

Building brand equity as a dynamic capability during Gautrain public-private partnership patronage guarantee controversy

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Case summary

Learning outcomes

After completion of the case study, the students will be able to gain knowledge on public-private partnerships (PPPs) in emerging markets; understand how to apply the sensing element of the dynamic capabilities framework in analysing context, especially in emerging market context; and understand how to apply the dynamic capabilities framework to the process of developing brand equity.

Case overview/synopsis

On 20 March 2020, in Johannesburg South Africa, Dr Barbara Jensen Vorster, the head of corporate communications and marketing at the Gautrain Management Agency, was considering her dilemma of how to manage stakeholders at a time when the patronage guarantee was under question. The nature of the Gautrain PPP transport contract entailed a revenue guarantee that was called a patronage guarantee. How did they build their Gautrain brand equity during the Gautrain PPP patronage guarantee controversy? This case study highlights the perspectives of multiple stakeholders which places the Gautrain brand equity under strain. The Gautrain brand identity was created to project an integrated, overarching brand position for the construction project and later the operating company. The logo illustrated Africanisation, and the slogan “For People on the Move” represented a modern collaborative approach. Upholding the status of the brand is an important quest for the corporate communications and marketing team, and therefore the issue around the patronage guarantee must be addressed. This case study illustrates contrasting views about the Gautrain being elitist versus the rapid rail train enabling economic prosperity. The pro-prosperity versus pro-economic development values were at the heart of the different opinions around the patronage guarantee. Students are therefore confronted with their own values while the case study aims to drive an awareness or consciousness around these issues in an emerging market.

Complexity academic level

This case study is appropriate for advanced undergraduate and Master of Business Administration courses focused on marketing, communications and/or stakeholder management, such as in business and society courses. At both levels, the case study will be valuable in generating discussion on communications models and how to manage stakeholders ranging from government to community representatives. In courses where dynamic capabilities theory is taught, this case study will offer a specific application of this model in the context of brand communications and building brand equity in times of controversy.

Supplementary materials

Teaching notes are available for educators only.

Subject code

CSS 3: Entrepreneurship.

Keywords:

Dynamic capabilities; Crisis management; Stakeholder engagement; Government; Brand management

On 20 March 2020, in Johannesburg South Africa, Dr Barbara Jensen Vorster, the head of corporate communications and marketing at the Gautrain Management Agency (GMA), was on the Gautrain returning from a media conference where she had faced the media's questions about the government subsidising the rapid rail Gautrain. The multi-billion rand rapid rail train serviced South Africa's economic heart, Johannesburg. The media had intensified its concerns regarding issues of "mobility exclusion", as they felt the project prioritised the wealthy over the poor. The media coverage was threatening how the project was being perceived. In a country with so much inequality (Sulla et al., 2022) [1], Vorster thought, "How do we manage the partners in the project, perceptions of the media and the different interests of the communities around the project. There were so many moving parts".

She needed her GMA marketing and team (the team) to manage the stakeholders in the project, but how would they do that within a complex project that included government, the business community and the communities around the infrastructure?

The team

Vorster's team members included Dr Ingrid Jensen, a reputation executive manager; Sandy Roth, the marketing executive manager; and Tlago Ramalepa, a public relations specialist. In addition, the team worked closely with Dr Kesagee Nayager, the marketing and communications executive manager at Bombela Concessions (Pty) Ltd, the private sector partner in the public-private partnership (PPP) that operated and managed the Gautrain rail service.

The team had been navigating several public relations challenges facing the GMA over the years, from the development phase to the operational periods of Africa's first rapid rail project. The team had acquired a reputation as problem solvers with their peers in the rail industry and with key stakeholders in national, provincial and local government, as well as officials from key state-owned entities, civil society groups and the media. The current tensions around the financial arrangements of the project, namely, the patronage guarantee, would test the skills of the team at GMA and Bombela Concessions. The patronage guarantee impacted both these entities, and therefore they had to address all partners' interests in the best possible way.

Background on Gautrain relationships

South Africa's concession-based Gautrain rapid rail service, the African continent's first high-speed rail service (Thomas, 2013), was launched in 2010 to coincide with the FIFA Soccer World Cup hosted in South Africa. When construction began in September 2006, the Gautrain moved into the public sphere after years of negotiation and preparation for the large and complex public-private infrastructure project. The Gautrain brand was positioned as an African infrastructure project, "For People on the Move" (see the Gautrain logo in Exhibit 1).

The team realised that they would need to involve all stakeholders to create a brand that everyone believed in. The team had to identify and include external and internal key stakeholders, including scholars and students, business people, business commuters, private car owners, public transport users, travel agents and finally travellers who used O.R. Tambo, Johannesburg's international airport, as well as opinion leaders from national, provincial government, communication specialists, media representatives and brand specialists. They had to ensure that the Gautrain brand continued to perform well and to keep the interests of its stakeholders at heart and to maintain a positive public image (see Exhibit 1). In addition, they had to define what the patronage guarantee meant in ordinary terms because it was being misrepresented in the media. This was an important brand project for the GMA communication team.

Vorster noticed that the media criticised the patronage guarantee, the subsidy provided by the South African Government to Bombela Concessions. The media accused the GMA of draining public resources, particularly when integrated public transport needed development. Vorster felt that she could not afford to ignore this media attention on the organisation that she had invested much of her career in. The media reports came in regularly during this phase, and Vorster's team had to respond regularly to the claims they made about the Gautrain project.

Public-private partnership contracts

In emerging markets, public infrastructure projects were often too large for only governments to finance. For this reason, PPPs were entered into to share the risks and the costs of the project. PPPs were complex contractual arrangements that specified the roles and responsibilities for all the partners. These partners each had their own interests. For example, the government's objectives were to provide affordable transport to its citizens, the operator would want a return on their investment to operate the project, the management company would manage the project for a fee and the engineering companies would provide the initial infrastructure built at market-related costs.

The contracts provided the length of the relationship, legal recourse, a platform for negotiation with the partners and legal requirements for each partner. Legal firms were at the forefront of PPPs, and many had PPP units that specialised in these complex relationships. There were notable infrastructure-related concessions such as the Canal de Briarre of 1638 (France), the Mediterranean-Atlantic Chanel (Canal du Midi) of 1666, the Panama Canal (1881) and the Suez Canal Company's 99-year lease which commenced in 1869 (Grimsey & Lewis, 2007). The Gautrain was a first for Africa, but the model had been tested elsewhere.

From a legal perspective, the Gautrain patronage guarantee included several contractual terms between government and the GMA/Bombela consortium as the private sector public service provider, with provisions relating to an operational subsidy used to meet the shortfall between

the commuter ticket fare and value-added services (e.g. advertising) and the cost of operating the rapid rail service. With revenue generated from ticket fares and value-added services by Gautrain ranging between 90% and 105% of the cost of operating the service in the past three years, it was necessary to call on the operation subsidy component of government's patronage guarantee.

The concept of a patronage guarantee

A patronage guarantee was the subsidy that governments provided to make infrastructure more affordable for the users. In the Gautrain project, government subsidised the fares to fill the gap between the actual cost and the affordable cost that would be passed on to the commuters (see Exhibits 2 and 3). This had all been agreed in the initial phase of the project, but the project was not without hiccups. And this had to be better communicated to the public, including the media.

The media reported that the project costs were escalating beyond the initial mapping phase (Vegter, 2019). The operational subsidy component of the patronage guarantee was widely reported in the media to have been as low as R360m historically but had increased in recent times to R1.5bn a year, highlighting another criticism that the project costs were escalating beyond the initial mapping phase (Vegter, 2019). Vorster reflected on this latest crisis that had to be resolved. The reports emerged after a year of national and provincial elections in South Africa, where the public budgets had been under scrutiny. They had the potential to derail Gautrain's efforts to improve the much needed consumers on the rapid rail service which would, ironically and simultaneously, reduce the need to rely on the government guarantee. Secondly, they had the potential to detract from prevailing strategic plans by the GMA and political efforts at the provincial [2] government level to expand the rapid rail service to other parts of the province. The success of the project could not be assured with escalating public criticism.

The Gautrain rapid speed rail service had attracted strong negative and positive responses in equal measure. Those opposing the Gautrain argued that it was an unnecessary luxury that benefitted the business (Thomas, 2013) and political elite (Van Der Westhuizen, 2007). On the contrary, those supporting the Gautrain pointed to the decrease in the effects of traffic congestion, enhanced environmental friendliness and reduction in traffic accidents (Van der Merwe et al., 2001). There was international evidence of rapid rail as a service that contributed to a transport modal structure that was supportive of environmentally friendly rail transport (Albalade & Bel, 2012). An independent analysis of the economic impact of the Gautrain initiative by KPMG reported that the service would result in positive environmental effects because:

- it would lead to a reduction of over 585,000 vehicle kilometres per day;
- reduce traffic congestion;
- contribute to a reduction in traffic accidents with net positive saving of almost R500m per year; and
- significantly reduced travel time for passengers [3].

Even before the launch of the service in 2010, Vorster and her team had the challenging task of building relationships with all the stakeholders of the project. This required them to be sensitive to the politics of the day, manage community opinions about the brand and build

existing relationships strategically. The climate of public sentiment was negative, and she contemplated how she would craft a message that would educate key stakeholders.

The team had to ensure that the concept of patronage guarantee was understood and accepted by all stakeholders. She considered how the GMA and Bombela Concessions' communication teams could balance the interests of the South African Government as represented by the GMA, the private sector operator as represented by Bombela Concessions and the larger community. The team had to focus on the objections around the patronage guarantee in the media and manage the relationships in the project.

Economic importance of commuter rail in South Africa

South Africa had a history of rail that dated back to the British occupation of the country. Rail ran from mines to the ports to take the raw materials out of the country. Passenger rail, however, connected small towns to each other through affordable rates for long-distance travel and daily commuters. The Gautrain offered a new way of looking at rail transport. Gauteng, the most populous and richest province in South Africa, had positioned itself as a world-class cities region and motivated an investment in an urban rapid rail as part of its commuter rail service network. The province of Gauteng accounts for a third of the South African population. The justification for an investment in rapid rail by the Gauteng and South African Government was not without opposition in a country with many justifiable demands on its limited resources owing to imbalances and injustices occasioned by both its contentious race-based political and economic history (Lipton, 2014). The negative consequences of South Africa's race-based discriminatory history were evident in the low-income community next to the Marlboro Gautrain Station, a hub that serviced South Africa's largest airport route, Sandton and transfers to Pretoria.

Concession and economic risks

Consistent with developments in other countries that had adopted high-speed rail services, the South African service was characterised by the privatisation of public transport (Chang, 2013). The service was provided by a private entity under the supervision of a government agency (Stanley & van de Velde, 2008), especially in concession regimes (Pedro & Macário, 2016). The relationship between the private entity and government agency was underpinned by the concept of the patronage guarantee, which formed part of the risk-sharing (Chang, 2013) contractual arrangements between a government agency and a private sector operator in the provision of a public service (Bray & Mulley, 2013) The government and private sector partners entered into the PPP to reduce their risk exposure. Communities needed to be reimbursed for their land that the project had identified for the tracks. This was a complicated arrangement that was being aired in the media.

Vorster reviewed the different elements of the agreements and explained their multifaceted approach:

We had to communicate the several concession risks which included cost risks, such as construction, maintenance, and operation; demand risks that included commuter forecasts and revenues; financial market risk, which was linked to future interest rates; and, political risk including regulations, and parallel public investment on adjacent parts of the network (Bruzelius et al., 2002). The South African government had chosen

to mitigate most of the concession risks and tolerate one type – the demand risk. It was a complex relationship and every party's needs had to be considered.

The team had to oversee all these risks as part of the management company. The decision to tolerate demand risk by way of providing a patronage guarantee was taken at a time when the South African economy was growing at a modest rate of 3% as measured by growth domestic product (GDP) [4]. The Gautrain investment was premised on a view to contribute to a further GDP growth uplift.

Unfortunately, consistent with sluggish economic growth rates following the 2008 global economic recession, the South African economic growth rate had languished between negative growth rates and muted positive growth of between 1% and 2% [5]. This had contributed to the Gautrain traffic forecast being lower than the 134,000 anticipated daily users (PMG, 2005). Vorster knew that both the GMA and Bombela Concessions needed to do more to communicate the benefits of the rapid rail service between two of South Africa's major cities, Sandton and Pretoria, to improve the revenue shortfall through increasing rider volumes on the Gautrain rapid rail service.

Stakeholders of the Gautrain

Vorster knew that stakeholder management could make or break a project. It was also important, because of South Africa's inclusive policies in the post-apartheid 1994 period, to ensure that each stakeholder partnership was included and informed. If they did not engage with a particular group, the project would be delayed or not succeed. To guard against exclusion, the team had identified nine key stakeholder groups in the project. These included internal target groups, government, mass media, interested and affected parties, affected communities, Gauteng residents, national and international businesses, industries and sectors, environmental organisation and potential passengers (Gautrain Management Agency, 2024). In fact, their most important partner was Bombela Concessions. Vorster considered how the team could address the needs of each of these stakeholders to ensure the continued success of the Gautrain rapid rail service.

Gautrain Management Agency

The traditional media and other partners had made the connection between the patronage guarantee and the declining commuter levels (Vegter, 2019). Rail developers in many countries found that accurately estimating ridership was a huge challenge, especially prior to concluding a concession agreement (Albalade & Bel, 2012). Overestimating the effects of customer demand on the contractual arrangements had been a common feature of rail projects (Beria et al., 2018). However, Vorster did not believe this was the cause of the current problem. She was convinced that the project team had demonstrated an effective decision-making process, unlike many of the decision biases exhibited in rail project cases in Italy and Spain (Beria et al., 2018) as well as Denmark and Sweden (Bruzelius et al., 2002).

A decline in customer patronage on the Gautrain rapid rail system would increasingly be burdensome on the South African Government (Pedro & Macário, 2016). Vorster's team doubled its efforts to arrest the decline in customer patronage. To do this the GMA had to navigate its tricky relationships with partners, including their private sector partner, Bombela Concessions.

Roth, the executive manager of marketing, explained:

The approach undertaken by the GMA and Bombela to the customer patronage was informed by different dynamics. The GMA communications and marketing activities were *about-the-line* because they were motivated to increase the customer patronage of the service. To this end, GMA needed the flexibility and agility to generate customer demand through campaigns targeting special events and off-peak special interest groups like families, school children, women through the women learnership programme and non-profit entities like *Reach-for-a-Dream*.

According to Roth, many of the campaigns developed by the GMA were informed by the concept of behavioural marketing, targeting consumers' discretionary time such as weekends and holidays, as this was when customer demand on the Gautrain declined. Notable events campaigns that targeted consumer discretionary times included the trend-setting "Dinner and Blanc" at South Africa's iconic Constitutional Hill, the eclectic "DSTV Delicious" food and musical event and a youth-focused musical event "Afro Punk". Each event created an opportunity to shift behaviour among South African travellers. Instead of them using their vehicles to attend such discretionary events, they could consider using public transport. The GMA team saw these events as an opportunity to position Gautrain as a viable and safe alternative to using motor vehicles. Accordingly, GMA motivated for the Gautrain rapid rail service to be kept open longer than normal to accommodate party-goers to the special events.

To enable its campaign that targeted discretionary rail service users, GMA partnered with state-owned entities such as the Passenger Rail Service of South Africa (PRASA) and non-state-owned entities Gold Reef City, Rea Vaya, Multichoice and Discovery. PRASA was the provider of traditional rail services, and Rea Vaya was owned by the City of Johannesburg, bus rapid transit system. Partnership with these providers of transportation provided a multimodal approach to transportation in a country devoid of an integrated transport system. Gold Reef City was a privately owned gambling, entertainment facility and theme park, Multichoice was a leading television entertainment company and Discovery was a leading health and wellness company. Through partnering with these leading private sector branded companies, Gautrain was able to provide access to experiences valued by their rail service users. The marketing campaigns like these contributed to increased demand for the Gautrain rail service during off-peak periods.

Bombela Concessions

The private sector partner, Bombela Concessions, was incentivised to keep the costs of operating the systems as low as possible. Bombela Concessions had to offer predictability and structure for employees, train and bus drivers and cleaners to keep costs down. Bombela Concessions was therefore incentivised to operate within a particular time window when it could be assured of peak travel patterns. Operating outside of pre-determined peak travel periods was argued to be uneconomical. Bombela Concessions also bore the risk of cost escalations that could also be caused by contractual penalties for failure to provide the service according to certain pre-agreed performance standards.

Bombela Concessions focused on operational communications and marketing, the so-called *along-the-line* marketing. Nayager, the marketing and communications executive at Bombela Concessions, explained:

Our communication and marketing activities were aimed at ensuring that we were able to communicate with patrons of the Gautrain. We had to make sure that, as the operator, we were able to perform to agreed standards.

The GMA and Bombela Concessions operating logics thus were inversely related. Therefore, GMA and Bombela Concessions officials had to purposefully collaborate to address the declining customer patronage, especially relating to campaigns. Roth explained:

Before launching a campaign, the GMA met with the Bombela operator to pitch a campaign to them, because the operator needed to provide use-permits for such campaigns or events. The use-permits were managed by the operator because they had the responsibility to manage the rail system.

This view was expressed with concern because often Bombela Concessions had been reluctant to accede to providing a rail service outside the pre-agreed normal time table. Therefore, the patronage guarantee had to be explained in an environment where scheduling and customer forecasting was undertaken in increasingly complex modes of urban living and working.

Government partnerships

The partnership with government was twofold. Firstly, the Gauteng officials were intent on having the first rapid rail train in Africa in their province. They were under pressure to make the project work and to place the ruling party (the African National Congress) in a favourable light. Secondly, as a government that had many commitments to provide social safety nets from the main budget, the officials had to think carefully on how they allocated additional funds to a “luxury” project. The Gautrain officials had committed to a “world-class” city where the rapid rail project played an important role. Dr Ismail Vadi, the then provincial minister of transport, was reported saying:

[C]entral to the development of any economy lies the country’s transport infrastructure development (Gauteng Provincial Government & KMPG, 2014). Transport is an important driver for the economy.

Vorster was very aware of the relationship she needed to maintain with the government:

We are responsible to the provincial government and have to make sure their interests are met in our strategy. This is not easy because we are managing public and private sector interests.

Media interest

While the traditional media had shown sufficient interest in key rail providers in South Africa such as Metro Rail, PRASA and Gautrain, media knowledge of different modes of rail remained low in South Africa. Despite this, the traditional media community had always been considered a key stakeholder by the team. The team realised that positive relations with the media contributed to building substantial brand equity at a low cost.

Vorster recalled how the development of the Gautrain brand was both organic and subsequently deliberate. Organically, Gautrain as a name brought together its host province, Gauteng (the province of gold) (Lukasiewicz, 2017), and its purpose – a train service. This was initially

conceived by the politicians. The media played a crucial role in the dissemination of the brand message targeted at international and local travellers, affected communities and the business sector.

In particular, the media facilitated the interplay between the supporters and detractors of the Gautrain project and subsequent rapid rail service. Accordingly, the traditional media had long been concerned with the Gautrain patronage guarantee provided to Bombela Concessions. As far back as 2011, leading newspapers reported that “Bombela promised millions in ‘patronage guarantee’” (Staff Reporter, 2011) and “Taxpayer to Subsidise Gautrain” (Flanagan, 2011). In these articles, the patronage amount paid by the government to make up for the revenue shortfall was reported at R259m and rising to R360m in one fiscal year. More recently, around 2019, the subsidy had increased sixfold to R1.54bn since the fiscal year ending 2011 (Vegter, 2019).

While the escalation of patronage guarantee to R1.54bn reflected a worrying trend, this was consistent with R6.1bn subsidy that had been provided to PRASA in the same period. PRASA’s subsidy was projected to grow to R6.7bn by 2021 (PRASA Corporate Plan, 2019/2020). Despite the well-established practice of public transport subsidisation and the specific scale of rail transport subsidisation, the consistent view espoused by the traditional media was that the Gautrain patronage guarantee was benefiting the wealthy travellers at the expense of the poor, who were PRASA commuters. While acknowledging that this was a bitter pill to swallow, Vorster wanted to find a way to convey to the traditional media and key stakeholders that the notion of subsidising public transport was a norm all over the world (Gómez-Lobo, 2009). It made it difficult that even though this view was also supported by academics in transport economics (Serebrisky et al., 2009; Gómez-Lobo, 2009), she still needed to explain this view in a persuasive manner to the media. In recent years, interest groups gained more support particularly in relation to environmental protection. The Gautrain had tracks running through green belt areas. The electric Gautrain was environmentally friendly, but there were other angles that needed to be followed up on. The team was considering how they could build their relationship with these target public groups.

Gauteng residents and affected communities

Residents and communities relied on the media for their information on the project’s developments. Several home owners were moved and reimbursed from their properties when the tracks were first laid along the Gautrain route. The surrounding low-income communities at Marlboro station on the airport route remained a key partnership. The patronage subsidy would be evidence of government’s commitment to expensive infrastructure projects, while the Alexandra community remained underdeveloped. How could the team work with this group to help them understand government’s support of the rapid rail train?

Moving forward with communication around the patronage guarantee

Vorster together with her team knew that it would be a difficult road forward. How could they manage the complex partnerships they had for the benefit of the success of the project? What strategies could they use to meet the needs of all the stakeholders?

Notes

1. In 2018, South Africa was the most unequal country in the world, with a Gini coefficient of 0.67 where 1.0 is a perfectly equal country. The Gini index measures the levels of inequality among individuals, households and the economy (Sulla et al., 2022).
2. South Africa has nine provinces (a state in the US context) that are each led by an elected provincial government. These provincial bodies have their own budgets and manage projects in collaboration with the national government (the federal government in the US context).
3. KPMG, Gautrain Economic Impact Study, GMA Executive Summary.
4. Stats SA: South Africa's GDP was growing at the rate of 3%.
5. Stats SA: South Africa's GDP was declining.

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Disclaimer. This case is written solely for educational purposes and is not intended to represent successful or unsuccessful managerial decision-making. The authors may have disguised names; financial and other recognisable information to protect confidentiality.

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Exhibit 1. Gautrain logo showing Africanisation and slogan

Figure E1

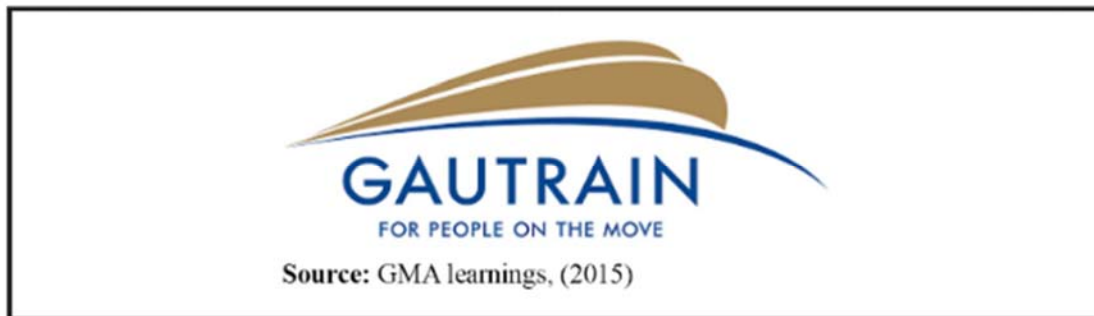


Exhibit 2. Patronage fact sheet

Table E1. Annual patronage guarantee payments

Period ending	Patronage guarantee (OG)* in R thousands
10 months to 31 March 2013	R831,363
31 March 2014	R1,031,732
31 March 2015	R1,109,464
31 March 2016	R1,201,674
31 March 2017	R1,350,680
31 March 2018	R1,571,858

Source: Authors' compilation from the Gautrain Management Agency website and the Integrated Annual Reports www.gma.gautrain.co.za

Exhibit 3. Concessionaire required yearly income to cover cost

The patronage guarantee was the amount that the Gauteng province was contractually committed to pay the concessionaire every month, should the concessionaire's monthly revenue cash flows not meet a defined minimum level. That is, the yearly income required by the concessionaire to cover all its costs, namely:

- all operating costs of the total Gautrain system;
- all maintenance costs during the concession period, including replacements and upgrades;

- all costs required to hand over the system in a prescribed condition to Gauteng province after the completion of the 15-year concession period;
- the total re-capitalisation of the 125 buses in the fleet;
- debt servicing and repayment; and
- return on equity for the shareholders.

Source: Patronage Fact Sheet (2019) Gautrain Management Agency, Annual Reports

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