Gautrain: Public Money in a Private Deal

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• Every developing country has an infrastructure finance gap
  – Infrastructure development is key to economic growth but…..
  – the cost of infrastructure exceeds the available public funds over the short and medium term

• The questions are:
  – What projects do we select for investment?
  – What sources of funding do we use?
  – What support should governments be providing in financing of infrastructure?
Sources of Funding

- Sovereign Budget (tax revenue and sovereign borrowing)
- International Development Finance (ODA)
- Domestic Development Finance Institutions
- Sub-sovereign borrowing and bonds
- SOE debt and equity investment
  - Balance sheet borrowing and bond issue
  - Project ring fenced
- Private Finance (PPP)
  - Corporate (balance sheet)
  - Project Finance (limited recourse)

- These are not exclusive and can be used on the same project
Sources of Funding

Significant Private Sources

- Institutional investors (especially pension funds)
- DFIs eg AfDB, World Bank (incl IFC)
- Infrastructure Funds
- Capital markets
- Debt markets (Banks)

Each source has different characteristics eg price, tenor, volume of finance available, competition, willingness to take risk, domestic vs. foreign and need for government support (e.g. guarantees)
South Africa Context

- Currently we have around a 5.5% budget deficit
- Sizable current account deficit at 3.2% of GDP
- Volatile currency
- The National Treasury issues domestic and foreign bonds as a general source of finance
- This depends on the sovereign credit rating (Moody’s BBB+ but on negative watch)
- SOE’s issue several hundred billion Rands of bonds as well
- The spreads (ie percent above sovereign bonds) depends on the SOE and varies between 100 and 600 bps
- Many SOEs are at the limits of their borrowing limits and approach Treasury for Guarantees
South Africa Context

Infrastructure by Govt Sector
South Africa 2010

- National Government: 58%
- Provincial Government: 18%
- Municipalities: 16%
- SOEs: 6%
- PPPs: 3%
• In 2010 ZAR 235 billion was spent on infrastructure in all spheres of government
• In government only R12 billion came from external sources (loans); all was borrowed by Municipalities and 75% of this was by the six Metros
• In same year SOEs raised over R100 billion in the same year
• Much of this borrowing is explicitly guaranteed
• There is very little fiscal space to finance infrastructure
• Therefore PPPs are of great interest….
• …….but have own fiscal risk issues
Gautrain Case Study
Gautrain the PPP

• 80 km urban rapid rail system
• Improve transport mobility and urban efficiency
• ZAR 26billion development cost
• Province of Gauteng is the owner
• Unaffordable to Province on its own
• Private sector will build and operate but not take demand risk
• ----careful consideration of risk
• Fit into national budget and fiscal risk management framework
PPP Process

- Pre-feasibility study: 1997/98
- Decision to develop as a PPP in 2000
- Based on Treasury Regulation, both for provincial and national programme and municipal programme
- Emphasis is therefore fiscal – value for money and affordability
- Backed by the National Treasury with a functional PPP Unit
- Treasury combines PPP programme into budget and fiscal risk management framework
The PPP

- National Treasury approvals were granted based on the feasibility studies including development period costing and ridership and revenue forecasts
  - 5 TA2A approvals – 2002 to 2004
  - 1 TA2B approvals – June 2005
  - 1 TA3 approval – Sept 2006
- Project endorsed by Cabinet in 2006
- Approval of Treasury given for contingent liabilities in June 2006
Concessioning Drivers

• Risk Transfer, Value for Money, Affordability
  – Innovation, integration, fixed price, date certain

• Performance & Penalty regime
  – Availability, reliability, safety & security
  – Performance deduction for low performance, reduction in guarantee in extreme circumstances

• Patronage Guarantee Concepts
  – Between Minimum Required Total Revenue and Actual Patronage
  – MRTR locked in relation to Province forecast of Traffic
PPP - Project partners: Equity

PUBLIC

PRIVATE

33%

17%

8%

BOMBARDIER

Murray & Roberts

J & J Group

BOUYGUES

SPG

BOMBELA

PROVINCIAL GOVERNMENT

Ratp Développement
Funding

• Gautrain has 5 sources of funding
  – DoRA (Division of Revenue Act) money from central government via the Department of Transport
  – MTEF (Medium Term Expenditure Framework) from Gauteng Provincial Government
  – Private Sector Equity
  – Private Sector Borrowing
  – Provincial Borrowing
Project Financing

- DoRA: 44.2%
- MTEF: 26.1%
- Provincial borrowing: 18.4%
- Equity: 1.8%
- Private Debt: 9.5%
Lessons Learned
Gautrain – The Good

- Gauteng has gained a ZAR26 billion transport asset carrying up to 100,000 passengers per day
- Shared costs between five sources
- 15 year concession will end with revenue exceeding operating costs and assets fully paid for
- Development on budget (to Province) and on time
- World class risk management
- Quarterly reporting on fiscal risks
Gautrain: The Challenges

- Complexity of the PPP
- Often there is not a common vision between Concessionaire and Province
- Concessionaire a consortium of companies with different objectives
- Focus on development period
- Reportedly cost overruns for Bombela
- Cost management and claims
- The PPP requires a huge amount of resources to manage from the public side, especially demand risk
Gautrain: Essentials

- High level political support
- Strong PPP framework to support risk allocation
- Financial model known and fixed
- Independent bodies in PPP Agreement
- Clear Dispute Resolution Processes