

The Managerial Dilemma of E-Toll Route Implementation in South Africa

It was a balmy morning in early 2016. Senior Project Manager Micah Bailey looked over at Anil Rizal, who was standing on the balcony of his Chief Executive's office at the South African National Roads Agency headquarters in Pretoria. Rizal was considered a legend in the construction management world and for Micah to have the chance to work with him had been a major step forward in his career. Micah sighed heavily. The pressure of the preceding months was weighing on him.

They were both quite concerned about their current situation. They were in a multi-party struggle surrounding the implementation of the ambitious and much-needed Gauteng Freeway Improvement Project. On one side was the agency's mandate to construct and finance the country's main roads via the most efficient and equitable sources of capital. On the other side was the opposition to the introduction of the project, which included a sizable lobby of local politicians and trade unions. This group felt that the tolling aspects of the project would result in the double taxation of road users. Both Rizal and Micah had always thought that the opposing sides could be brought together, but the escalating intensity of the standoff between them to date had surpassed their worst nightmares.

Both men were desperately looking for a way to put the project back on track before the unrest that had been building up exploded or the project got cancelled by the fractious government.

This case was prepared by Hlompho Ntoi and Lawrence Thomas, GEMBA 2016, under the supervision of Professor Joaquim Vilà, as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. December 2016.

Copyright © 2016 IESE. To order copies contact IESE Publishing via www.iesep.com. Alternatively, write to iesep@iesep.com or call +34 932 536 558.

No part of this publication may be reproduced, stored in a retrieval system, used in a spreadsheet, or transmitted in any form or by any means – electronic, mechanical, photocopying, recording, or otherwise – without the permission of IESE.

Last edited: 12/13/16



Background on SANRAL

The South African National Roads Agency Ltd (SANRAL) was a company established in April 1998 with the objective of funding, maintaining and developing South Africa's national road network. That road network had a total length of about 21,400 km as of late 2015. SANRAL was also responsible for managing South African infrastructure assets with a depreciated replacement value of around US\$16 billion, excluding land value considerations. To accomplish this, SANRAL worked with an extensive network of contractors and project managers to carry out its large portfolio of projects. For many of these contractors and professional engineers, SANRAL was a major source of revenue.

Since the advent of democracy in South Africa in 1994, the government had tried to correct past imbalances. In so doing, it sought to realign its public expenditure and the financing of public services. Because of the uncertainty caused by the sheer size of the various demands on the South African budget, SANRAL proactively sought alternative sources of financing for road infrastructure as well as opportunities to reduce its dependence on tax-based revenues. In this way, SANRAL had successfully developed a number of intercity toll roads funded by itself and through concessions awarded to the private sector. This had enabled it to use the residual capital from such endeavors to develop some of its own toll roads. It was also able to create, expand and maintain untolled national routes (86% of its portfolio) across South Africa. In pursuing the aforementioned projects, SANRAL had maintained and augmented South Africa's reputation as a leader in national road connectivity within Africa.

Anil Rizal's Tenure at SANRAL

Anil Rizal's term as the head of SANRAL had been scheduled to end in August 2015 when he turned 65. Rizal had led SANRAL since it came into existence in 1998 and was known as the "Lion of SANRAL." Rizal began the South African chapter of his career as a principal engineer at one of South Africa's largest civil engineering firms in 1982. He later became a respected consultant to the World Bank and then moved into a senior position at the Ministry of Transport before taking over the helm of SANRAL. As a black person of Indian descent, Rizal had to attain his engineering qualification outside South Africa, in the United Kingdom, during the 1970s. He had returned and risen through the ranks of the South African engineering fraternity, despite the many restrictions on black participation. This made Rizal somewhat of a rarity in pre-1994 South Africa. And in this climate, his ascendancy at SANRAL and his track record there were even more impressive.

Due to his background and his ministry position, Rizal had significant national government backing when he took the SANRAL position back in 1998. His previous position as a consultant was seen as an advantage for effectively navigating the challenges of the various projects SANRAL was pursuing. In addition, his experience within government structures had provided him with valuable contacts and insights for getting things done.

Micah's Role as GFIP Project Manager

Micah Bailey, 44 years old, was a senior manager at SANRAL and had been in charge of tolling and operations in the northern region of South Africa for almost 10 years. After graduating as a civil engineer, Micah moved into the consulting engineering industry. He later joined

SANRAL, shortly after its establishment in 1998, as a technical manager. For him, joining SANRAL was an opportunity to make an impact at an operational level, so that he could benefit citizens more directly with his technical expertise. When the Gauteng Freeway Improvement Project (GFIP) began in earnest in 2008, he was assigned the role of senior project manager. He had diligently managed all the technical specifications of the project, as well as managing the required environmental approvals and community engagements.

The Gauteng Freeway Improvement Project

In 2015, the northern province of Gauteng was the smallest in South Africa in terms of land mass and was the economic heartland of the country, generating nearly 38% of the total value of South Africa's economic activities. Developments in housing, offices, retail and industrial properties across the province had grown significantly since 1994, resulting in above-average traffic growth in the private commuter segment.

In order to ensure that the province's road infrastructure kept up with the increased traffic demand, SANRAL had explored the introduction of a radical and advanced urban tolling system termed the Gauteng Freeway Improvement Project (GFIP) in conjunction with the South African government. GFIP was forecasted to inject approximately US\$2.5 billion into the South African economy and approximately US\$1.3 billion into the provincial gross geographic product. In addition, it was expected to create nearly 30,000 direct jobs over its life cycle. This meant that there were many people in the government who were very keen to see the project successfully implemented. The project entailed the expansion of the province's two-lane highways to five-lane routes in a single direction, major upgrades of 201km of existing roads, which included the upgrading of various interchanges, the introduction of an intelligent transport system, as well as the inception of new routes. In addition, large toll gantries were to be built (see Exhibit 1). These would graphically record vehicle license plates, which would allow the toll system to record the kilometers travelled by road users on the network. SANRAL would then calculate monthly kilometers travelled and send users a bill at the end of the month.

In addition to the ongoing requirement for increased road capacity, there had also been considerable pressure for the rapid implementation of the project due to South Africa's then impending role as host to the soccer World Cup in 2010. It had been expected that traffic across Gauteng's largest cities, Johannesburg and Pretoria, would increase significantly during the event. This meant that rapid expansion of the province's major ring roads was a hard requirement that had to be met.

GFIP had been under discussion since 2003. The Cabinet had granted approval for the project in 2007. It was officially started by SANRAL in 2008. Aside from obtaining the required environmental approvals for construction, SANRAL was also very much involved with gaining public approval for the project. A public participation process, in line with local environmental and social legislation, was carried out.

The first phase of the project focused on upgrading 201 km of the existing freeway network. Over the lifespan of the project, a further 360 km would be upgraded. Also, new freeways had been planned for implementation. The upgraded and expanded freeway network was intended to significantly reduce traffic congestion and unblock access to economic opportunities and