



GMA CASE STUDY – SOCIO-ECONOMIC DEVELOPMENT (SED)

# **SOCIO-ECONOMIC DEVELOPMENT IMPLEMENTATION IN THE GAUTRAIN RAPID RAIL SYSTEM**

The purpose of this case study is to set out the process followed by the Gautrain Rapid Rail Project in achieving its goal to implement a socio-economic development (SED) strategy that would meet Government's SED objectives and translate these into measurable performance indicators. The study focuses on the problems encountered and the solutions introduced in the development and implementation stages. The lessons learnt and the recommendations made provide benchmarks for the implementation of a SED strategy in any large infrastructure project.

## LEARNING OUTCOME

To gain an understanding of the challenges that had to be overcome to develop and implement a successful SED strategy for the Gautrain Project.

## BUSINESS OBJECTIVE

To develop and implement a successful SED process for the Gautrain Project, which meets Government's goals with regard to SED.



## 1. BACKGROUND

The Gautrain Rapid Rail System (Gautrain Project) is recognised as one of the largest transport infrastructure Public Private Partnership (PPP) projects in Africa and a major Gauteng Provincial Government transport initiative. Infrastructure investment decisions often focus more on the physical solution and not so much on the social outcome of such investment. The general focus is on the effective operation of new infrastructure and facilities that will be provided, or on existing infrastructure and facilities that will be upgraded or preserved. The social outcome of such investment – with regard to aspects such as the contribution to governmental and sustainable development objectives – does not always get the necessary attention.

The Gautrain Project has been breaking new ground to ensure that specific socio-economic

development (SED) objectives are met. Gautrain introduced a fourth cornerstone – over and above the normal technical, financial and legal cornerstones of the PPP process. We adopted an innovative process to translate Government's objectives into measurable performance indicators so that these could be entrenched into contractual obligations, and the commitment of the Concessionaire could be fostered. Bombela Concession Company (the Concessionaire) embraced these SED objectives and ensured credible achievements. This has set a benchmark for South Africa, which could be adopted by other infrastructure providers.

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 an intervention as part of remedial strategies

to appoint and transfer skills to historically disadvantaged individuals (HDIs), i.e. black people, women and people with disabilities. The aim was to empower them to contribute towards the alleviation of unemployment in South Africa.

At the time of drafting the Request for Proposal (RFP) for the Gautrain Project, the BBBEE Act had not yet been gazetted. For the purposes of the Gautrain Project, BBBEE, among others, aimed at broadening the economic base of Gauteng by building the employment capacity of HDIs, black enterprises and small, medium and micro enterprises (SMMEs). Strategies were implemented to enhance shareholding in companies by (HDIs), allowing them to participate at the highest level of management and also to enable them to form and develop their own companies and become part of the mainstream economy.

BBBEE is defined in terms of the BBBEE Act, No. 53 of 2003 “as the economic empowerment of all black people including women, workers, youth, people with disabilities and people living in rural areas through diverse but integrated socio-economic strategies that include, but are not limited to:

- a) Increasing the number of black people who manage, own and control enterprises and productive assets;
- b) Facilitating ownership and management of enterprises and productive assets by communities, workers, cooperatives and other collective enterprises;
- c) Human resource and skills development;
- d) Achieving equitable representation in all occupational categories and levels in the workforce;
- e) Preferential procurement; and
- f) Investment in enterprises that are owned or managed by black people.”

*“The Gautrain Project has been breaking new ground to ensure that specific socio-economic development (SED) objectives are met.*”



One of the major challenges with the provision of infrastructure and facilities is to ensure that contractors and, in this case, the Concessionaire embraced the above social project objectives as listed. Such commitment must be secured through contractual obligations.

## 2. PROBLEM STATEMENT AND EARLY FINDINGS

### 2.1 Defining Socio-economic Development Objectives

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 SED. However, infrastructure providers have experienced serious challenges in the past, at project level, with regard to translating governmental objectives into measurable performance indicators and ensuring reporting of credible achievements.

The broad objective of the Gautrain Project was to develop and implement a SED process successfully, which meets Government's goals with regard to SED and which must:

- Be contractually accepted by all parties;
- Have measurable obligations agreed to and commensurate to the size and type of project;
- Be monitored by an independent monitor; and
- Provide for steps to be taken if the agreed obligations are not met.

### 2.2 Creating an Environment for Bidder and Concessionaire to Embrace Government's Objectives

The following section briefly describes the creation of the environment to secure the SED commitments, which is a process to ensure that the bidder and Concessionaire realise the importance of SED and the credibility of reporting.

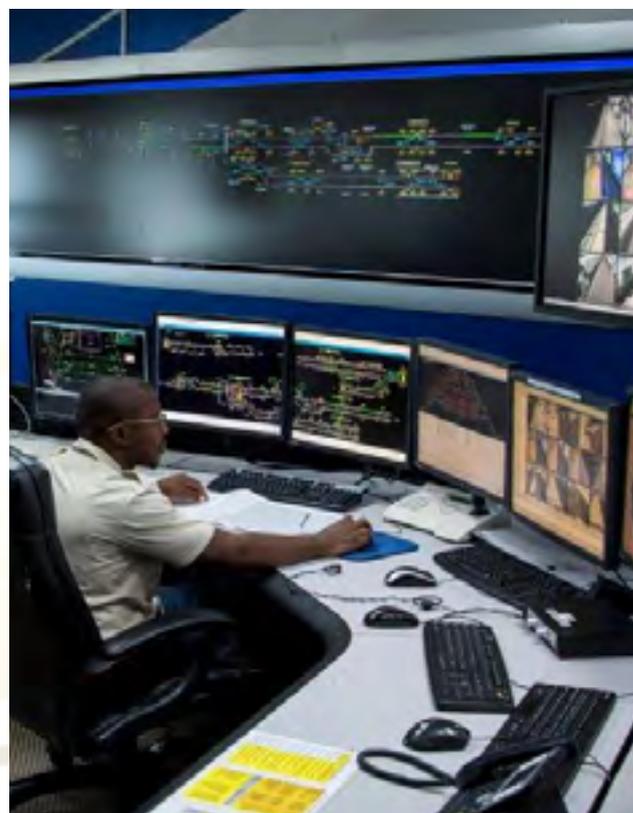
#### 2.2.1 Secure commitments to SED objectives

The competitive procurement process was used in the following manner to solicit commitment

from the bidders and eventually from the Concessionaire to each of the SED elements and consequently to the SED objectives:

- A number of SED elements were identified. 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 RFP and Best-and-Final Offer (BAFO) phases were used to secure a firmer commitment from the bidders.
- Finally, total and monthly contractual SED obligations were agreed to during negotiations with the preferred bidder for each of the business units of the Concessionaire as well as for each of the respective SED elements for both the Development and Operating Periods.

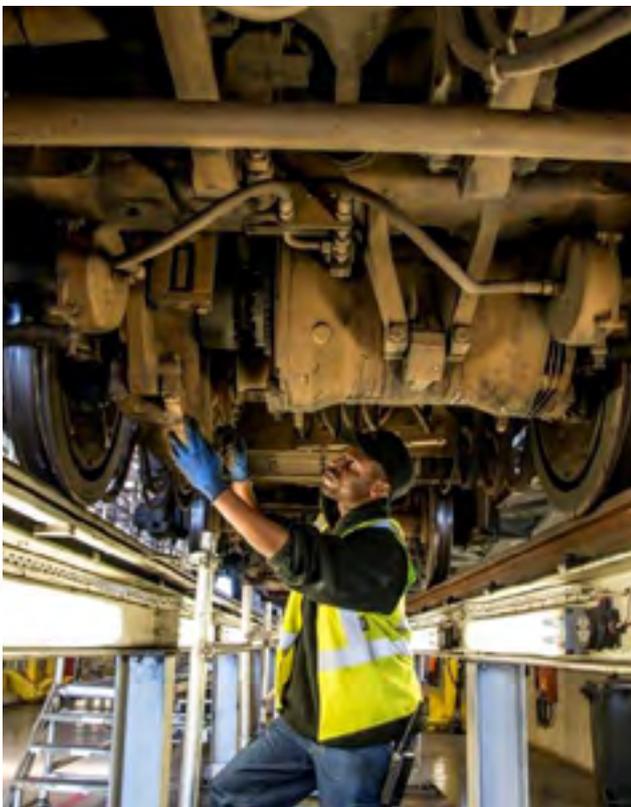
To secure obligations successfully, there is a process that needs to be followed during the compilation of the RFP and negotiation



processes. Firstly, a number of measurable elements must be identified that would be relevant to the Project and adhere to the broader governmental objectives in terms of SED. This is followed by the identification of targets for each of the elements and commitment by the parties to these elements before securing these elements as obligations during the negotiation process.

### 2.2.2 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 in the form of site visits and verification meetings, in which the claims are supported by the required documentation (body of evidence). A penalty and reward mechanism was introduced based on a quarterly performance evaluation. The well-defined monitoring and verification process ensured that the Concessionaire kept its intentions with regards to SED but furthermore provided creditability to the SED process.



## 3. ANALYSIS OF ISSUES

This section sets out the key requirements for meeting the SED objectives.

### 3.1 Develop the SED Process to Secure Commitment

At the RFQ stage, there was no BBBEE legislation in place to guide the process. Other PPP projects in the market were the PPP prisons and the toll road concessions, which included certain SED requirements, such as job creation and procurement.

The objective of the Government's socio-economic and development strategy was aimed at addressing the economic inequities and imbalances which resulted from the previous apartheid government policies. It was clear that BBBEE was both a form of intervention and a remedial strategy, the end results of which were empowerment. As a remedial strategy, it seeks to reverse the effects caused by the past-apartheid administration while at the same time also seeking to bring to an end the perpetuation of disempowerment in one form or the other, hence the importance of the intervention strategy.

The approach that was followed included a review of the different government departments and parastatals that implement BBBEE. It was clear that there were different interpretations and approaches followed by government departments and parastatals. These approaches included targeted procurement documentation, a points system that favours BBBEE, transfer of ownership and management control.

An examination of various approaches to BBBEE showed that at the heart of BBBEE initiatives were important elements that often formed the centre of the debate and gave it a character that distinguished it as a real road towards economic upliftment and emancipation. The following objectives were identified:

- Equity and structuring of the contracting entity
- Procurement
- Skills transfer
- Social responsibility programmes
- Sub-contracting
- Employee empowerment
- Monitoring.

Based on the objectives listed above the bidders were requested to respond to these objectives.

After the pre-qualification process two consortia – Bombela and Gauliwe – were invited (in 2003) to submit detailed proposals for the design, construction, par-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). During this period, the BBBEE Act (2003) was gazetted. The Act was reviewed and it was decided to include the specific SED element “Procurement from New Black Entities (BEs)”. After detailed analyses of the proposals and BAFOs, the Bombela Consortium was selected in mid-2005 as the Preferred Bidder.

The original SED proposal from Bombela was not detailed enough compared to the SED proposal from Gauliwe. During the negotiation process with Bombela, a comprehensive SED plan was developed as an annexure to Schedule 22 (Socio-Economic Development Obligations) of the Concession Agreement (CA).

The SED Plan contains Bombela's – and its sub-contractors' – procurement methodology in terms of procurement and sub-contracting for the Gautrain Project. As employment equity is considered an important aspect of SED, the Plan also contains the process of identification of relevant scarce skills required in the Project with the recruitment and selection of employees. Furthermore, emphasis was placed on the

training of employees. The Concessionaire was reluctant to commit to all the proposed commitments. During the negotiation, this was off-set with the inclusion of a Women Training and Mentoring Programme and three additional SED elements, which related to the participation of the black equity partner, e.g. Strategic Partners Group (SPG):

- The secondment of personnel by SPG;
- Expenditure by SPG on plant and equipment; and
- Procurement from, and sub-contracting to, SPG.

With the conclusion of the extensive negotiations, Schedule 22 of the CA contains, among others, the SED monthly and total obligations for the Concessionaire and each of its sub-contractors. During the Development Period, the five business units within Bombela were required to report their achievements against their monthly obligations. It is foreseen that the reporting would be less complicated during the Operating Period as there would be only two business units reporting. The development of the monthly SED obligations posed a challenge as there was no benchmark in the market with which to compare the Gautrain Project.



### 3.2 Monitoring and Verification Process

The CA made provision for the appointment of a number of independent monitors on the Gautrain Project. These monitors included the independent certifier to verify the achievement of milestones on the Project, an independent environmental control person to monitor the environmental issues on the Project, and an independent socio-economic monitor (ISEM) to verify the compliance of the Concessionaire with its contracted SED obligations. In terms of the CA, the ISEM was appointed jointly by the Gauteng Province and the Concessionaire.

A RFP was drafted in 2006, with the scope of work of the ISEM. An open tender procedure was followed and was awarded to Seriti, a consortium consisting of:

- One of the largest professional auditing, tax and advisory firms in the country, which led the Seriti Consortium;
- A black-owned, industrial, construction and engineering business management consulting firm specialising in risk and compliance management; and
- A black-owned, corporate and project finance advisory and consulting firm that specialises in mergers and acquisitions, BEE structured deals, capital raising as well as Infrastructure and PPP projects.



The ISEM was initially appointed for the Development Period of the Gautrain Project. It was decided that the ISEM would be re-appointed for a five-year term during the Operating Period as they were familiar with the verification process and could ensure seamless integration from the Development Period into the Operating Period.

In the initial stage of the development period, the parties also debated the concept of auditing versus verification, as well as the body of evidence that is required with an audit. This included, for example, the use of a copy of an ID document – or a certified copy of an ID document – as a means of claiming that a person is suitable for local employment. It was decided that the process would only be based on verification. The Concessionaire had the responsibility of providing the ISEM with the agreed supporting information for the specific claim.

The Concessionaire had to submit monthly SED reports to both the Gauteng Province/Gautrain Management Agency (GMA) and the ISEM within 45 calendar days after the end of each contract month. The monthly SED report provided details 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.

The Gauteng Province/GMA, the Concessionaire and the ISEM discussed and agreed to a set of detailed verification information for each SED element that the Concessionaire needed to adhere to if they wanted their claim to be acknowledged and verified by the ISEM. To assist the parties in the clarification of definitions, a Set of Rulings was developed over a period of time to assist in the interpretation of the definitions used in Schedule 22 and the CA. It can be used as a reference guide when SED claims are verified.

The ISEM verifies the SED achievements claimed by the Concessionaire and submits monthly ISEM reports on its findings to the province/GMA and the Concessionaire about six weeks after receipt of the monthly SED Reports.

The CA makes provision for the Concessionaire to approach the Gauteng Province/GMA with a motivated application for the change in the monthly SED obligations, if the Concessionaire is of the opinion that it is not possible to comply with the relevant monthly SED obligations.

During the Development Period, there were a number of such requests, which included reshaping of the monthly obligations, as well as the exchange of obligations between SED elements related to spending on procurement and sub-contracting. These changes in the obligations were implemented with the agreement from both CEOs of the GMA and the Concessionaire.

### 3.3 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 will ensure a continued commitment to SED and positive contribution to the realisation of sustainability goals and embrace the project objectives.

Initially, only a penalty regime was developed, which entailed that the Concessionaire would only be penalised (performance deduction) if they did not meet their SED obligations.

An innovative, robust, fair and equitable penalty and reward process was developed during the negotiations in which the Concessionaire would be penalised (performance deduction) if this process did not meet its SED obligations within a specific quarter. However, should the Concessionaire exceed its obligations, it could be used to offset a possible underperformance in future quarters (performance credits). It was

clear that the penalty and reward regime had the desired outcome as the Concessionaire embraced the SED principles. With delegated SED teams, all possible problem areas that could result in penalties would be eliminated by addressing these in advance before any possibility of resulting in penalties. In practice, the procurement and employment policies were carefully considered to ensure that black entities and local people would benefit from the project implementation.



### 3.4 Clearly Defined SED Elements

Specific Government objectives, which include SED, were defined in close collaboration with the provincial political committee of MECs, which oversee the Gautrain Project. Skills development forms the backbone of the SED strategy of the Project, which 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, which were grouped into the following seven clusters:

### a) Black equity participation

It was a requirement that black persons and black women should hold 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. This cluster included the following SED elements:

- Equity/shares held by Black Entities (BEs) and/or black persons; and
- Shares held by black women.



### b) Procurement and sub-contracting

Large companies often have the capacity and skills to deliver a project and may not extensively utilise sub-contractors. The procurement of support services and the sub-contracting of responsibilities are extremely effective processes to empower, strengthen and develop emerging enterprises. This 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, as well as small, medium and micro enterprises. This cluster included the following SED elements:

- Procurement from BEs and/or black persons;
- Sub-contracting to BEs and/or black persons;
- Procurement from, and sub-contracting to, new BEs; and
- Procurement from, and sub-contracting to, SMMEs.

### c) Local content

The SED requirements were also structured to maximise 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. This cluster included the following SED elements:

- Employment of local people;
- Procurement of South African materials; and
- Procurement of South African plant and equipment.

### d) Participation by the black equity participant

A new black entity, which is a special-purpose vehicle created specifically for the project (the SPG), is holding shares in the five business units created by the Concessionaire for the project. SPG was 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 SED objectives. The Concessionaire committed to employ historically disadvantaged staff seconded by the SPG to finance some of the procurement of its plant and equipment and to enter into agreements with the body either to procure services from it or to utilise SPG as sub-contractors. This cluster included the following SED elements:

- Staff seconded by SPG;
- Expenditure by SPG on plant and equipment; and
- Procurement from, or sub-contracting to, SPG.

#### e) Participation in management

HDIs, specifically women, need to participate at various management levels to develop management and decision-making skills that would enable them to manage similar infrastructure projects. The Concessionaire committed to employing HDIs and women in top, senior and middle management positions as well as HDIs in junior management positions. This cluster included the following SED elements:

- HDIs in management positions;
- Women in management positions; and
- HDIs in occupational level C.

#### f) Direct employment

Over and above the employment in management positions, job creation by the Project should be directed to the creation of employment opportunities for targeted disadvantaged groups. The Concessionaire committed to employing HDIs, women and people with disabilities. This cluster included the following SED elements:

- HDIs employed;
- Women employed; and
- People with disabilities employed.

#### g) Training

Major projects provide targeted participants with opportunities to gain and develop skills. Unskilled and semi-skilled persons, and even skilled persons, should be afforded opportunities to equip themselves better 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. This cluster included the following SED elements:

- Expenditure on human resource development;
- Women learners trained and mentored; and
- Employment and mentorship of women learners.



Based on the definitions and additional clarification added by the parties during the Development Period, all local content requirements were exceeded. Today, there is an increased amount of legislation and regulations to guide requirements for local content that did not exist at the stage of drafting the CA.

As skills transfer formed the backbone of the SED strategy, training formed an integral part that was also identified in the Concessionaire's SED plan, together with a human resource development plan that formed part of the contract documentation. The training was construction-related, with a specific focus on the tunnelling and viaduct works that needed to be performed. The monitoring and verification

process of employment was only done while persons were involved in the Gautrain Project and ceased when they left the Project.

At a late stage during the Development Period, the Gender, Youth and People with Disabilities (GEYODI) Standing Committee requested information on the employment of youth. A definition for "youth" was developed by the parties and, with the assistance of the ISEM, they were able to extract the required information from their employment database for the reporting.

It is evident from the graph below that the Concessionaire significantly exceeded its obligations:

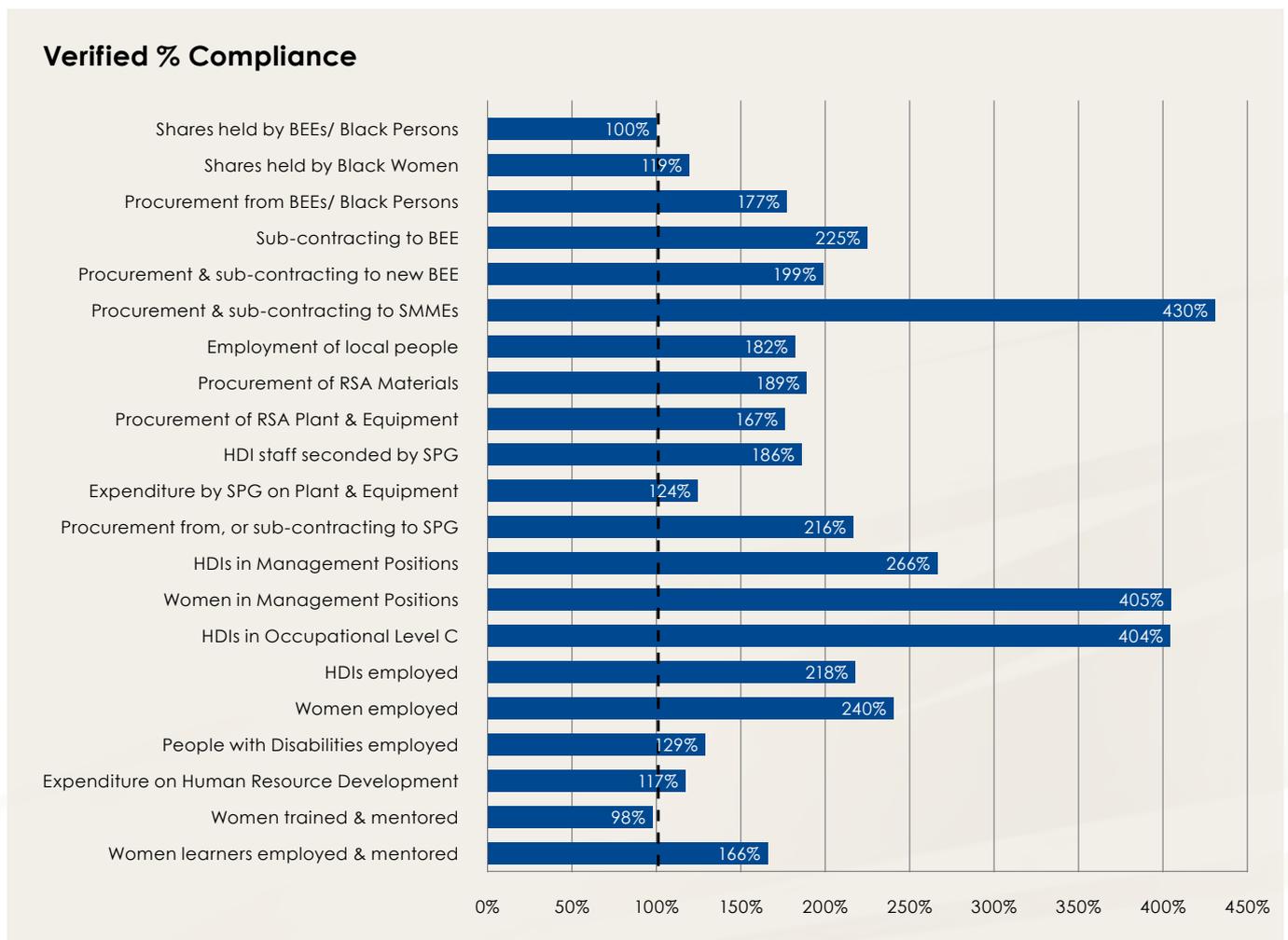


Figure 1: Concessionaire report

### 3.5 Skills Development and Training

As skills development is seen as the backbone of the SED strategy, additional funding was secured from the National Skills Fund for training. The process was managed by an independent consultant that, together with the Concessionaire, identified persons and required training courses for various training providers. The training specifically focussed on the skills required for the Gautrain Project.

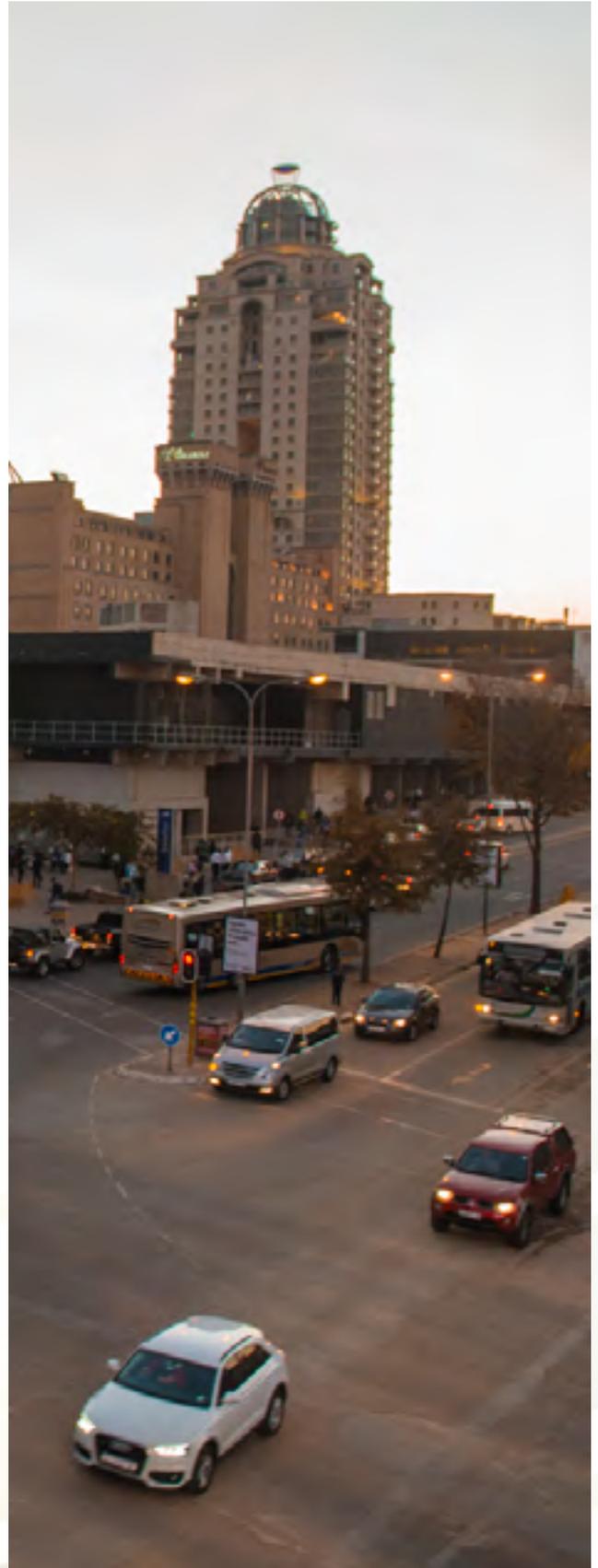
Training was delivered by professional service providers and commenced in January 2008. It included, among others, the following disciplines:

- Health and safety (first aid, fire-fighting, confined space awareness, ladders safety, etc.);
- Environmental awareness;
- Basic construction skills;
- Hand and power tool training;
- Mining/tunnelling;
- Steel fixing;
- Excavation and trenching; and
- Various heavy machine operations.

While onsite training was done at the Concessionaire's civil sub-contractor's training centre, the training was project-specific and mostly undertaken in the construction sector. It could be applied in other infrastructure-related projects.

## 4. LESSONS LEARNT

The Gautrain has created a benchmark in SED reporting in terms of the development of obligations, verification of the achievements, and reporting. The following lessons were learnt from the Development Period:



- When planning a project, decide on addressing specific project objectives that will tackle the socio-economic development aspects of the project. Following fairly extensive engagements between the Province's and Concessionaire's SED teams during the procurement phase – and the constructive engagement phase – various modifications were made to the measurement criteria for some of the targets. These goals were modified in the RFP III bid. An example of one such amendment was the suggestion made by the Concessionaire to change some of the targets from percentages to monetary amounts as it was believed that percentages alone were open to manipulation and/or misrepresentation. After the Concessionaire's appointment as Preferred Bidder, certain additional components were added and modifications to the criteria for certain others were negotiated, agreed upon, and ultimately incorporated into the CA.
- Make sure the relevant and applicable legislation and regulations, which would support socio-economic development objectives, are reviewed. For example:
  - National Development Plan – Vision for 2030 (2011);
  - Industrial Policy Action Plan (2010/11 – 2012/13);
  - New Growth Path (2010);
  - BBBEE Act (2003);
  - BBBEE Codes of Good Practice (2007);
  - National Industrial Participation Programme (NIPP);
  - National Industrial Policy Framework (NIPF);
  - Accelerated Shared Growth Initiative of South Africa (ASGISA);
  - Preferential Procurement Policy Framework Act (2000); and
  - Constitution of South Africa (1996).

At the beginning of the Project, there was limited legislation to guide the SED process. It was decided not to continuously include

reviewed legislation in the SED process as this would lead to ever-changing requirements for the verification process, and might even change the initial objective that was set.

- When determining targets, look at other benchmarks in the market – Independent Power Producers, PRASA and Transnet. In the case of the Gautrain Project, there was no benchmark that could be used in terms of the target-setting. The two SED teams agreed on realistic targets derived from the actual spending that would occur.



- In defining the elements, think about the questions that might come from the Parliamentary Committees, the Legislature and the media with regards to the Project, keeping in mind that the CA guides the level of access to information obtainable from the Project. The questions that were received were in line with the objectives; however, a more detailed breakdown of information was required, for example the number of jobs created, followed by the breakdown in gender and age. In terms of the CA, the Gauteng Province/GMA only has access to the number of jobs. Another example is the number of black entities that benefitted from the project, but their geographical location and ownership details are also required.

- Make sure that when definitions are defined, these describe the concepts clearly. The most debated definitions were those that could be interpreted differently by the parties. The “procurement from, and sub-contracting to” definitions, together with the local content (especially what is included in the “local material” definition and “women learners trained and mentored” and “employment and mentorship of women learners”) had to be clarified with regard to what is required to verify these elements.
- Consider developing realistic elements and targets during the planning phase. The Gautrain Project did not have any benchmark to measure their total and monthly SED obligations against.
- Consider flexibility to change the obligations during the project period. As with any other aspects of a project, the key to successful implementation is continuous improvement, which involves continuous review and adaption of systems, processes and operations to achieve a better result. This should also be applied with regards to SED, within the confines of the CA parameters. This did happen to an extent during the implementation phase where there was generally a good level of cooperation between the Province’s and Concessionaire’s SED teams in terms of the PPP concept, but there is always room for improvement.
- In the case of monthly reporting on the achievements, make sure that a structured format is used to create a continuous work process, and that up-to-date information is available for reporting and the establishment of a good database. Templates for written reports with quantitative and qualitative descriptions were also developed. The summary descriptions might use graphs that could be included in management reports.
- To ensure creditability in reporting on the SED results, independent monitoring was considered an essential component of the SED process.
- Watch out for fronting. At the stage of the implementation of major infrastructure projects, fronting was problematic. The majority of shares in the company were not held by black persons; however, these companies would be listed as BEs to obtain the contracts. A few cases of fronting were identified in the Project and appropriate steps were taken to address this.

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