

## 3.0 Finance Engagement

Finance engagement issues relevant to the PRASA rolling stock fleet renewal programme

17 March 2011

# 1 Introduction

The South African Government (GoSA), through PRASA, is planning to renew the country's passenger rolling stock fleet over an 18 year period. This will require a substantial capital investment totalling around ZAR 100bn, as was recently communicated by the SA Minister of Finance.

It is recognised by the GoSA that this investment in the renewal of passenger rolling stock will require continued additional annual financial contributions from the GoSA for at least 18 years but potentially longer.

The following aspects may necessitate consideration from both private funders as well as public institutions:

- Efficiencies that could result from private funding
- The mismatch between the annual rolling stock renewal budget, and real renewal costs
- Possible need to spread the renewal programme capital costs over a period greater than the 18 years of planned renewal
- The potential discrepancy between what is financially needed in the first years of the renewal period and what is allocated by the National Treasury in the budget
- Benefits for the GoSA due to longer term performance/maintenance risk transfer to a privately/external financed consortium.

We have identified five potential groups of financiers that may participate in providing funding for the renewal programme, in addition to the direct funding from the SA National Treasury:

- Local and international commercial banks
- Multi-lateral and national development banks
- Rolling stock leasing firms (ROSCO's)
- Life insurance companies and pension funds
- Export Credit Agencies

## 2 Objectives of financier engagement

Interested financiers are invited to informally discuss their views, during the Financiers' Engagement with the Project Team, on at least the following issues:

1. Necessary terms and structure of the upfront financial commitment from the National Treasury/GoSA before tendering
2. Potential benefits of external/private finance involvement, including efficiencies
3. General concerns regarding third party financing of this particular project
4. Appetite of financiers to assume longer term performance/maintenance risk on the rolling stock, and conditions relating thereto
5. Envisaged and maximum tenors of the financing
6. Required guarantees/security
7. Optimal phasing/batching of financing contracts (assuming it would be impossible/inefficient to have a fixed financing upfront arrangement for the entire programme)
8. Necessary capabilities of the successful consortium/rolling stock manufacturer
9. Substance of relationships between consortium members, i.e financiers/rolling stock suppliers/ECAs
10. Other issues such as SA sovereign (currency) risk, risks related to (partial) local production, PRASA as the counterparty, etc.