WORLD BANK GROUP
Transport

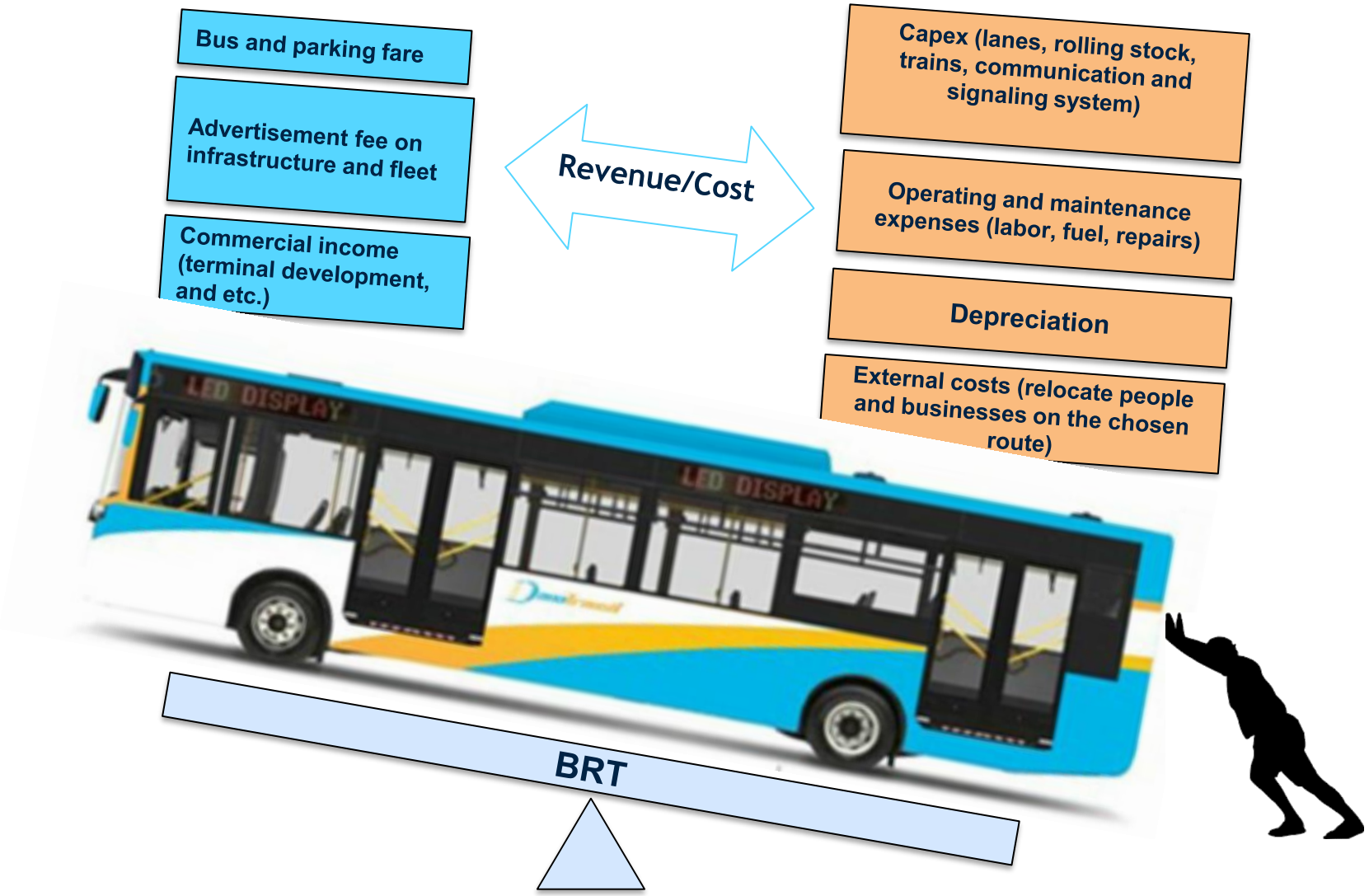
SSATP
Africa Transport
Policy Program

Enhancing Financial Sustainability and Commercial Viability of Bus Rapid Transit (BRT) in Sub-Saharan Africa

Transport Global Practice

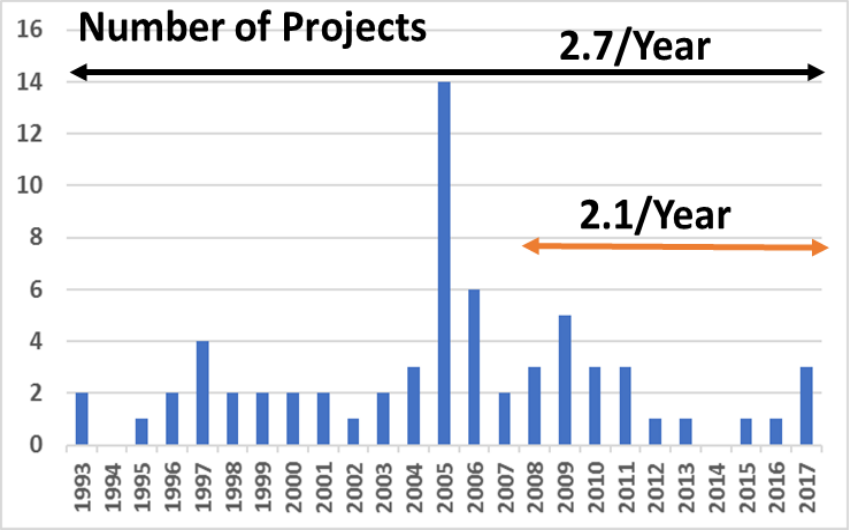
Hongye Fan,
Edward Andrew Beukes,
November, 26, 2019

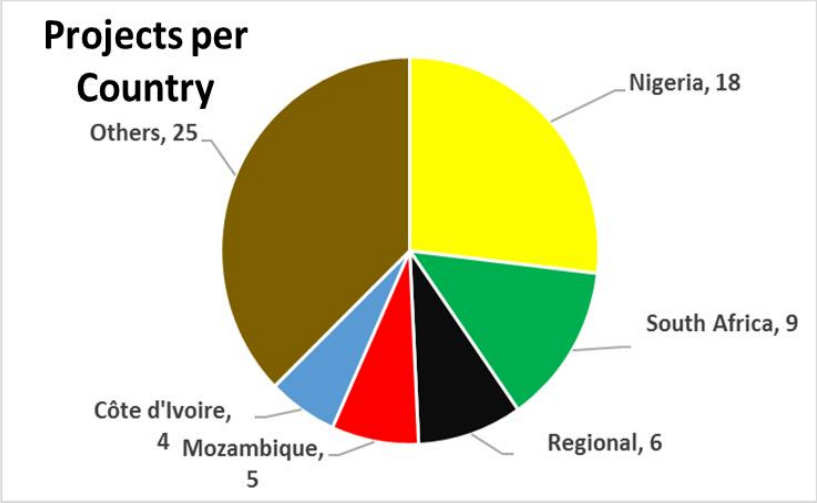
Many BRT systems encounter financing and funding gaps.



THE WORLD BANK

Despite often considered as a solution, mobilization the private and commercial financing is still challenging.





- ✓ **2.7 Deals/Year reached financial close (>US$25m private invest.) in the period 1993-2017;**
- ✓ **63% of all deals concentrated within 5 countries; and**
- ✓ **Only 24 out of 49 countries have generated successful PPP deals.**

THE WORLD BANK

The key questions is how to improve the financial sustainability and commercial viability of BRT systems in Sub-Saharan Africa, given its special context?

Commercial Viability:
Does the project have sufficient collateral, future cashflow, and high probability of success, to be acceptable to commercial financiers and investors?

Financial Sustainability:
Does the project have (or will have) sufficient funds to meet all its resource and financial obligations for operations to be sustained for the foreseeable future?

THE WORLD BANK

A World Bank analytical project was initiated to look in to the factors, private sector market, and identify solutions tailored to SSA cities.

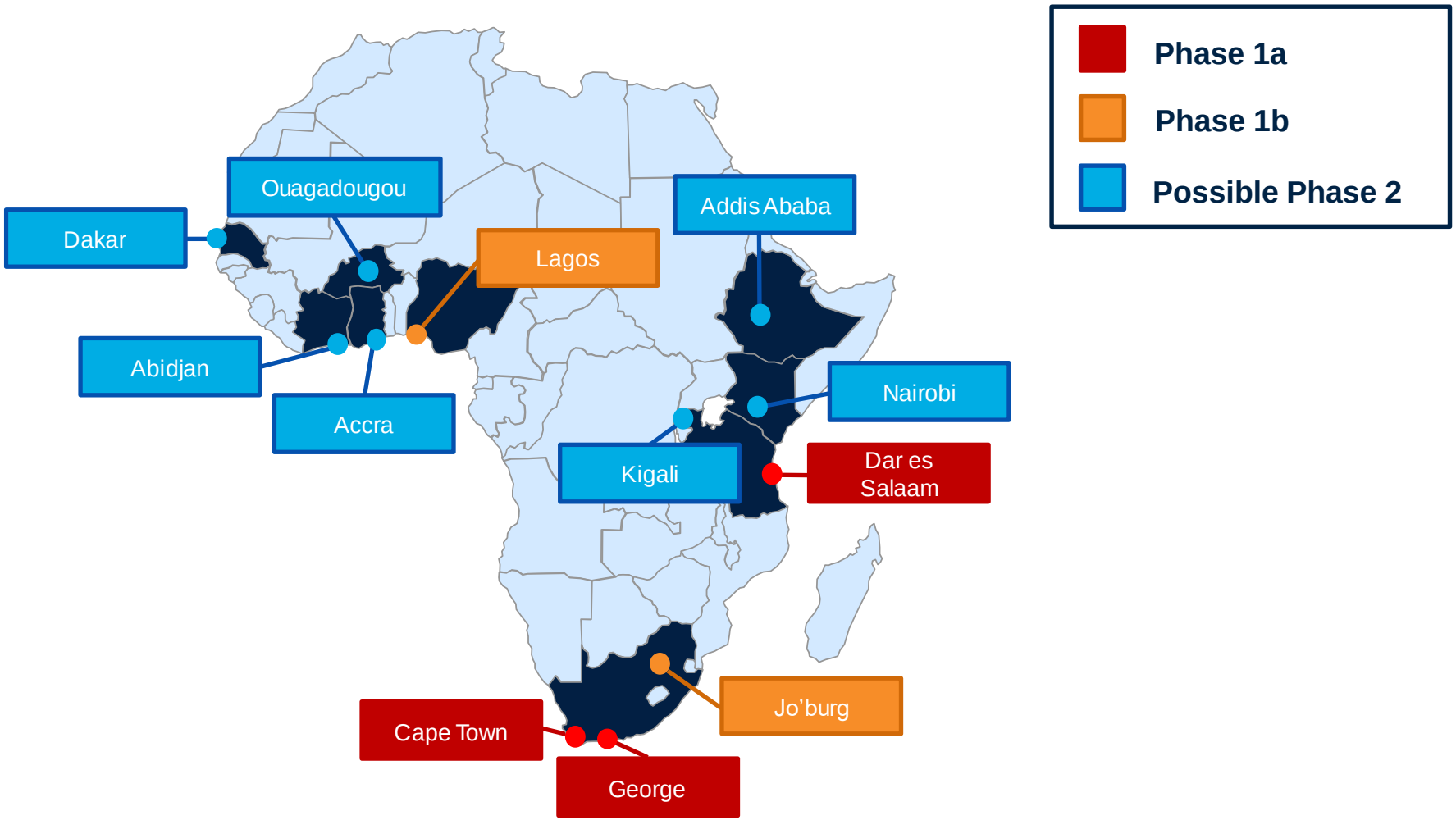
Identify key factors and develop a viability assessment tool

Investigate private sector's appetite and risk tolerance of BRTs in SSA

Provide tailored-solution packages for four cities in SSA

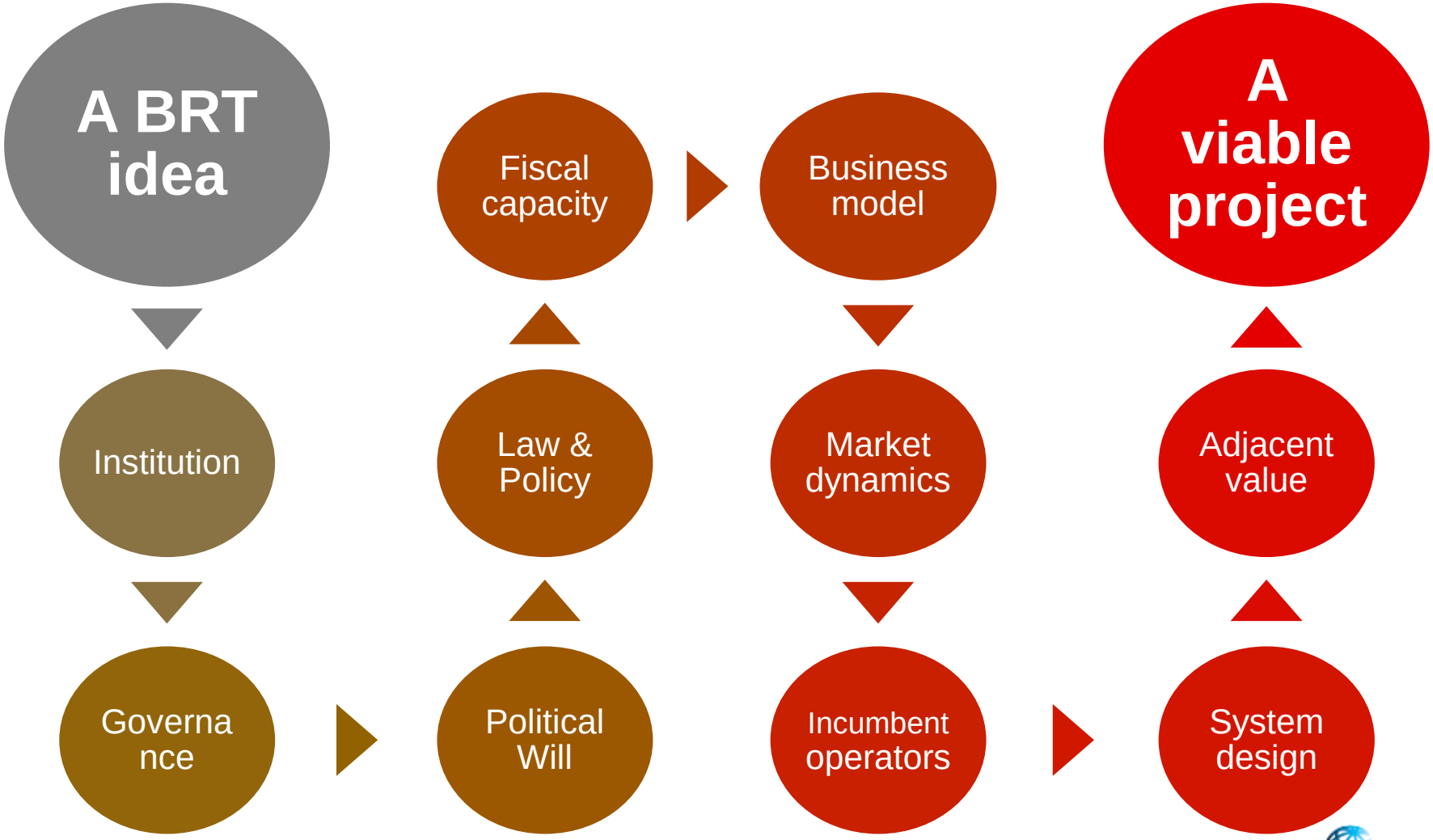
THE WORLD BANK

Current status: factor Analysis through in-depth case studies



THE WORLD BANK

Factor analysis contains ten major factors to make a BRT idea to a viable BRT projects.



At this early stage of the study, a number of critical and clear findings have emerged from case studies

Incumbent operators/ Paratransit system

Demand Pattern

BRT as a public service

VS

As a commercial viable project

Adjacent value opportunities

THE WORLD BANK

The role of incumbent operators is one of the most important factors influencing commercial viability of BRT in SSA.

Implications for commercial viability & financial sustainability
• Limited capacity to deliver BRT services. • Challenge accessing own capital for investing in BRT (‘paying their way’). • Have potential to influence BRT implementation and operations, e.g. unauthorised competition, strikes. • Cost and complexity of formalisation, capacity building and compensation.

Recommendation
Authorities need to give early and full consideration to planning and carefully managing the role of incumbent operators in SSA BRT systems, to make incumbent operators benefit from BRT systems via various options: a) shareholders of BRTs, b) operators of feeder service, c) corporatization, capitalization and qualification

The demand patterns (seat turnover, directional peak flow, trip distances etc.) are confirmed as a key determinant of commercial viability and financial sustainability.

Implications for commercial viability & financial sustainability

- Demand patterns are largely determined by land use and have an impact on the revenue that the system can generate and the cost of providing the service.

Recommendation

- Efficient system design can help to mitigate this risk and improve commercial viability, but in instances where demand patterns are suboptimal, there is likely to be a viability gap.
- In the long term, there should be a focus on spatial restructuring (e.g. mixed use densification) to further improve viability.

When the systems are in many facets designed fundamentally to achieve public service objectives, a viability gap needs to be filled to attract private sector investment.

Implications for commercial viability & financial sustainability

- Socially-determined fares may discount the system revenue
- Comprehensive quality service provision can be costly, in capital and in ongoing costs
- Together, these dynamics (low revenues, high costs) impact long-term success

Recommendation

Authorities must balance the social affordability and financial viability to ensure the reliable and sustainable BRT service:

a) Optimize system design and risk allocation for affordability and viability;

b) Mobilize dedicated and long-term source to fill the viability gap, e.g. national program of urban transport

c) Match financial incentives of private sector with achieving public goals

Adjacent value opportunities, particularly land value capture, have potential to improve commercial viability of SSA BRT if appropriately harnessed.

Implications for commercial viability & financial sustainability

- BRT infrastructure and operations could lead to the indirect generation of additional revenue
- This could be utilised to improve financial dynamics, attract (additional) private sector participation, and reduce the burden on government fiscus

Recommendation

As part of BRT planning and feasibility assessment, authorities should dedicate (additional) resources to exploring adjacent value opportunities, and the prospects of bundling these with the core BRT system:

a) Integrate BRT planning with city land use planning with consideration of LVC and TOD

b) Capture the land value increased by urban transport service improvement

Analytical tool (in development)

High-level analytical tool that can be used by stakeholders to asses likely commercial viability and financial sustainability of BRT projects.

Step 1

'Go / No Go' questions are completed - these are prerequisites that must be in place to achieve any level of commercial viability

Step 2

Factor	Questions	Scoring
Factor 1 (e.g. fiscal capacity)	Question 1	
	Question 2	
	Question 3	
	Question 4	
	Question 5	
		Average factor score
Factor 2		Average factor score
Etc.		Average factor scores
		Total viability score

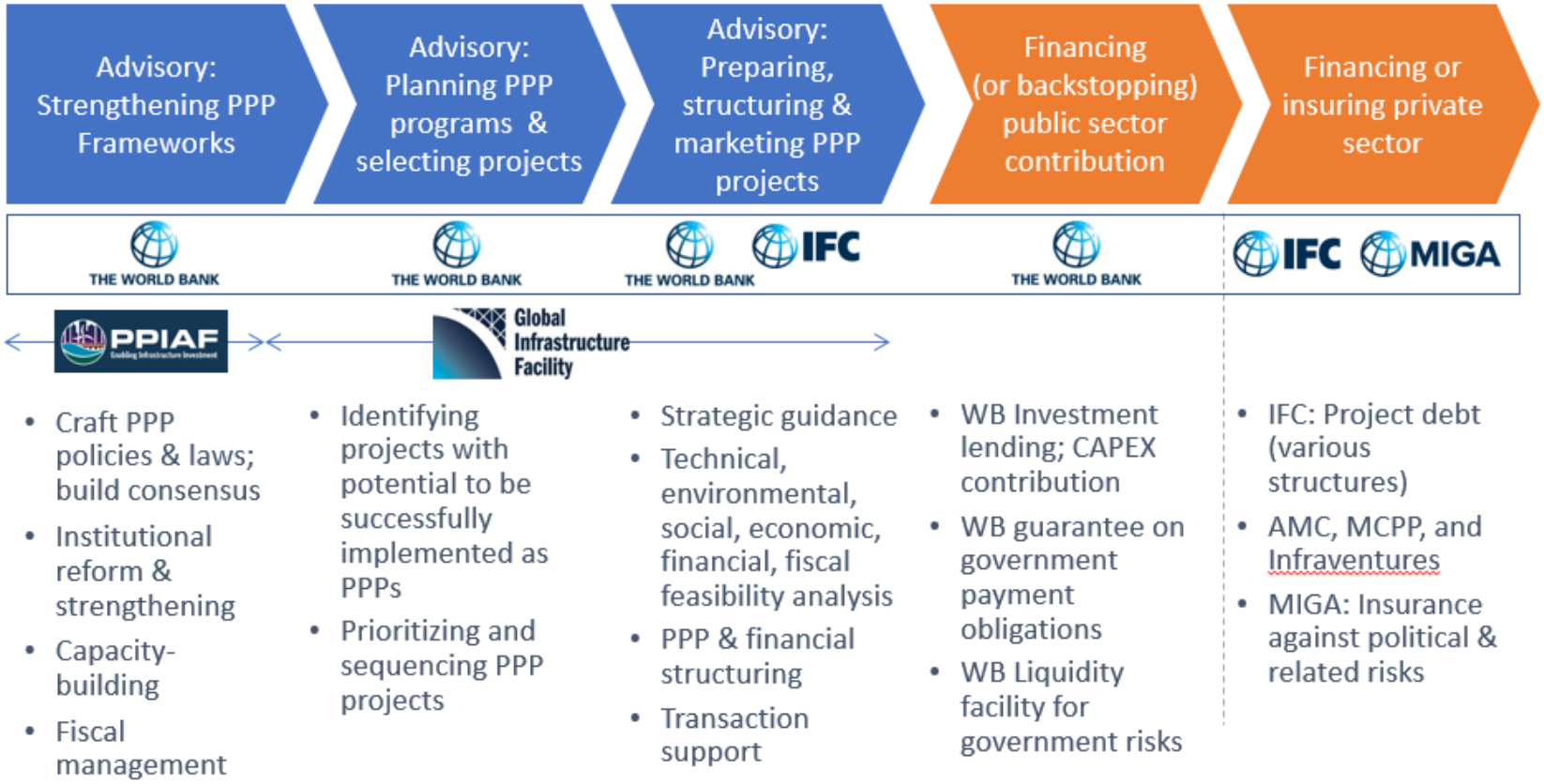
Additional questions completed for each factor - scoring each question as either red, orange or green.

Resulting in an average factor score and a total viability score.

Tool is modular and can be expanded and refined over time as more case studies are completed.

THE WORLD BANK

World Bank Group Instruments



THE WORLD BANK

Thank you!

Please Contact:

Hongye Fan hfan1@worldbank.org;

Edward Andrew Beukes ebeukes@worldbank.org

Annex: Key factors influencing private sector participation and commercial risk sharing

Factor	Description
Fiscal Capacity	The capacity of government (and supporting) stakeholders to effectively meet their financial commitments and obligations over the lifecycle of the program
Legal & Regulatory	The legal provisions and regulatory frameworks that allow for and govern private sector participation in the program
Market Dynamics	Passenger demand, and the passenger market's capacity to afford the service, influencing revenue generation and margin
System Design & Business Model	The system's technical ability to attract and support private sector participation, and cater for the public transport service need, in a sustainable manner
Policy & Political Will	The policies and will to promote and shape the project and private sector participation

Key factors influencing private sector participation and commercial risk sharing (cont.)

Factor	Description
Institutional Capacity	The structures, capacity and expertise in government to effectively fulfil its role around planning, designing, implementing, operating, and managing the project
Good Governance	The extent to which the government, private sector participants, and other stakeholders adhere to good public sector and corporate governance practices
Participation Model	Project participation model, structure, and arrangements between key stakeholders and role-players
Incumbent Operators	The influence on and role of incumbent operators (often largely made of an informal industry of private transport service providers) in the project
'Adjacent' Value	Emergent value generators with potential to boost system commercial returns