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Understanding the SA minibus taxi industry
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Over the past couple of months, the spotlight has rightfully fallen on the behaviour in the South African minibus taxi industry, particularly during the height of the COVID-19 pandemic. As a long-time investor in the industry through SA Taxi, Futuregrowth sought to understand the rationale behind the actions and engaged with players in the industry.

The backdrop

In normal circumstances, the South African minibus taxi industry undertakes some 15 million commuter trips per day, transporting roughly 68% of the country's households to and from work and school each day. This is no surprise as it has the penetration to pick up and drop off commuters within a radius of 100 metres from home and work. It is also a much-needed feeder into other transport modes such as bus and rail – giving it a firm grip on its substantial share of the public transport market.

Competition Commissioner Tembinkosi Bonakele recently pointed out that, while two-thirds of South Africa's commuters rely on minibus taxis to commute, these commuters only benefit from 1% of the money allocated by government to public transport – while commuters who travel via bus (23.6%) and rail (9.9%) together benefit from a hefty 99% of the subsidies.

Lockdown

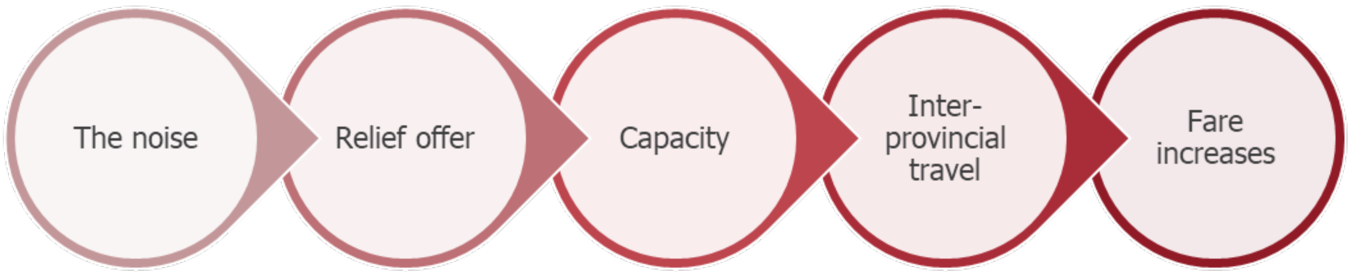
The importance of the SA Taxi industry to the local economy and livelihoods of ordinary South Africans was underscored during the peak of the lockdown period. While no other public transport system was allowed to operate during the Level 5 phase, taxis were allowed to transport "essential" workers on a daily basis to and from work.

In April, the regulations were eased to enable commuters to use taxis from 5am until 10am, to cater for people who needed to use taxis for grocery shopping, amongst others. Despite this, taxis were only permitted to carry up to 700% of their passenger capacity and all passengers had to wear masks. Interprovincial trips were not allowed throughout levels 4 and 5. In June, the government offered the taxi industry a relief package of R1.1 billion to try offset some of the impact of the national lockdown.

The lockdown restrictions and relief package met with a strident reaction from members of the industry. This included strike action, threats to disobey the 70% capacity restriction and inter-provincial travel ban, and announcements of excessive fare increases.

Engagement

Several insights emerged during our engagement with SA Taxi:



1. **The noise**
   After a series of failed consultations, the reaction was a desperate attempt to get the government around the negotiating table with an open mind.

2. **Relief offer**
   There is a long history of a lack of financial support from the government for the minibus taxi industry, which permeates this topic. As previously described, there is a dissonance in the apportionment of transport funding, which does not provide a level playing field as a basis for discussion. To make matters worse, at the start of the state of disaster, the government did not only not consult the industry but also did not provide for any relief for the industry, as it did for many other sectors. As a result, the belated relief offer amounting to R5 000 per taxi was doomed to fail – and was bound to have an emotional response.

3. **Capacity**
   While it was acknowledged that the 70% capacity rule was a way for the government to balance conflicting demands, this appeared not to be based on any scientific research but an ad-hoc decision. (It was noted that the 1.5 metre minimum social distancing rule per guidance by the WHO cannot practically be applied in any 70% full minibus taxi.)

   As the government encouraged people to return to work, public transport was needed (of which minibus taxis are the largest component). In order for minibus taxi operators to put their health at risk while fulfilling a public transport role, this needed to be financially viable. A 70% load (with no government COVID-19 support, unlike that for various other sectors) was just not economically sustainable.

4. **Inter-provincial travel**
   Long-distance taxi operators were amongst the most negatively affected by the lockdown, with severe financial consequences. It was considered unreasonable that airlines were allowed to travel inter-provincially while taxis were not, even if all commuters possessed the necessary permits and all COVID-19 health and safety precautions were adhered to.

5. **Fare increases**
   Industry structures intervened after the initial increase announcements and reasonable price increments were subsequently agreed. As of 1 July 2020, taxi fares increased nationally by between 10% and 20%. These increases were not COVID-19 related but a yearly occurrence in the industry to address operational cost increases. It's important to note that fare increases were muted during 2019 to support commuters who were already under financial pressure in the prevailing difficult economic conditions.

An alternative investment

Many investors may be disinclined to invest in the taxi industry because of its reputation as being impossible to regulate, difficult to understand, and highly politicised. Assessing the extent of the risk involved is complicated.

While it is easy to understand this view, we should not underplay a key reason this industry has thrived for so long with minimal government support: over and above the distinct advantages mentioned in the backdrop above, the industry has a continually growing customer base as more people flock to the big cities in pursuit of better job opportunities.

From a South African point of view, this economic fundamental is likely to remain in play for decades to come as development in non-urban areas continue to take a back seat, driving people to relocate to cities. As a result, the demand for minibus taxis has consistently exceeded supply over recent years.

With appropriate risk-reward measures in place, investing in this industry provides socially-minded investors with a way to participate in a sector that is vital to the wellbeing of the majority of ordinary South Africans. This is expected to become easier given the plans underway to formalise the industry.

Looking ahead

The protest actions by taxi operators emphasise the need for the industry to be subsidised by government. For this to happen, the industry will need to be formalised and regulated - a fundamental shift. This will take willingness and commitment on the part of both government and taxi owners.

With passenger demand significantly reduced due to the COVID-19 crisis and resultant job losses, short-term pressures and potential for conflict are magnified. However, the situation does provide a unique opportunity to establish a coherent long-term plan – not only for the recovery of the taxi industry post-COVID-19 – but for the integration of the minibus taxi industry into the South African public transport system in its deserved place.

News of a planned National Taxi Indaba anticipated to take place towards the end of 2020 is encouraging. This is planned to be a formal discussion on a collaborative strategy between the government (through the Department of Transport) and the taxi industry, to formalise government support and the transition of the industry towards compliance with the country's tax and labour laws. While this will not be achieved overnight, it is a step in the right direction and should make the industry more appealing to a wider investment base.

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