

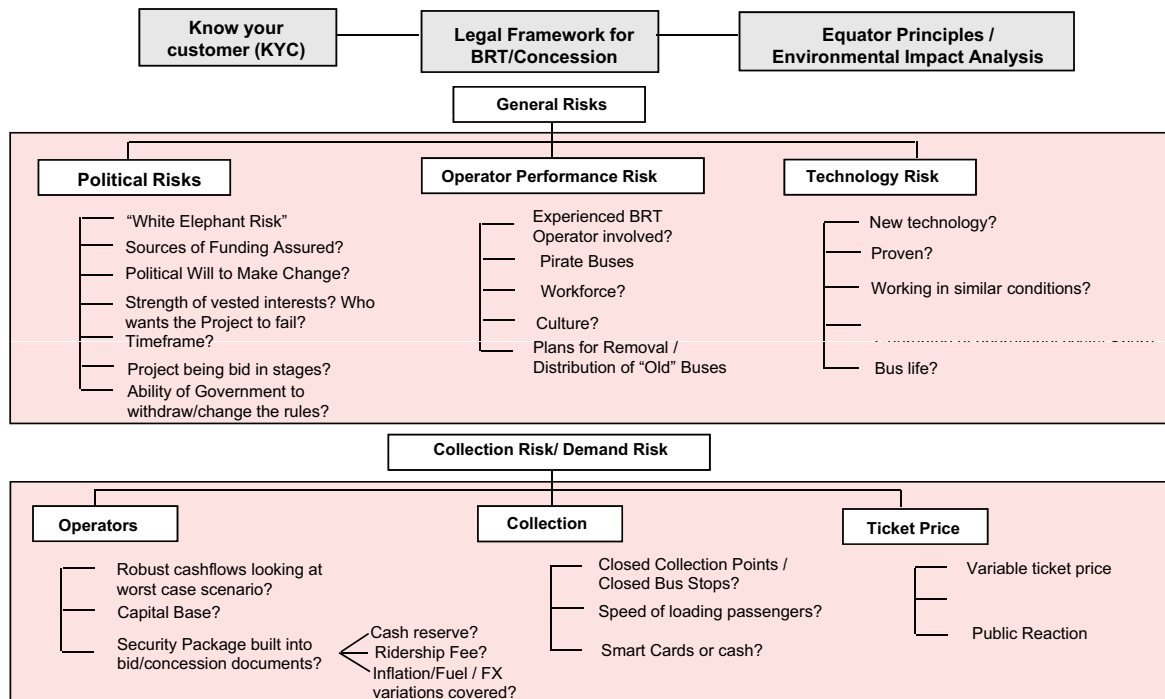
GLOBAL BANKING - PROJECT AND EXPORT FINANCE

How Banks look at Bus Rapid Transit (BRT) projects (and what Cities can learn from them)

Tuesday, 16th March 2010

HSBC 
The world's local bank

Overview



HSBC 

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Know Your Customer

- Know Your Customer (KYC) background checks:

These are required under Central Bank rules and under HSBC's own compliance and anti money laundering rules.

Risk

Difficult to complete with Co-operatives or multiple small shareholders.

Individual shareholders will fail KYC if they have legal judgments against them.

Mitigant

If drivers are to benefit from part ownership of the Bus Operating entity it could be not as shareholders but as employees with dividend rights via warrants.

Legal Framework for BRT/ Concession

- What laws apply to the Bus Operator concessions?
What legal protection do concessionaires/financiers have?

Risk

Lenders will not engage if they believe any new administration can change the Concession rules.

Mitigant

Cities should consider sending a senior team on a roadshow to potential lenders to convince them of the importance of the project to the City.

Cities can prove their track record on concessions.

Cities and lenders will ultimately have to agree a form of wording of concession contracts that can protect the interests of both sides.

Political Risks

- **“White Elephant Risk”** – the risk that only part of the Project is ever delivered and it cannot survive alone

Sources of Funding Assured?

Mitigant – pre-allocation of Government funds, Export Credit Agencies (ECAs) can be asked for limits for bus purchases at outset, local and regional development banks can be interested in the transformational and legacy elements of the Project.

- **Political Will to drive through Change?**
- **Strength of vested interests? Who wants the Project to fail?**

Mitigant – Bring local operators on board early on, engage with journalists and newspaper editors, work with parties that are not susceptible to local pressure such as International Banks and Government entities, ensure the key players are regularly briefed on the real facts.

Political Risks (cont'd)

- **Timeframe**

Timing is often too tight to test and refine the service before launch, but a poor service will damage the perception of the project for months to come.

Mitigant – Pitch first services as a *test service* for the overall Project, ensure expert bus managers are in charge, ensure rostering at depot level is pre-planned and well understood, devise multiple fall back plans to cover different contingencies as well as Public Relations strategies for each case.

- **Project being bid in stages**

The interest of Bus Manufacturers, Operators, Finance Parties and Central Government in a project can vary over time and several City Projects in the same country can start to compete with each other for resources.

Mitigant – Continue to roll out infrastructure development to demonstrate all projects are viable, maintain a continual dialogue with interested parties and stakeholders re the next stages, use sizes of bus orders to keep focus on your projects.

- **Ability of Central Government to withdraw/change the rules?**

Mitigant – Show that vision, investment and results are tied together and that public perception is being monitored and listened to.

Operator Performance Risk

- **No experienced BRT Operator involved**

Integrating personnel from disparate groups, establishing the required corporate culture, managing logistics and maintaining discipline are major challenges.

Mitigant - Increasingly potential local players are discussing partnerships with experienced BRT operators.

- **Workforce**

Often current minibus and bus drivers are not licensed to drive 18 metre and 12 metre buses and there may not be enough trained mechanics to maintain the new buses. Drivers/mechanics are unlikely to be employed by the new Bus Operator until shortly before the start of operations.

Mitigant – Require the bus manufacturers to provide training, look at providing payments/incentives for drivers to gain licenses during off peak hours before system start.

Operator Performance Risk (cont'd)

- **Pirate minibuses/buses**

There is a high risk that minibus and bus owners will run competing services alongside the busways taking revenue away from the system.

Mitigant – Enforce an exclusion zone either side of the busways and enforce the removal of minibuses and older buses from the system where their owners have joined the Bus Operator Company.

- **Removal/Destruction of “Old” minibuses and buses**

Old buses that remain in circulation when their owners/drivers have joined the Bus Operating Company ultimately compete for passengers with the BRTs.

Mitigant – Ensure that only old buses being used in feeder services work on the BRT routes. Liaise with National Government so that central funding can be used to purchase and scrap buses so that owners can invest in the Bus Operating Company.

Operator Performance Risk (cont'd)

- **Workforce/Culture**

Amalgamating different entities into a single operator will be a major performance risk.

Drivers must work to strict timetables if service frequencies are to be met.

Drivers will not be able to drive their buses home at the end of shifts so arrangements will need to be made for the transport of drivers from their homes to the new depots.

Must work for their wages and agree to work both peak and off peak hours as rostered.

Large numbers of drivers sacked in initial stages of some projects for theft of cash, radios, spare parts, failure to come to work, failure to respect timetables.

Mitigant The operator to have a very clearly defined management board free of sectarian influences.

Clear working practices agreed at outset with all parties and communicated effectively to the whole workforce.

An understanding that a frequency driven service requires exact departure timings to be adhered to by drivers.

Technology Risk

- **New technology?**

Risk that key technology does not operate as planned adding to operational/project risk.

Mitigant

Do not opt for exotic powerplants (bus bodies can be a new design).

Proven suppliers and technology should be chosen for Intelligent Transport Systems (ITS) technology and Collections.

The Cities should seek a guarantee of bus support from bus suppliers.

Bus, Collections and ITS suppliers should provide performance bonds.

Collections technology provider/service operator must provide *evergreen* performance bonds to ensure collections technology delivers or collections risk is covered.

Collection

- **Risk of system failing to collect income through high levels of evasion/theft of collection cash**

Mitigant

Closed, secure Collection Points/Closed Bus Stops.

Use of Smart cards with multiple and diverse top points away from Station stops.

Barrier access to stations away from platforms to still permit speedy loading of passengers.

Mobile inspection teams with card readers.

Collection Risk/ Demand Risk

- **Risk that Payment per km does not cover the Operator's costs**

Mitigant

Is per km amount based on assessed operational costs of individual bus type + spares + wages and financial costs?

Is it variable in line with inflation and increased operational costs?

Rather than a "virtual company" being modeled as a benchmark ensure that as far as possible real local data is being used.

Have the ability to vary the passenger fare in line with inflation/costs on the same basis as the per km payment.

Collection Risk/ Demand Risk (cont'd)

- **Risk of “Monday morning problem” creating a concept of obligatory evasion**

Mitigant

Look at maximum value limits on cards

Permit one journey in debit

Focus on number/spread of recharging points

- **Risk of typical fare evasion**

Mitigant

Closed bus stops

Inspectors/policing

Legislation vs fare evasion

Focus on developing and maintaining a culture that fare evasion is unjustified and wrong

Ticket Price

- **Risk that the system costs rise and subsidies are not available**

Mitigant

Variable ticket price

- **Risk that required fare rises are not implemented for fear of**

Political Acceptability

Public Reaction

Mitigant

Explain that BRT fares are based on a formula of costs and are variable in line with those costs (i.e. they increase in line with previous fares).

Risk Summary

- **Financial Risks**

- High Bus prices and low fares mean that the system will not break even without subsidies
- Financing of operator working capital needs due to cashflow deficits unlikely to be approved by Banks if there is no definitive subsidy
- Need to present lenders with acceptable System/Operator Risk and to verify eligible content if dealing with ECAs

- **System Risks**

- Environmental Impact Approvals?
- Local transport association involvement and BRT vs existing bus competition are key issues to be resolved.
- Collections and ITS providers

Risk Summary (cont'd)

- **Mitigants**

- Central Funds for destruction of old buses plus equity funding could reduce impact of bus cost on fares
- Implementing non-BRT bus and mini bus re-routing plans early on would permit higher BRT fares
- Facilitating the introduction of expert BRT partners could guarantee service quality, lower operator risks and improve efficiency resulting in lower per km costs
- Using proven Collections and ITS providers can reduce System risk