

PPIAF Assistance in South Africa

Technical Assistance for South Africa's Energy Sector

As in many developing countries, electricity is a vital engine for growth, development, and prosperity in South Africa. The restructuring of the electricity supply industry began in the 1990's, and prior to preparing an implementation strategy, the government of South Africa wished to discuss and learn from global experience in reforming the sector. In this regard, the Ministry of Minerals and Energy and the Ministry of Public Enterprises requested PPIAF support in 2000 to organize a forum to learn about the challenges with restructuring and privatizing the electricity industry from leading international practitioners. The workshop highlighted power sector reform experience in several developing and developed countries, and assisted the government of South Africa in building consensus around proceeding with the reform program. The workshop supported the government in designing a pertinent reform program that was consistent with its priorities and well-informed through lessons learned from past experiences. The workshop also helped the government introduce certain measures into the reform program, including: i) hiring a full-time resident consultant by the Department of Public Enterprises (DPE) to advise DPE and build its capacity for restructuring the power sector; ii) assessing options for restructuring the electricity distribution market; iii) assessing options for introducing competition at the production level; and iv) developing a new regulatory framework, which would ensure a phased liberalization of the sector at both the production and distribution levels.

In September 2001 PPIAF supported a study on the "Introduction of Natural Gas in Low-Income Areas of South Africa." Plans were underway to introduce natural gas from Mozambique by the year 2004, and the Government of South Africa wished to promote the use of natural gas to small and medium commercial and domestic customers, particularly in low-income areas in the immediate vicinity of the natural gas pipeline. The main benefit in providing access to clean fuels for local communities was diminishing the impact of deforestation, while offering significant benefits in reduced emissions of pollutants. The objective of this activity was: i) to assess the pre-financing feasibility to capture credits from substantial greenhouse gas emissions reduction and to use such credits to support infrastructure developments for the marketing of natural gas in rural areas and black townships along the pipeline route, and ii) to identify the potential for such gas markets, as well as the associated opportunities for distributed and industrial power production with the purpose of improving energy supply in low-income areas. The study recommended the establishment of a national Clean Development Mechanism authority. In 2004 South Africa established a Designated National Authority to oversee the Clean Development Mechanism in South Africa as well as the promotion of investment in clean development projects.

In April 2004 the South African National Treasury's Public-Private Partnership (PPP) Unit in partnership with the Department of Minerals and Energy began a consultative process to prepare for the introduction of the first Independent Power Producer (IPP) peaking power generation in South Africa. In May 2005, the PPP Unit was tasked with performing due diligence on the IPP feasibility study report and the IPP procurement documentation. The PPP Unit sought PPIAF assistance in 2005 to evaluate request for proposals and draft agreements with IPPs and provide recommendations on the structure of the fuel supply agreement. The PPIAF-funded work developed draft procurement documents and agreements of high quality and provided an avenue for broad consultation with all stakeholders. The involvement of Eskom, the electricity utility, and consensus with other stakeholders ultimately strengthened the quality of the end product and contributed to a common understanding and support of the project. An ongoing activity on the IPP regulatory framework will help strengthen the enabling environment to ensure successful contracting of IPPs.

In 2009 the South African Cities Network (SACN), with support from PPIAF, provided assistance to municipalities to undertake a renewable energy and energy efficiency program, which supports improved municipal infrastructure development through private investment. The program will consist of a basket of infrastructure projects that reduce energy consumption and generate renewable energy, including retrofitting municipal buildings, upgrades to water and sewerage pump stations, methane capture and power generation, solar heating of water, wind generation and small scale hydropower. The program will aim to use private sector skills and financial resources in development of the different projects, thus

minimizing the impact on municipal budgets. It is envisaged that the private sector will participate in the program as project developers, equity investors, providers of debt funding and as Clean Development Mechanism (CDM) agents.

The project was conceptualized from the angle of providing technical support for improved municipal infrastructure development through private investment. The project delivered four pre-feasibility studies: energy efficient street lighting, energy efficient lighting in municipal buildings, implementation of solar water heaters to middle class neighborhoods, and micro hydroelectricity potential study. The next phase of the program would involve the undertaking of full feasibility studies with a view to implementing the four projects at scale. More information can be found at reee.sacities.net.

Results of PPIAF's Activities in South Africa's Energy Sector

Category	Outputs
Enabling environment reform	
<i>Analyses/assessments prepared</i>	<ul style="list-style-type: none"> Revised draft procurement documents and agreements of the IPP peaking power generation in South Africa, 2005
<i>Plans/strategies prepared</i>	<ul style="list-style-type: none"> Introduction of Natural Gas to Low-income Areas of South Africa, June 2003
Project cycle-related assistance	
<i>Transaction support</i>	<ul style="list-style-type: none"> Four REEE Program Prefeasibility Studies: i) City of Tshwane Energy Efficient Municipal Buildings; ii) City of Tshwane Solar Water Heater; iii) City of Cape Town Mini Hydro; iv) City of Johannesburg Energy Efficient Street Lighting, 2011
Capacity and awareness building	
<i>Workshops/seminars</i>	<ul style="list-style-type: none"> International Seminar on Power Sector Reform and Privatization, 2000 Workshop on the Introduction of Natural Gas to Low-income Areas of South Africa, 2003 Workshop for participating municipalities in September 2011 and a broader audience workshop in December 2011 during COP17

Category	Outcomes
Enabling environment reform	
<i>Institutions created or strengthened</i>	<ul style="list-style-type: none"> Designated National Authority established to oversee the Clean Development Mechanism, 2004
<i>Plans/strategies adopted or implemented</i>	<ul style="list-style-type: none"> Introduction of Natural Gas to Low-income Areas of South Africa adopted, June 2003
Capacity and awareness building	
<i>Consensus achieved</i>	<ul style="list-style-type: none"> Consensus achieved for power sector reform, including the introduction of the first IPP peaking power generation in South Africa, 2000 Stakeholder buy-in for the introduction of the first IPP peaking power generation in South Africa, 2005

Technical Assistance for South Africa's PPP Enabling Environment

In 2006 the Government of South Africa requested PPIAF support for an assessment of competition and regulation in the network utilities. The study examined the structure of the electricity, telecommunications, and transportation sectors of South Africa; analyzed options for the horizontal and vertical restructuring of these industries to enhance their efficiency, market responsiveness, and fiscal responsibility; and summarized the emerging international experience in the competitive restructuring of network utilities. This activity produced sectoral reference papers, which outline the major structural and regulatory issues in the South African network utilities and proposed strategies for addressing these issues. The activity also facilitated, with a series of workshops in South Africa, the dissemination of the emerging international experience in the competitive restructuring, privatization, and deregulation of network utilities.

In 2004 the PPP Unit at the National Treasury established a municipal desk to regulate and support the rollout of PPPs in the municipal sphere to facilitate and enhance the quality of public service delivery by being a catalyst for best practice solutions. It is against this background that the PPP Unit sought PPIAF support in 2005 to provide technical assistance to priority municipal PPP sectors in response to increasing deal flow. This activity also sought to improve sector specific standards for project preparation and monitoring, and develop appraisal methodology and guidelines for municipal PPPs. As a result of PPIAF's support, six sets of Municipal Service Delivery and PPP Guidelines were prepared, to be used by local authorities for the assessment of feasibility studies, risk management, debt management, contract monitoring and contract compliance. These included: Module 1: Regulations; Module 2: Code of Good Practice for BEE in PPPs; Module 3: Project Inception; Module 4: Feasibility Studies; Module 5: PPP Procurement; and Module 6: Managing the PPP Contract. The activity also included capacity building activities for the PPP Unit and local authorities, who will use the guidelines. In addition, a learning guide for municipal PPPs, which will form the basis of an accredited course for municipal officials, and two toolkits (solid waste management municipal PPPs and municipal water and sanitation PPPs) were developed. The final report [Quantitative Methods for the Preparation, Appraisal, and Management of Private Participation in Infrastructure Projects in Sub-Saharan Africa](#) was produced in August 2006.

In an effort to build on the investments made and strengthen the ability of municipal authorities to fully utilize the support available for PPPs for municipal services, the PPP Unit requested follow-up assistance from PPIAF in 2008 to promote market development within the local government sector and strengthen capacity for application of the PPP guidelines developed in the first request at local level. This second phase of assistance included the recruitment of technical specialists with expertise in priority sectors for municipal PPPs (solid waste management, water and sanitation, energy, and property development) to support the rollout of PPP guidelines and municipal PPP market development on a province-by-province basis. Feasibility studies of municipal PPP projects were reviewed, and one viable solid waste management service and landfill management public-private partnership project was identified for the Greater Tlhatse Municipality. PPIAF supported the drafting of a Request for Proposals and a solid waste services PPP agreement between the Municipality and the winning bidder, Chapelgate Properties 1047 (Pty) Ltd.

Building on the previous national level initiatives to improve the capacity of local governments, the Sedibeng District Municipality sought PPIAF support in 2008 to establish a capacity building program to enhance its institutional and human resources, thus enabling the district to satisfy requirements for the development of municipal PPPs. Three half-day workshops, to which 45 officials from Sedibeng, Lesedi, Midvaal, and Emfuleni were invited, were held on July 23–24, 2009 at Weaver's Nest Conference Centre. The intention was to focus on general principles for identification, implementation, and management principles for PPPs. The sessions were run as interactive workshops combining information on requirements, stages, and processes involved in PPPs with commentary in relation to specific PPP projects from informed participants who have been directly involved in a range of PPP projects provincially and in some cases, at municipal level. Lessons from the learning events as well as reflections on the process of developing municipal PPPs for Sedibeng are documented in a case study that is being developed into training material for future use by Sedibeng and other municipalities.

PPIAF supported a workshop on September 29–30, 2009 to explore the outcomes of South Africa’s current housing subsidy and land use management systems, in terms of housing, private sector participation, and spatial development. In his closing remarks the Deputy General of the National Department of Human Settlements observed that the goal was to consolidate, review, and find a better trajectory for human settlements, and that the workshop had been instrumental in beginning to find that trajectory.

Results of PPIAF’s Activities for South Africa’s PPP Enabling Environment

Category	Outputs
Enabling environment reform	
<i>Analyses/assessments prepared</i>	<ul style="list-style-type: none"> • Quantitative Methods for the Preparation, Appraisal, and Management of Private Participation in Infrastructure Projects in Sub-Saharan Africa, August 27, 2006 • Five sectoral reference papers (Reforming Infrastructure: Privatization, Regulation, and Competition), 2006
Project cycle-related assistance	
<i>Transaction support</i>	<ul style="list-style-type: none"> • Request for Proposals: Procurement of a PPP Solid Waste Management Service and Landfill Management for the Greater Tubatse Local Municipality, February 18, 2011 • Solid Waste Services PPP Agreement between the Greater Tubatse Municipality and Chapelgate Properties 1047 (Pty) Ltd, October 2011
Capacity and awareness building	
<i>Workshops/seminars</i>	<ul style="list-style-type: none"> • Capacity building activities for the PPP Unit and local authorities on PPP guidelines, 2007 • Workshop on emerging international experience in the competitive restructuring, privatization, and deregulation of network utilities, 2006 • Capacity building program for the Sedibeng District Municipality to support the identification, packaging, and management of municipal PPP transactions, July 23–24, 2009 • Workshop on Options for the Efficient Provision of Housing, September 29–30, 2009
<i>Knowledge products produced or disseminated</i>	<ul style="list-style-type: none"> • Toolkit: Municipal PPPs for Private Sector Commercial Use of Municipal Property; Feasibility Study Toolkit: Solid Waste Management; Feasibility Study Toolkit: Water and Sanitation Feasibility Study; and interactive learning guide, 2007 • Six sets of Municipal Service Delivery and PPP Guidelines on Regulations, Code of Good Practice for BEE in PPPs, Project Inception, Feasibility Studies, PPP Procurement, and Managing the PPP Contract, 2007 • To PPP or not? The Case of Sedibeng District Municipality’s Precinct Projects, November 2009

Category	Outcomes
Capacity and awareness building	
<i>Technical capacity enhanced</i>	<ul style="list-style-type: none"> Increased capacity for PPPs within various municipalities, 2007 Representatives from Sedibeng District better prepared to develop municipal PPPs, 2009
Enabling environment reform	
<i>Plans/strategies adopted or implemented</i>	<ul style="list-style-type: none"> Municipal PPP guidelines were approved by Minister of Finance, 2007
<i>Consensus achieved</i>	<ul style="list-style-type: none"> Consensus achieved among key counterparts regarding the major structural and regulatory issues in the South African network utilities, 2007

Technical Assistance for South Africa's Transport Sector

In April 2002 the Government of South Africa approved the relocation of Durban International Airport to La Mercy and the establishment of the Dube Trade Port by 2006. The intent of the Government was not only to move the existing Durban International Airport to a location where air operations could be expanded, but also to create a logistics hub in the form of an Industrial Development Zone, which would substantially increase the logistics competitiveness of South African exporters.

In 2003 PPIAF provided support to the Government of South Africa to prepare a strategy for private sector participation in the new King Shaka International Airport in Durban. The final report recommended the most feasible options for involving the private sector in designing, financing, operating, and maintaining the new King Shaka International Airport in Durban, South Africa. It is unclear whether the Government adopted any of the recommendations in the report. King Shaka International Airport, also known as La Mercy Airport, opened its doors to passengers on May 1, 2010.

Results of PPIAF's Activities in South Africa's Transport Sector

Category	Outputs
Enabling environment reform	
<i>Plans/strategies prepared</i>	<ul style="list-style-type: none"> Strategy for private-sector involvement in the designing, financing, operating, and maintaining of the new King Shaka International airport in Durban, 2004

Technical Assistance for South Africa's Water Sector

PPIAF assistance was requested in 2008 to commission a study at the request of the PPP Unit of the National Treasury to fill the vacuum of information on the performance of PPPs in the municipal and water sectors in South Africa and regionally by documenting the key lessons learned from the Nelspruit concession. In 1999 the Nelspruit Transitional Local Council signed a 30-year concession agreement with the Greater Nelspruit Utility Company. Findings indicate that ten years on, the water and sanitation concession in Mbombela Municipality was successful in some of the most important areas, though it still faces challenges. Key among them: a strong water and sanitation operator has good control of the management and operation of the systems, virtually every household now has access to water, there has been good investment in extending and upgrading existing infrastructure, and the concessionaire has a strong maintenance program.

Results of PPIAF's Activities in South Africa's Water Sector

Category	Outputs
Enabling environment reform	
<i>Knowledge products disseminated</i>	<ul style="list-style-type: none"> • Case Study for the 10 years of the Mbombela (Nelspruit) Water and Sanitation Concession, 2010

Technical Assistance through the Sub-National Technical Assistance (SNTA) Program

South African municipalities have four major challenges to providing local services to their populations: the extension of basic services to underserved areas, maintenance of existing infrastructure, ensuring reliable commercial service, and strategic investments to promote growth. Municipalities have difficulties funding these infrastructure services because local revenues are not sufficient to fund infrastructure development, creating a capital expenditure shortfall of approximately 20 billion rand per annum. Intergovernmental grants are insufficient to cover this shortfall, and commercial financing is often unavailable because municipalities are generally perceived to be high-risk borrowers.

In 2008 the South African government requested PPIAF support through its SNTA program to address these barriers to local government borrowing. A survey of municipal infrastructure finance in South Africa was conducted to identify and facilitate the policy reforms necessary to permit local governments to borrow. The survey examined municipalities' financial analytics, institutional and capacity barriers to private sector investment, and policy options to eliminate the infrastructure financing gap. The report concluded that South African municipalities depended on government grants to fund their capital expenditure although local governments, particularly the six largest metropolitan areas, could finance additional infrastructure expenditure through internal cash flows or commercial borrowing. The report also noted that municipalities did not increase operating expenses at the same rate as infrastructure investment, and that current expenditures did not account for long-term maintenance costs. This PPIAF-funded work complemented an earlier SNTA grant to the South African Cities Network (SACN) to improve the creditworthiness of local governments.

In 2009 a follow-up SNTA activity built on the report's recommendations and examined development charges as an additional source of infrastructure financing for municipalities. Development charges are the fees charged to recover the municipalities' infrastructure costs associated with private development projects. Municipalities in South Africa significantly under-recover development charges because of an ambiguous policy framework and the lack of predictable regulation. The shortfall is estimated to be between 487 million rand and 4.7 billion rand per year (approximately US\$60 to US\$600 million) and undercuts a significant source of potential revenue for municipalities, which could either fund infrastructure projects or be leveraged to gain commercial investment for such projects.

The objective of the follow-up activity was to document current development charge practices in greater detail and to suggest reforms for a clear and predictable framework for imposing development charges. It aimed to produce a clarified framework that would improve the revenue productivity of the municipalities and lay the foundation for additional capital investment in municipal infrastructure. As part of this activity, PPIAF funded a workshop at the National Treasury in November 2009, which built consensus among stakeholders that included city and national government engineering, planning, finance, and legal officials. The workshop identified the importance of development charges for infrastructure development and the need for reforms to enhance the performance of development charges. Current charging practices and key operational issues were also discussed in the workshop. This helped stakeholders to reach agreement on ways to increase the effectiveness of the charges. A second conference was held in April 2010 to discuss a draft policy framework that was produced with PPIAF's assistance. The second workshop also established agreement on basic policy parameters and identified areas for future policy development. The National Treasury is currently developing a standardized policy framework for development charges.

Results of SNTA Program's Activities in South Africa

Category	Outputs
Enabling environment reform	
<i>Analyses/assessments prepared</i>	<ul style="list-style-type: none"> • The South African Urban Agenda: Municipal Infrastructure Finance, Summary Report, 2009 • Report on the scoping workshop on enhancing the effectiveness of municipal development charges, November 23, 2009
Capacity and awareness building	
<i>Workshops/seminars</i>	<ul style="list-style-type: none"> • Workshop at the National Treasury in Pretoria with city and national government officials to consider reforms to the current mechanisms of development charges, 2009 • Workshop at the National Treasury to discuss the draft policy framework and basic policy parameters for development charges, 2010
Category	Outcomes
Capacity and awareness building	
<i>Consensus achieved</i>	<ul style="list-style-type: none"> • Consensus achieved on the role and importance of development charges, and on the importance of reforms to improve the overall performance of the charges, 2009