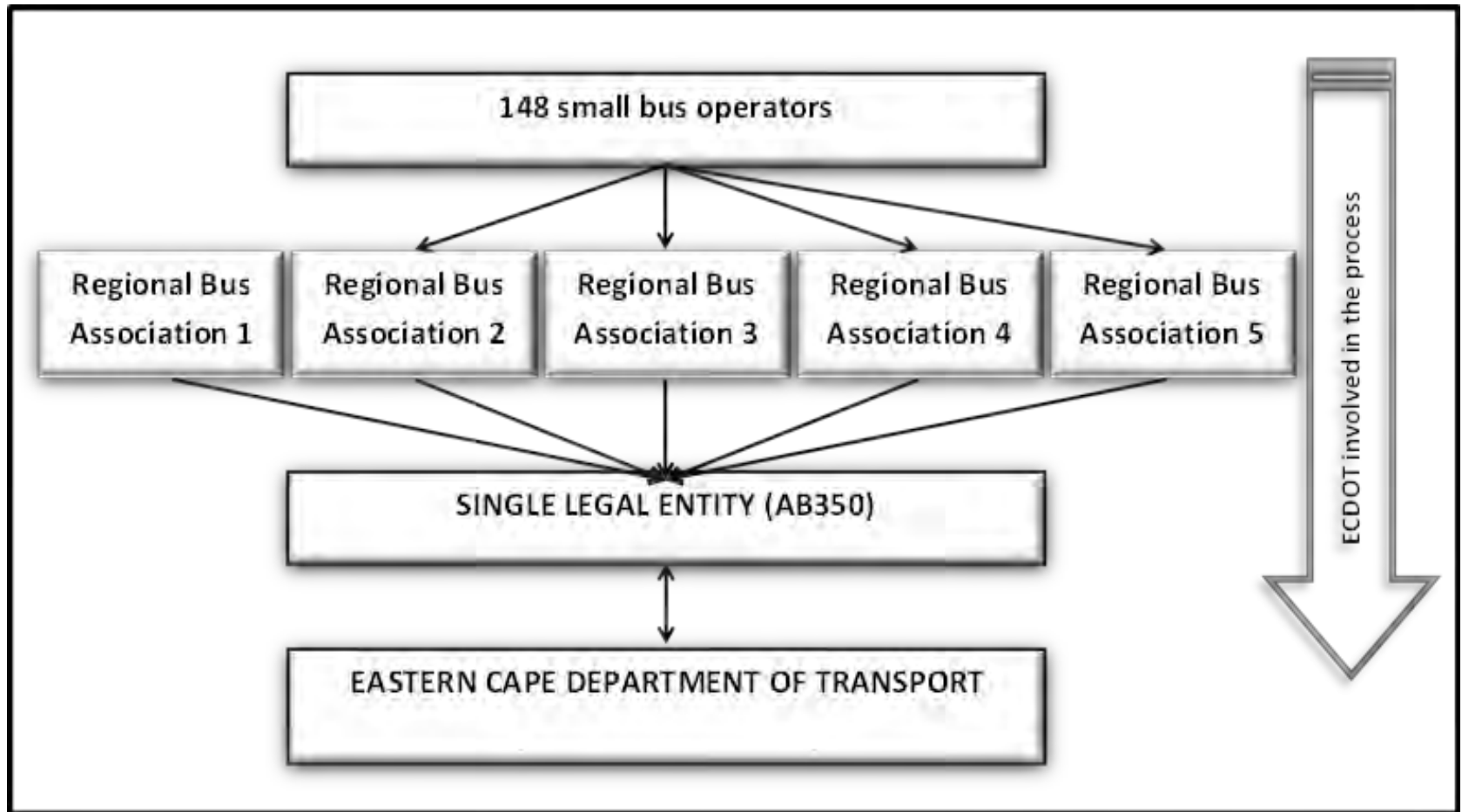
Intervention by ECDOT (2)

- **Intervention by Eastern Cape Department of Transport (ECDOT)**
 - Operators indicated that they would require assistance to form a single legal entity
 - ECDOT and DBSA funded the appointment of consultants (50/50) to assist the operators:
 - Determine the most appropriate legal entity
 - Create and register legal entity
 - Identify and negotiate with suppliers and financiers through a tender process
 - Assist with implementation and initial training

Business Model

- Consultants and operators considered co-ops, partnerships, joint ventures, private and public companies
 - Financial viability, tax structure, corporate governance and ease of administration
- Due to the number of potential shareholders, a public company was chosen
- Workshopped with all the operators and buy-in was obtained
- Public company (Africa's Best 350 Ltd – AB350) was registered

Business Structure



Depots & Workshops

- Very few facilities available
- ECDOT made R40m available of which R24m had to be used for building new or upgrading existing workshops/depots
- Balance had to be used for ancillary vehicles, ETM's, computer equipment, office furniture etc.
- Entered into a Disbursement Agreement with the Eastern Cape Development Corporation (ECDC) to administer the funds
- Depots remain ECDOT property after contract

Procurement Process

- Held detailed tender briefing
- Tenders invited and awarded for:
 - Total of 175 buses to operate the 166 routes - not enough 2nd hand buses
 - Scania won tender – agreed on % buy-back guarantee, maintenance for 5 years, tool & stock depots for every 45 buses
 - ETM's
 - Fuel – 50c below pump price
 - Tyres: R2,900 as opposed to R3,500
 - Insurance: 3.4% of bus value negotiated
- Proof of the benefit of bulk purchasing rebates

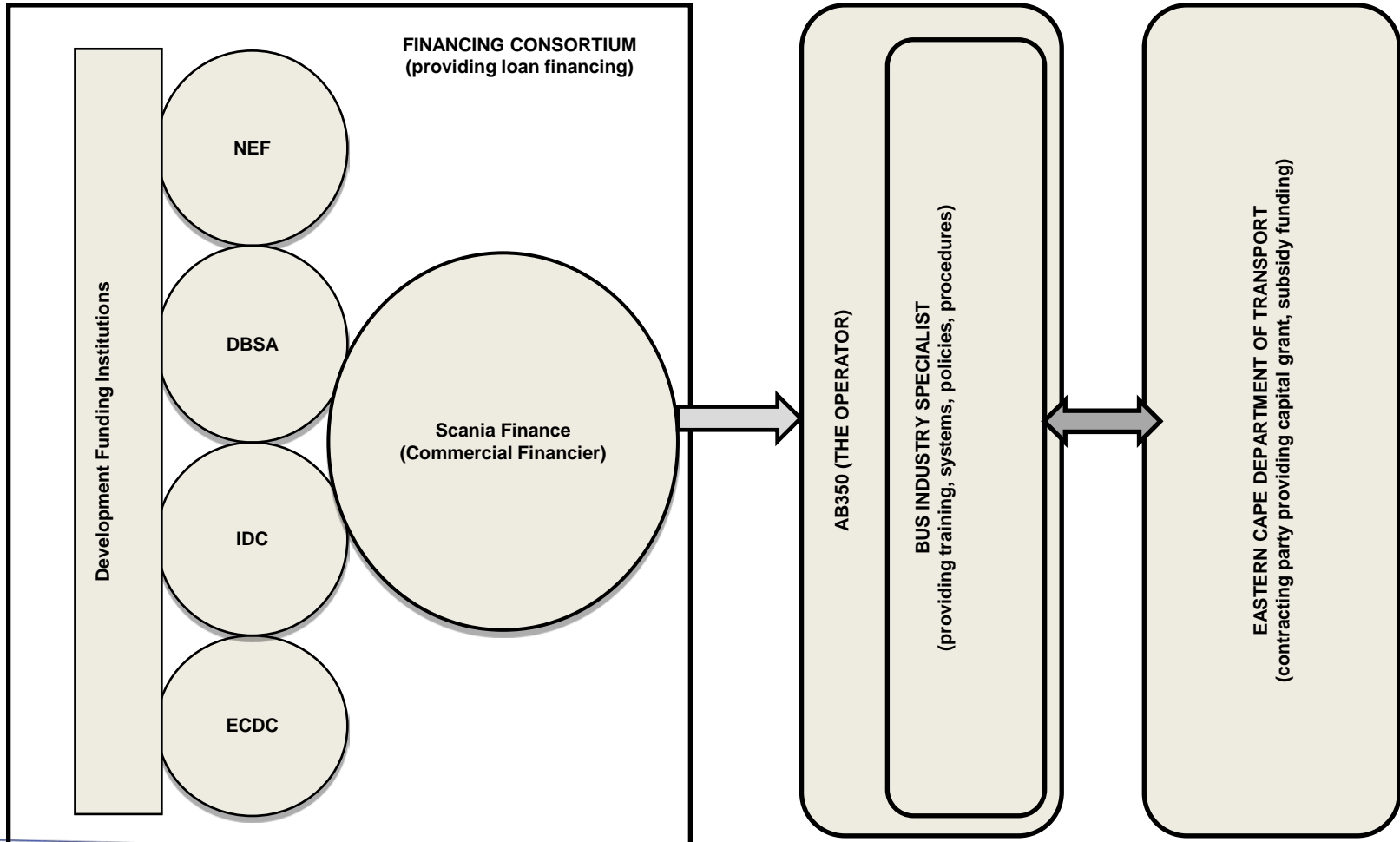
Financing

- Financiers were invited, but only one bank of the “Big 4” was interested
 - Insisted that bus industry specialist redraft the business plan originally drafted by business consultants – “green fields” company – no track record
 - Bank pulled out due to risk being too big to carry alone
- AB350 and ECDOT approached ECDC
 - ECDC did not have mandate for such a big loan and suggest approach to Industrial Development Corporation (IDC)

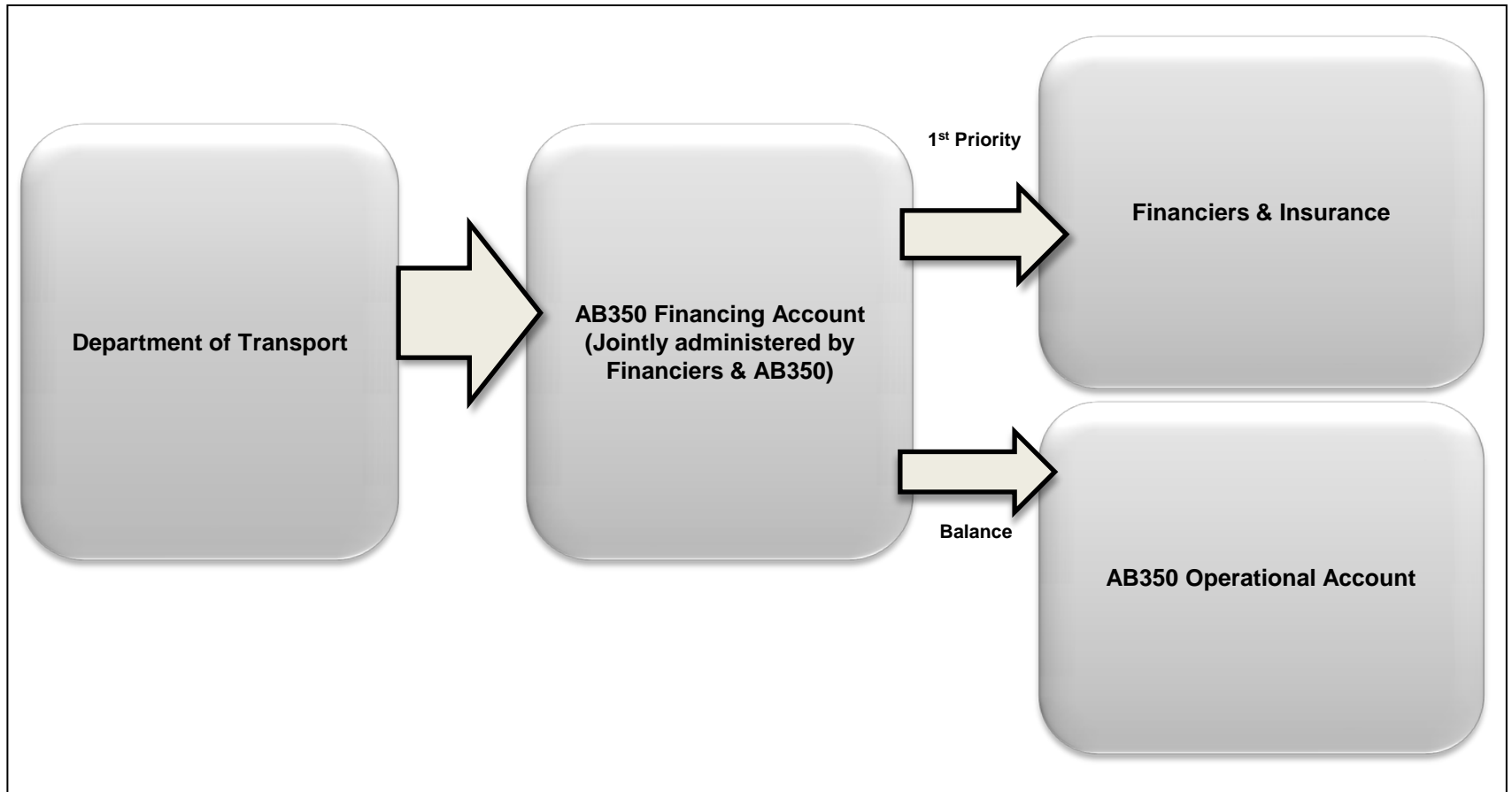
Financing (2)

- IDC was immediately interested, seen as great empowerment opportunity
 - Did comprehensive due diligence exercise
- Was still concerned about risk
 - IDC approached DBSA, National Empowerment Fund (NEF) and ECDC
 - All agreed to form consortium, but could not take up >50% of the loan
 - Scania Finance joined consortium
- Insisted on phased approach
- Insisted on bus industry specialist working in AB350
- Initial loan of R65,54m

Financing Arrangement



Payment for Services Rendered



Contracting

- Negotiated Contract in terms of National Land Transport Transition Act (Act 22 of 2000) for period of 7 years per phase
 - 3 phases to be implemented (55, 56 and 55 routes)
 - Model Negotiated Contract Documents of 2005 published by Minister of Transport
 - Escalation Clause
 - Age of vehicles
 - Very little room for “real” negotiations – almost everything is prescribed

Staffing & Skills Development

- 167 Staff members for Phase 1 of 55 buses (incl. all Head Office staff)
- Finance Consortium insisted on bus industry specialist to work inside AB350 to ensure proper policies, systems and procedures are in place and are followed for first 5 years
 - AB350 actually renewed the contract for further 3 years

Business Plan & Costs

Item	Amount (ZAR) or Number budgeted
Passengers**	1,588,678
Ave fare/trip/passenger	R12.27
Passenger Revenue	R19,496,202
Capital costs (excluding buses)	R16,036,000
Subsidy required for Year 1 (based on a fair profit of 10%)	R33,118,958
Kilometres to be operated	2,652,544
Total loan for 1 st 58 buses (55 plus 3 spare buses)	R63,540,000
Fuel price/litre (2007)	R6.50
Fuel budget	R5,689,709

*** Although the Department and the operator were certain that the new buses that would be operated would carry more than 80% of their capacity in passengers, the financing consortium insisted that the bus occupancy rate that should be used for business plan purposes must not exceed 70%.*

Operations 2012/13

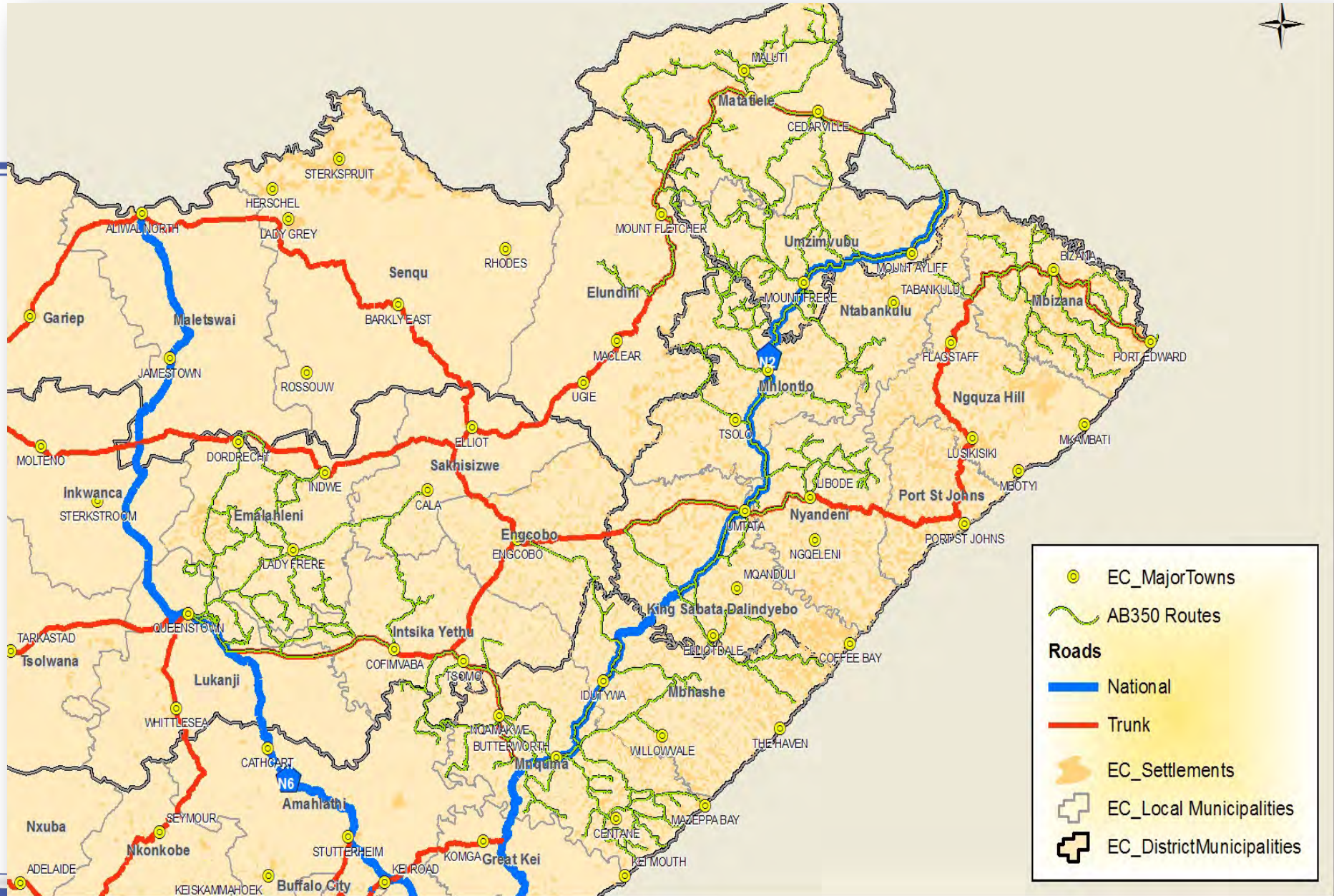
District	Depot	Passengers	Kms Operated	Subsidy	Buses	Subsidy/passenger	Subsidy/km
Amathole	Butterworth	1,434,011	896,829	R18,727,770	24	R13.06	R20.88
s/total		1,434,011	896,829	R18,727,770	24		
Alfred Nzo	Mt Frere	593,219	388,757	R9,643,885	13	R16.26	R24.81
	Matatiele	842,757	658,795	R15,459,575	16	R18.34	R23.47
s/total		1,435,976	1,047,552	R25,103,460	29		
Chris Hani	Queenstown	815,387	738,717	R14,959,466	17	R18.35	R20.25
s/total		815,387	738,717	R14,959,466	17		
OR Tambo	Bizana	647,989	371,257	R9,298,012	13	R14.35	R25.04
	Qumbu	272,120	173,897	R4,303,978	6	R15.82	R24.75
	Mthatha	359,586	289,404	R6,921,365	7	R19.25	R23.92
	Lusikisiki	589,828	388,864	R855,627	15	R1.45	R2.20
s/total		1,869,523	1,223,422	R21,378,982	41		
TOTAL		5,554,897	3,906,520	R80,169,678	111	R14.43 (ave)	R20.52 (ave)

Impact of the Project

- Mobility and accessibility improved – passenger numbers include about 7 000 scholars per day
- Quality of service – buses 6 years old, buses maintained and safe – only 2 fatalities in 6 years
- 384 people directly employed, including conductor/loader per bus
- Empowerment – bus industry specialist, risk reflected in insurance rates
- “Route rental” paid to shareholders (R7 500 up to R8 400)
- Intermodal co-operation with minibus taxi industry for scholar transport (Eastern Cape Bus & Taxi Business Chamber)

Conclusions

- Large number of operators brought together into a single legal entity
- Roles played by all the stakeholders material to the success
- Business, contracting and financing models innovative, but relatively simple
- Formalisation of small operators can lead to bigger contracts
- Proper business history being built





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THANK YOU FOR YOUR TIME