

WEALTH ON WHEELS? THE MINIBUS-TAXI, ECONOMIC EMPOWERMENT AND THE NEW PASSENGER TRANSPORT POLICY

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1. Empowerment and the Taxi Industry

If economic empowerment is a synonym for wealth, and if wealth is taken to mean the formation, retention and appreciation of capital at a rate greater than that of inflation – then the taxi industry has signally failed to contribute to economic empowerment.

The fact that government has had to plan a recapitalisation scheme is a clear indication that the taxi industry has not managed to maintain and grow its investment. It can be argued that it has never done so (other than possibly in the very early years), and that its informal sector structure and rapid growth has disguised the fact that it is not economically sustainable.

By good fortune, government has just embarked on a new transport policy which has the capability of being used as a strategic tool to convert the taxi industry into one which will genuinely create, maintain and increase the wealth of the investors (as well, of course, as making significant improvements in South Africa's public transport system).

This is not the much-awaited recapitalisation programme – that is no more than a stop-gap – but rather the new transport policy envisaged in the 'Moving South Africa' project and which is being implemented through the recent National Land Transport Transition Act.

How this new policy and legislation is used will be a significant test of government's attitude towards the taxi industry, and thus to the spread of economic empowerment among the wider population rather than the élite which has tended to be the beneficiary since democratisation.

2. A Brief History

By the early 1990s the bus company Putco was in real difficulty. The rapid growth of the minibus-taxi industry during the previous decade had drastically reduced its passenger numbers – the taxi had come from nowhere to take some 65 per cent of the public passenger transport market. Government subsidy was reducing in real terms as inflation racked the South African economy. Large numbers of buses had been mothballed, and a fair number scrapped.

Yet in 1993, Putco was listed as No.3 in the annual list of the country's top 100 companies published by the Johannesburg *Sunday Times*. It had continued to pay very acceptable dividends, and its share price had held up remarkably well. Other large private bus companies were able to tell a similar story.

At the same time, that very taxi industry which had in just a few years claimed the majority market share, was well into a process of steadily diminishing net income. This was partly because of increasing competition within the industry, and partly due to substantial cost increases which had occurred mainly as a result of the shrinking value of the rand. One effect was that vehicles were not replaced even when they were life-expired.

Ten years later, the story continues, with much the same plot. In its annual results published in March 2001, Putco declared a profit before tax of R24,7m. on turnover of R374.6m – not great, but definitely healthy. In the taxi industry, by contrast, so critical has the situation become that government has considered it necessary to institute a 'recapitalisation' programme to enable operators to acquire new vehicles.

Why should there have been two such contrasting experiences? On the one hand, an embattled bus industry regularly making profits and largely maintaining its capital base, and on the other an expanding taxi industry making less and less money, and with a fleet of vehicles which – as an hour or so observation on any main road will demonstrate - is close to complete collapse. Why?

Subsidy is one element – bus and rail operations have received billions, the taxi industry not a cent. It is not the whole story, however – and in a way, the subsidy picture offers a guide to the real reasons for the different experiences of the two transport modes. The subsidy system is being converted into a competitive tender/contract format. There is no reason why taxi operators should not bid to become the service provider, either using their existing taxis or moving up to bigger

buses. Indeed, many government figures have urged the taxi operators to bid. In a number of cases, the tendering authority has arranged special training for local operators to enable them to tender.

These exhortations and efforts have, as far as we know, resulted in not a single bid, let alone a successful one, from the taxi industry. If there is one, it is most certainly the exception that proves the rule. Why has the industry as a whole, and the operators who – it is widely agreed – are natural entrepreneurs, not taken advantage of this opportunity?

While we are analysing this apparently surprising lack of initiative, we can consider other opportunities which the taxi industry has missed.

There is a history of approaches to taxi operators by commercial firms seeking to use the vehicles during what would otherwise be their down time. A number, ranging from brick deliveries (honestly! – in 500kg loads on trailers) to Telkom directories, have made it to the starting line. None has lasted – and many have ended in acrimony, with the commercial company feeling that it has wasted a good deal of precious management time.

Our analysis suggests that the taxi industry :

- has failed to adapt adequately to changing market conditions in its primary market, even though bus operators have managed to do so with some success; and
- has not been able to respond to new market opportunities, initially in the form of modest diversification, and now increasingly in the form of contracts for its core business of commuter transport.

So we ask again – why is this?

We think the fundamental reason is twofold :

- the *operational structure* of the industry is such that it does not allow taxi operators to adapt to meet changing conditions; and
- the *capital structure* is such that it inhibits their capacity to exploit new opportunities.

The two are opposite sides of the same coin, but we will consider them separately.

3. Operational Structure

The current operational structure is one of individuals operating one or more vehicles (a very small number have large fleets). They are loosely formed into associations, but the role of the associations is primarily to protect the interests of members by representing them. The only operational involvement is that the association will employ rank marshals to ensure order at terminals.

The actual operation of the vehicles is in the hands of the individual owners. Indeed, the operators are fiercely jealous of their independence. Suggestions which are made from time to time that they should in some way combine with other operators are met with strong opposition, based mainly on an uncertainty about what might happen in a larger organisation – that somehow they might lose out (or someone else gain at their expense) because they would not have the direct control that they have as an individual.

Yet this fear of ‘combination’ and the unwillingness to move towards it, is almost certainly what is preventing the industry from adapting to difficult operating conditions, and is very definitely preventing the development of new opportunities.

At its simplest, taxi owners must be willing to combine their operations so that their investment and the services operated by it are managed by professionals. A larger number of vehicles under one command will make it possible to afford such management by spreading the costs. An example already exists, in the form of the rank marshals whose costs are shared between members of an association.

This need not mean a change in ownership – and in the first instance it should not do so. A route can be operated with vehicles owned by the same investors as now, but with management of the operations – vehicles, drivers and terminal activities – ceded to a cooperative which will employ appropriate management.

The owner will be remunerated in a way which reflects the value and use of his vehicle. The costs of management will have to be met from total income. This may mean some reduction in net income – but not necessarily. In the present method of operation there are costs which, because they are not recognised and provided for, lead ultimately to higher costs. For example, the omission

of planned maintenance can lead to failure of a major component. Effective management may well lead to higher profits in the medium term.

This change to a *cooperative operational structure* will enable the industry to stabilise its current position (and will incidentally offer the best chance of success for the government's recapitalisation programme). It will pave the way for a subsequent development – a change to the *capital structure* of the industry.

4. Capital Structure

The present *capital structure*, like the operational structure, is that of an individual owning one or more vehicles. These are all of the same type – small 'microbus' vehicles carrying up to 15 passengers.

As we have noted above, this type of vehicle offers a great deal of flexibility, a flexibility which has rarely been utilised by the individual owners. But it clearly has its limitations, and these will be shown ever more clearly as government's new transport policies are implemented.

The minibus-taxi is not particularly efficient on high-density high-demand urban services. It often appears to be so because many costs which should be allocated to it are not so allocated. Planned maintenance has been mentioned. Driver training is another. And, of course, the fact that there is very little in the way of operational management and supervision keeps down costs but means that drivers can operate more or less as they wish, with consequent effects on standards and safety of operation.

The upside of the small vehicle is that it can provide a high service frequency, since there are fewer seats to be filled. Passenger comments during research by the Human Sciences Research Council on the recapitalisation programme show that a high frequency is rated as important, and that users fear a deterioration in this aspect of service if larger buses are introduced.

Drivers wages (or income, where there is no actual wage) are also almost certainly lower than those of bus drivers, at least those with the larger companies. It can be (and is, *inter alia* by free market apologists) claimed that it is better to have a larger number of lower paid people than a smaller number of more highly paid ones. Whatever the merits of this argument, it is being steadily rendered nugatory by government labour legislation. This will increasingly have its effect on the informal minibus-taxi industry.

But by far the most significant legislation is that contained in the National Land Transport Transition Act, Act No 22 of 2000. The sweeping nature of this Act is shown in the memorandum which accompanied the Bill introduced into parliament in February 2000 :

“The Bill is designed to bring about a fundamental restructuring (*present author’s emphasis*) of the laws regulating land transport in the country, with the emphasis on public (passenger) transport.”

The Bill had a long and complex genesis, but as the memorandum made clear, it ultimately stemmed from the Moving South Africa project :

“The Bill.....sets the scene for the long-term restructuring of the land transport system as envisaged by the Moving South Africa Action Agenda.”

The Moving South Africa project analysed the state of the South African transport system and concluded that it was in most respects inefficient. One of its principal recommendations in respect of urban passenger transport was that there should be an emphasis on ‘corridors’, so as to most effectively link residential areas with employment opportunities and shopping locations. This would increase densities, and would allow larger and more cost-effective modes of transport to be used. Routes and services would be planned by transport authorities, which would offer them to service providers by competitive tender.

It will be clear that these new policies will mean a far smaller role for the minibus-taxi in urban operations. But there will also be new opportunities for a taxi industry which is willing and able to accommodate change.

On 1 August 2000, Transport Minister Dullah Omar issued a statement which included the following :

“The issue of subsidies from which the bus industry benefit (but not the minibus taxi industry) was raised in meetings between SATACO (*SA Taxi Council*) and the Minister of Transport, Dullah Omar.the issue of subsidies has been raised as matter which needs to be looked at afresh. Accordingly, joint groups will be set up to look at the question of subsidies and to see how they should be dealt with in future.

“It is anticipated that as a result of the passing of the National Land Transport Transition Act, further changes will take place in the public passenger transport system. This will open up the subsidised transport arrangements currently dominated by a few monopolies to those previously excluded.”

That is the good news. The less welcome news for a taxi industry which has shown itself resistant to changes which will affect its traditional way of doing things, is that :

- (a) it can take advantage of these new opportunities only if it is prepared to change, including the willingness to use a variety of different vehicles; and
- (b) if it is not prepared to change, its traditional operations will be overtaken by events and will in due course be legally barred in many instances in favour of the new and more cost-effective forms of operation.

In the interests of black economic empowerment, it is essential that the huge capital currently invested in the taxi industry by ordinary rank-and-file South Africans should be converted to wealth-creating investment in the new transport system.

The only practical way in which this can be realised is for the present individual (and individualistic) owners on a route, or in an area, or as an association, to combine their capital into a company in which they become shareholders. This combined capital will be able to :

- (a) obtain the advantages of synergy – 100 units of R100 000 provide combined capital of R10m, and can thus provide the basis for raising further large amounts; and in this way
- (b) become more readily liquid as and when required, and thus enable a wide range of opportunities to be realised (not, of course, by any means all in the transport field).

5. Transformation

In summary, those who are today's taxi owners should be encouraged and assisted :

- (i) as a first step, to combine their operations in a cooperative format which employs professional management
- (ii) later, to combine their capital so as to be able to participate in the new opportunities which will be offered by government and to diversify into new fields of business.

There are three compelling reasons why both government and industry should be willing to consider these radical changes.

- 1) The present methods clearly are not working, in that the current industry is not economically sustainable. The recapitalisation scheme is evidence of that, as are the seemingly endemic turf wars. There is a lingering belief within the industry that it can recreate a situation where every owner makes handsome amounts of money, operating as he always has done, as an individual. That is simply not so. There was a brief 'golden age' from around 1978 to 1985, when costs were low and the market was expanding rapidly. It was typical of 'sunrise industries'. Those circumstances will not recur.
- 2) The government's new transport policy cannot work without a restructured taxi industry. It is simply impossible to conceive of a planned, integrated, orderly public transport system of which a large component is the informal, individually operated taxi (even if the 'taxi' becomes a 35-seater!).
- 3) The cause of black economic empowerment demands that the taxi industry be transformed, so as to spearhead a more broadly-based wealth creation and retention for the majority community. Taxi owners may not see this as a compelling reason for change; in the larger interests of South Africa as a whole, they should be persuaded of the need for them to lead the way.

6. A Transformation Strategy

Transforum has developed a detailed strategy by which the desired transformation can be achieved. Recognising the reality of the present taxi industry, the strategy suggests that significant change will take some 10 years. It describes, however, a process by which the planned transitional period of National Land Transport Transition Act (passed in June 2000) can be used to begin the process of transformation and economic empowerment.

The strategy has three phases, and can be summarised as follows.

1 : The Consultation Phase (years 0-3)

During this preparatory phase, no changes take place in the form of operation or the structure of the taxi industry but in which the industry makes the transition from the taxi process to the transport process. It will extend over a period of some three years – the transition period envisaged by the NLTTA.

2 : The Cooperative Phase (years 1-7)

During this phase, the taxi industry will move from its present format of highly individual operations operated informally, to a position where a route is served by a combined operating unit with professional management. That unit will operate a range of vehicles to meet the needs of the service plan of the transport authority, with which it will work closely - usually under contract.

The participatory phase may begin as early as a year after the start of the transport process proper. It will take a minimum of three years (ie, to year 4), and may only be completed in some areas by year 7 of the process.

3 : The Corporate Phase (5-10 years)

This final phase in the process incorporates the change from cooperative structures to proprietary companies, and the introduction of competitive contracting. It is very unlikely that this phase can begin earlier than the 5-year point after the start of the transport process, and it may well take a further five years to be completed.

The strategy also considers the part to be played by two current government initiatives :

- The *recapitalisation programme* is the government scheme by which taxi owners will be able to trade-in their old combi-type vehicles for new 18- or 35-seat buses.

It forms an important bridging passage between the democratisation activities of the taxi process and the transformation opportunities offered by the new transport policy. There are concerns that the programme has been over-complicated. The strategy considers the relationship between the recapitalisation programme and the new transport policy as introduced in the National Land Transport Transition Act.

- *Taxi cooperatives* were recommended by the National Taxi Task Team as being the means by which the industry could harness its bulk buying power. They have been slow to come into being. The strategy considers the variety of different roles which the cooperatives are apparently intended to play, and cautions against over-elaboration.

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Began his career in the UK in 1963 as a management trainee with British Rail. Subsequently held management positions in large transport companies.

Came to South Africa in 1981 to undertake research at the CSIR's Division of Roads and Transport Technology. In 1984, awarded Passenger Transport Medal of the Chartered Institute of Transport for paper "Strategic Marketing for Public Passenger Transport".

In mid-1980s became involved in minibus-taxi industry, and from there with broader issues of economic empowerment. In 1989 assisted in the development and launch of the Foundation for African Business and Consumer Services (FABCOS). In same year published book "Black Economic Empowerment - Shaping South African Business for the 21st Century".

Since 1994 has concentrated on the role of the minibus-taxi in the emerging transport policy. Currently writing book : "Wealth on Wheels?" (on future of minibus-taxi) as co-author with Dr Meshack Khosa of Human Sciences Research Council.