

GAUTRAIN: SUCCESSFUL IMPLEMENTATION OF SOCIO ECONOMIC DEVELOPMENT OBJECTIVES

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ABSTRACT

The objective of the South African Government is to use major infrastructure projects as vehicles to enhance economic development, growth and job creation and to address past inequalities and imbalances most notably in socio-economic development (SED). The Gautrain Rapid Rail Link is breaking new ground to ensure that specific SED objectives are met. Gautrain introduced a fourth cornerstone; over and above the normal technical, financial and legal perspectives, and adopted an innovative process to secure the commitment of the Concessionaire to SED objectives. From the performance to date it is evident that the Concessionaire embraced the SED philosophy, that all project activities are undertaken with due consideration of the SED objectives, and that Gautrain has made a significant contribution to SED and sustainable transportation in Gauteng and in South Africa.

1. INTRODUCTION

Infrastructure investment decisions often focus more on the physical solution and not so much on the outcome of such investment. The general focus is new infrastructure and facilities that will be provided or existing infrastructure and facilities that will be upgraded or preserved, or on the improvements that will be effected with regards to the effective operation of such infrastructure and facilities. The social outcome of such investment with regards to aspects such as the contribution to political and sustainable development objectives is generally underplayed.

In the field of passenger rail transport, the motivation for investment in rail transport should focus on the benefits that would accrue from such investment such as the positive impact it would have on existing modal choice, i.e. a move towards a more sustainable transportation solution, the impact on other political and socio-economic development

(SED) objectives such as enhancing local development, stimulation of economic growth, job creation, skills development and enterprise development.

Due to the transportation challenges and traffic congestion, it was decided to link the main economic nodes in Gauteng with an integrated public transport system consisting of a modern state-of-the-art rapid rail link and an extensive feeder and distribution bus system at the respective stations, referred to as “Gautrain”.

In this paper specific SED challenges are discussed. The SED strategy is described to utilize the procurement process to secure commitment to SED objectives; initially by the bidders, then by the preferred bidder and eventually by the concessionaire. The SED achievements are summarised and conclusions are made.

2. SOCIO-ECONOMIC DEVELOPMENT CHALLENGES

South Africa has fairly high levels of unemployment and poverty, even though there has been an improvement over the past 10 to 15 years, as is for example evident in the increased car ownership. Income and gender inequalities have been and are still evident. For example, more women are unemployed than men and women on the average earn less than men. African women are most affected.

After the first fully democratic elections in 1994 in South Africa, affirmative action policies and broad-based black economic empowerment (BBBEE) programmes were introduced as intervention as part of remedial strategies to transfer skills to historically disadvantaged people (HDIs) i.e. black people, women and people with disabilities, and empower them to contribute to the alleviation of unemployment in South Africa. Broad-based black economic empowerment is, amongst other, aimed at broadening the economic base by building the employment capacity of historically disadvantaged individuals, black enterprises and small, medium and micro enterprises (SMMEs). Strategies were implemented to enhance shareholding of historically disadvantaged individuals in companies, allowing them to participate at the highest level of management structures of companies and also to enable them to form and develop their own companies and become part of the mainstream economy.

The South African Government uses major infrastructure projects as vehicles to enhance economic development, growth and job creation and to address the economic inequities and imbalances. Specific socio-economic development strategies are required to ensure that significant portions of the proposed investment will be utilised towards achieving economic empowerment and achieving other socio-economic and developmental objectives. It is evident that the project objectives of Gautrain also focus on achieving specific SED objectives.

One of the major challenges with the provision of infrastructure and facilities is to ensure that contractors, and in this case, the concessionaire embraces the project objectives. Such commitment is secured through contractual obligations. In the next section of the paper the procurement process is described and thereafter the process that was adopted to secure commitment to SED objectives, initially by the bidders, then by the preferred bidder and eventually by the concessionaire.

3. SOCIO-ECONOMIC DEVELOPMENT STRATEGY

3.1 Clearly defined socio-economic development objectives and elements

Major infrastructural projects are generally structured and managed from a technical, financial and legal perspective. Gautrain introduced a fourth cornerstone namely SED. An innovative process was adopted to secure the commitment of the Concessionaire to SED objectives. A broad-based SED strategy was developed that translated SED objectives into a contractually sound implementable approach.

Specific political objectives, which include SED, were defined in close liaison with the provincial Political Committee that oversees the Gautrain project. Skills development forms the backbone of the SED strategy of the project. It includes equity participation of black persons and black women in the entities created for the project, participation of black entities and SMMEs in procurement and sub-contracting, enhancing local content, participation by HDIs and women in management, contribution to employment equity, and a human resource development strategy, which includes a women learnership and mentorship programme. These objectives were translated into various SED elements. The SED elements were grouped into the following seven clusters:

- **Black Equity participation.** It was a requirement that black persons and black women should be holding shares in business units created by the Concessionaire. This would not only mean a share in the ownership, risks and profits in these entities, but also the ability to learn the necessary skills required for such participation.
- **Procurement and sub-contracting.** Large companies often have the capacity and skills to deliver a project and may not extensively utilize sub-contractors. The procurement of support services and the sub-contracting of responsibilities are extremely effective processes to empower, strengthen and develop emerging enterprises. It can also be used as the vehicle to create new enterprises, transfer skills and technology and enhance management skills. Such an approach would result in strengthening and development of such entities. The Concessionaire committed to the procurement from, and sub-contracting to black entities, new black entities and small, medium and micro enterprises.
- **Local content.** The SED requirements were also structured to maximize the contribution to the local economy and benefits accruing to local people. The Concessionaire committed to the employment of local people and the procurement of South African materials, plant and equipment.
- **Participation by the black equity participant.** A new black entity, which is a special purpose vehicle created specifically for the project; the Strategic Partners Group (SPG); are holding shares in the five business units created by the Concessionaire for the project. SPG is involved during the construction and commissioning phase of the project, not only to receive funds to service the loans required for their equity contributions, but also to gain valuable skills in the process. SPG is involved in various joint ventures with other established contractors or suppliers to satisfy these objectives. The Concessionaire committed to employ historically disadvantaged staff seconded by SPG, to finance some of the procurement of plant and equipment of SPG, and to enter into agreements with SPG to either procure services from SPG or to utilize SPG as one of their sub-contractors.

- **Participation in management.** HDIs, and specifically women, need to participate at various management levels to develop management and decision-making skills that would enable them to manage similar projects. The Concessionaire committed to employ HDIs and women in top, senior and middle management positions and HDIs in junior management positions.
- **Direct employment.** Over and above the employment in management positions, the job creation by the project should be directed to the creation of employment opportunities for targeted disadvantaged groups. The Concessionaire committed to employ HDIs, women and people with disabilities.
- **Training.** Major projects provide targeted participants opportunities to gain and develop skills. Unskilled and semi-skilled persons; and even skilled persons, should be afforded opportunities to better equip themselves for tasks undertaken during the project and to improve their ability to source employment in future. The Concessionaire committed to expenditure on human resource development and a focused women training programme.

3.2 Secure commitment from bidders and Concessionaire

The Gautrain Rapid Rail Link system is being procured as a Public Private Partnership (“PPP”) in terms of the Public Finance Management Act, 1999, and in particular Regulation 16 that requires, amongst other, the Province to obtain various Treasury approvals from National Treasury and the PPP-Unit within National Treasury. In this project it was decided to adopt a two-phased procurement process, being a Request for Pre-qualification and a Request for Proposals.

After the pre-qualification process two consortia, Bombela and Gauliwe, were invited in 2003 to submit detailed proposals for the design, construction, partly financing, operating and maintenance of the system. As the initial proposals exceeded the affordability limit, certain amendments were made to the proposal requirements and the two bidders were requested to submit Best-and-Final-Offers (BAFOs). After detailed analyses of the proposals and BAFOs the Bombela Consortium was selected in mid-2005 as the Preferred Bidder.

After extensive negotiations, a Concession Agreement was concluded with the Bombela Concession Company (Pty) Ltd i.e. the “Concessionaire” and construction commenced on 28 September 2006. Financial close with the Bombela Consortium and their Lenders was reached in February 2007.

The Concessionaire appointed a Turnkey Contractor to manage the design and construction of the civil and electrical & mechanical works, the procurement of the rolling stock and the testing and commissioning of the Gautrain system. The Turnkey Contractor in turn appointed a Civil Joint Venture and an Electrical & Mechanical Joint Venture that appointed various sub-contractors. An Operator was also appointed by the Concessionaire who operates and maintains the system.

The competitive procurement process was used in the following manner to solicit commitment by the bidders and eventually by the Concessionaire to each of the SED elements and consequently to the SED objectives:

- Targets were set for expected total achievements for each SED element. During the Request for Pre-qualification (RFQ) phase an initial commitment was secured from the Bidders in view of these targets.
- The Request for Proposal (RFP) phase and Best-and-Final Offer (BAFO) phase were used to secure a more firm commitment from the bidders.
- Finally, total and monthly contractual SED obligations were agreed during negotiations with the Preferred Bidder for each of the business units of the Concessionaire, for each of the respective SED elements.

3.3 Monitoring and verification process

The Concessionaire adheres to a comprehensive and stringent monitoring regime. A proactive monitoring approach was adopted with monthly reporting and independent monthly verification. A penalty and reward mechanism was introduced based on a quarterly performance evaluation.

The Concession Agreement makes provision for the appointment of an Independent Socio-Economic Monitor (ISEM). The ISEM is appointed jointly by the Gauteng Province and the Concessionaire. The purpose of the ISEM is to perform an independent verifying role to validate compliance by the Concessionaire with its contracted SED obligations.

The Concessionaire must submit Monthly SED Reports to both the Province and the ISEM within 45 calendar days after the end of each Contract Month. The Monthly SED Report provides detail on the achievements of the Concessionaire and its sub-contractors with regards to its SED obligations, positive developments, and areas of concern, challenges and interventions introduced.

The Province, the Concessionaire and the ISEM discussed and agreed a set of detailed verification information that the Concessionaire needs to adhere to if they want their claim to be acknowledged and verified by the ISEM.

The ISEM verifies the SED achievements claimed by the Concessionaire and submits Monthly ISEM Reports on its findings to the Province and the Concessionaire about six weeks after receipt of the Monthly SED Reports.

3.4 Penalty and reward regime

It is of critical importance to develop a contractually sound penalty and reward regime that will ensure that the Concessionaire meets or preferably, exceeds its SED obligations, which in turn would ensure a continued commitment and positive contribution to the realization of sustainability goals and objectives.

An innovative, robust, fair and equitable penalty and reward process was developed in which the Concessionaire will be penalised (performance deduction) if they do not meet their socio-economic development obligations within a specific quarter. However, should the Concessionaire exceeds its obligations; it could be used to offset a possible under-performance in future quarters (performance credits).

3.5 Conclusion

It is evident from the historic performance of the Concessionaire described in the next section of the paper that the SED strategy has ensured that the Concessionaire introduced and embraced the SED philosophy, principles and objectives within all its business units, sub-contractors and suppliers, even at bidding stage and ensure the roll-out thereof of as part of day-to-day activities.

4. **KEY ACHIEVEMENTS**

The verified SED performance of the Concessionaire at the end of September 2011 is summarized in the following sections.

4.1. Black Equity participation

The Strategic Partners Group (SPG) are holding the committed 25% shares in the Concession Company, the Turnkey Contractor and the Operator, and are holding the committed 10% of the shares in the Civil Contractor and in the Electrical & Mechanical Contractor.

4.2. Procurement and Sub-contracting

The Concessionaire has already significantly procured from, or sub-contracted to Black Entities. The verified performance of the Concessionaire up to the end of September 2011 can be summarised as follows:

- More than R5 350 million was procured from, or sub-contracted to black entities, compared to an obligation of about R2 520 million. More than 390 black entities have benefited from the project to date.
- More than R2 610 million was procured from, or sub-contracted to new black entities, compared to an obligation of about R1 300 million. More than 120 new black entities have benefited from the project to date.
- More than R1 370 million was procured from, or sub-contracted to small, medium and micro enterprises, compared to an obligation of about R310 million. More than 310 small, medium and micro enterprises have benefited from the project to date.

The commitment of the Concessionaire is not only limited to the total amount, but also to monthly amounts that are summarised in quarterly performances in Figure 1. It is evident from Figure 1 that since the commencement of the project, black entities have significantly benefited from the project. Similar patterns are also observed with regards to the procurement from, and sub-contracting to new black entities and to SMMEs.

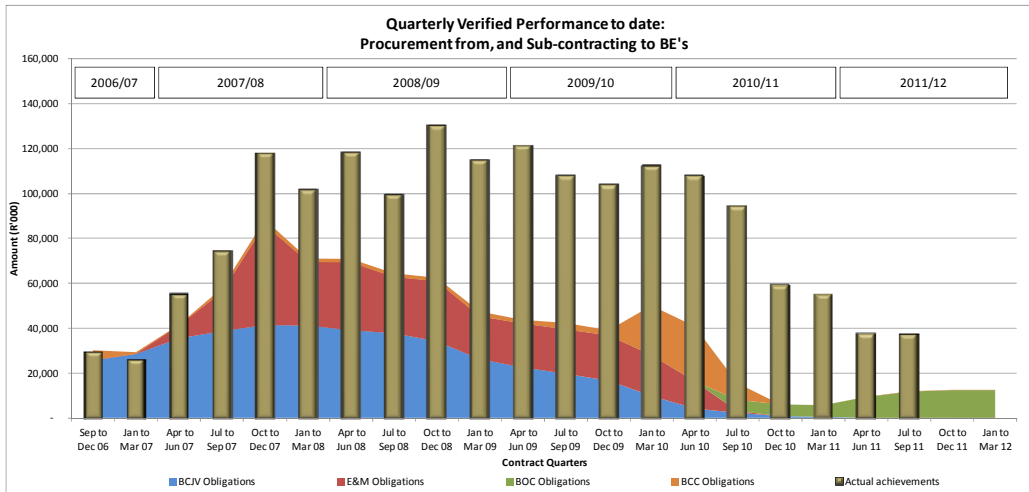


Figure 1: Procurement and sub-contracting

4.3. Sustainment of existing jobs and creation of new jobs

It is estimated that the Gautrain Rapid Rail Link would create about 148 000 direct, indirect and induced jobs, of which

- an estimated total of 93 000 direct, indirect and induced jobs would be created and/or sustained during the design, construction and commissioning of the project, and
- about 2 700 direct, indirect and induced jobs per annum would be created and/or sustained during the operation and maintenance of the project.

Furthermore, it is estimated that an additional 40 000 jobs would be created due to development in the vicinity of the stations.

The Concessionaire has already employed a significant number of people on the project. It is estimated that at the end of September 2011 (close to the end of the design, construction and commissioning of the project), the Concessionaire has already created or sustained more than 33 100 local direct jobs and an estimated total of 115 900 direct, indirect and induced jobs.

It is evident that Bombela has significantly exceeded its obligations, which can be summarized as follows:

- 36 920 jobs were created for personnel based in South Africa.
- 33 100 jobs were created for local people, i.e. South African citizens, compared to an obligation of more than 18 280.
- 28 350 jobs were created for HDIs, compared to an obligation of 13 030.
- 3 290 jobs were created for women, compared to an obligation of 1 305.
- 220 jobs were created for people with disabilities, compared to an obligation of more than 160.

The 33 100 local jobs created can be categorised as follows:

- HDIs: 86%;
- HDIs in Occupational Level C: 10%;
- HDIs in Management Positions: 2.1%;
- Youth (Based on performance in Month 0 to 54): 59%;
- Women: 10%;

- Women in Management Positions: 0.9%, and
- People with Disabilities: 0.6%.

(Note: A “job” is considered as “one person employed for one year”.)

4.4. Local content

The extent of the local employment is shown in Figure 2.

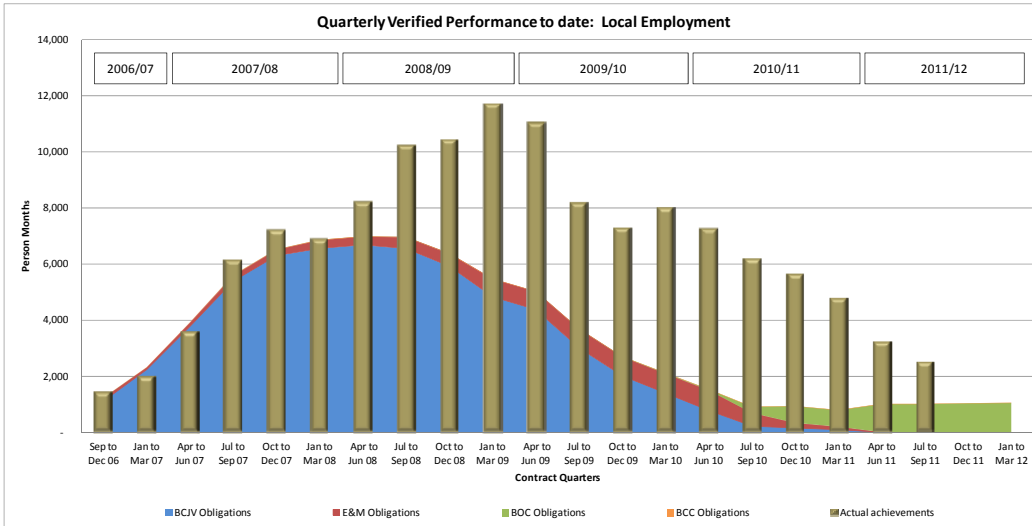


Figure 2: Local employment

The Concessionaire has procured more than R3 600 million of South African materials, plant and equipment up to the end of September 2011, compared to an obligation of R1 880 million, which is summarised in Figure 3.

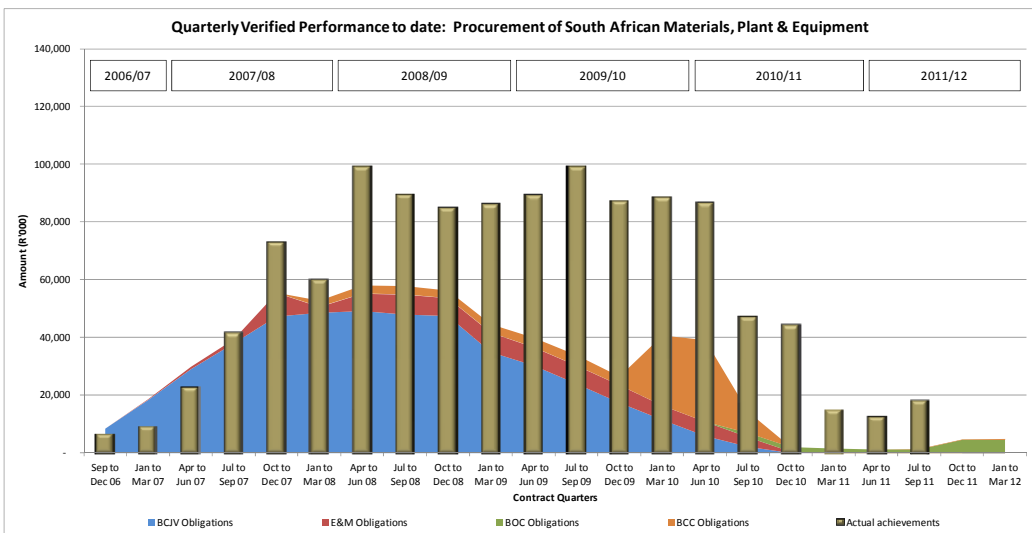


Figure 3: Procurement of South African materials, plant and equipment

4.5. Human resource development

The SED strategy ensures that historically disadvantaged groups would benefit from the project through

- the participation of black persons in the equity of the entities formed for the project;
- the procurement and sub-contracting to black entities, new black entities and small, medium and micro enterprises;
- the development of local skills;
- the participation of historically disadvantaged individuals and women in management positions,
- the employment of historically disadvantaged individuals, women and people with disabilities, and
- the introduction of a structured human resource development programme.

The Concessionaire reported that up to the end of September 2011,

- more than R130 million was spent on human resource development;
- unskilled staff and semi-skilled staff attended more than 16 480 courses to improve their skills levels;
- management staff attended more than 3 420 training courses, and
- women participated more than 5 330 person-months to date in a focused women training and mentorship programme

5. CONCLUSIONS

The Gauteng Province in South Africa has critical transportation challenges and socio-economic challenges. The Gautrain system not only provided a transportation solution, but at the same time utilized the provision of infrastructure, facilities and equipment to also satisfy political and other socio-economic development objectives.

The project is breaking new ground with an innovative approach to ensure that specific socio-economic development objectives are met through agreed socio-economic development contractual obligations, a structured process to report on achievements and monitor compliance and the introduction of a fair, robust and equitable penalty and reward mechanism.

From the performance to date it is evident that

- that the Concessionaire; who consists of local and international companies, embraced the socio-economic development philosophy and that all project activities are undertaken with due consideration of the socio-economic development objectives,
- that the Concessionaire has significantly exceeded its socio-economic development obligations, and
- that the Gautrain system has made a significant contribution to socio-economic development and sustainable transportation in Gauteng and in South Africa.