

Public Disclosure Authorized

Eskom Medupi Power Project, Eskom Investment Support Project

Implementation Support Mission (Environmental and Social)

February 5 – 9, 2018

Aide Memoire

1. A joint African Development Bank (AfDB) and World Bank (WB) Mission visited South Africa from February 5 to 9, 2018. The Mission reviewed implementation of the Eskom Medupi Power Project (AfDB) and Eskom Investment Support Project (WB). The teams also visited the Medupi Power Station site from February 5-7, 2018. Separately, the World Bank team visited South Africa on February 8, 2018 (for social and environmental safeguards) and from March 14 to 15, 2018 (for technical support) to review implementation of the Majuba Railway component.
2. The mission confirms that the project continues to comply with the regulatory requirements and conditions of authorization by the relevant Government of South Africa authorities. However, per the previous aide memoire, it expresses concern over the spiking of daily SO₂ emissions above the current standard. Although Eskom is following the prescribed procedure to get a temporary exemption to be compliant, the Lenders would like Eskom to make its best effort to find a way of maintaining the spikes within the current standard.

Social

Social Heritage

3. The project has stayed engaged with the original families whose graves were impacted and in the last few months additional cases have been brought forward. In addition to a longstanding legacy issue (relating to the need to hire a traditional health practitioner (THP) to complete key healing and reunion rites) four additional cases have come to light in the last few months. These 4 cases relate to the presence of gravesites on Eskom land (but not in the critical path of the project, and therefore not requiring relocation) as well as rumored graves of MK soldiers (uMkhonto weSizwe) from Botswana and Zimbabwe, dating back to the apartheid era.
4. The project has re-hired the independent heritage consultants, who worked with the project in the past, since they know the community dynamics well and have established a good rapport with them. However, since a single source contract was submitted, the National Treasury has only approved a 6-month contract. An additional request has been submitted to the National Treasury for a full 24-month contract period. A detailed schedule of activities, relating to the management of these gravesites on Eskom land by the heritage consultants, was shared with the mission.

Grievance Redress

5. There is still a lack of clarity on the project's Grievance Redress Mechanisms (GRM) and the mission requested additional information. It requested the raw data from the grievance

logs along with information on the grievance redress mechanism/ process and access points. This should indicate how grievances are processed and resolved for Medupi and separately for Majuba and transmission lines since a separate process is followed for these. It should also specify who has custody of the grievance log and where they are kept; the methods for assessing, acknowledging and responding to lodged complaints; and the process for resolution, follow up and feedback to aggrieved parties. Eskom committed to provide the banks with more information on its strategy for dealing with this issue (refer to follow-up actions table).

Stakeholder/Community Engagement

6. **Community Anxiety:** With the project coming to a foreseeable end there is considerable community anxiety about job losses. There are also fewer public face-to-face engagement sessions due to safety and security concerns.
7. **EMC Meetings:** Two Environmental Monitoring Committee (EMC) meetings have taken place since the previous mission (July, November 2017) with 19 and 23 attendees respectively. The next meeting is due to take place during the third week of February 2018. The labor unrest concerns of the general population have started to overshadow the EMC meetings. Therefore, a decision was taken to close these meetings to the general public since EMC is not mandated, or capable, of handling discussions about job losses. Interest in the EMC has waned of late and the meetings have had to grapple with the issue of how to increase their appeal and representativeness. One solution has been to involve members of the Waterberg Environmental Justice Forum (“WEJF”), the main CSO in the area. The presence of WEJF provides community involvement and oversight of the EMC process.
8. **NGO Engagement:** As a follow-up to the local level NGO consulted during the previous mission the Banks plan on meeting with *Earthlife Africa*, a Johannesburg based Environmental NGO, to listen to their perspectives and gauge any concerns they might have about the project. (If the meeting takes place shortly the findings will be reflected in the AM before finalization).
9. **Corporate Social Responsibility (CSR) and Socio-Economic Development Initiatives:** The mission was provided with an update on the status of the Corporate Social Responsibility/Socio Economic Development activities to date which include initiatives to *strengthen linkages with local suppliers and cooperatives* with specific sub-contracts in place for, “local black owned suppliers.” Notably 30% of Lekama Catering Contract with Murray and Roberts is being subcontracted or supplied by local suppliers for activities/inputs such as fleet rentals, maintenance, juice and milk supply and other food items (fruit and vegetables and maize supply).
10. In addition to strengthening links with local supplier’s other socio-economic development initiatives (as of Dec 2017) include: *investment in local infrastructure* (roads, housing bridges etc.), which according to Eskom total >R2.8bn to date as well as *skills development initiatives* (approximately 60% of the South Africans trained by contractors have been local to Limpopo); *enterprise and local economic development initiatives* - 111 local business owners have been trained and 18 businesses are in full incubation with the Lephalale Enterprise development Centre; *Corporate Social Investments* to date include

construction/refurbishment of 11 schools and creches and medical equipment to 6 local clinics

11. **Sustainability, Decommissioning, Jobs:** As the project draws to a close the specter of job losses, and associated labor unrest is a concern. In an attempt to enable the reintegration of demobilized workers into the economy Eskom established the Medupi Leadership initiative (MLI) and to date has created >1,500 job beneficiaries, > 16,103 trained in financial literacy. Despite these efforts labor unrest is still a real concern and the majority of community grievances relate to concerns about looming unemployment. Eskom committed to provide the banks with more information on its strategy for dealing with this issue (refer to follow-up actions table).

The Mokolo and Crocodile River (West) Water Augmentation Project Phase 2A

12. As noted during the previous mission it is anticipated that MCWAP II will entail impacts on privately owned commercial farm land. The mission was informed that an initial scoping has recently been undertaken and the draft report is scheduled to be distributed for public review in June/July. A final environmental impact report is to be submitted in Aug 2018. A list of affected property owners has been compiled and land rights are currently being obtained. Routes will be followed along the existing servitude and/or on boundaries. The mission was informed that one small community will also be impacted. The mission requests additional details on the affected individuals, including the findings of the census surveys, and accompanying Land Acquisition Plans.

Transmission Lines

13. Eskom has faced some challenges in gaining access to private properties to construct the transmission lines since the land goes through some game farms where hunting takes place. The issues relate to denied/compromised access to the project site/servitudes which have led to construction delays. In some instances, land has had to be fenced off to keep game away from the construction activities. The mission requested copies of the issues log and clarity on how these issues have been resolved.
14. In addition, community unrest, related to demands for employment, has also hampered progress. For example, at Medupi Borutho Section B the community pressurized the contractor for more local employment opportunities – this was complicated by the fact that the contractor required more skilled labor than was available. A compromise was found by giving local unskilled laborers jobs such as bush clearing.

Majuba Railway

15. **Off Farm Resettlement:** The mission consulted with 9 stakeholders representing the three families who had been relocated off-farm in August 2013. They were generally happy with their new houses and were particularly satisfied with: the quality of the housing (and they had had a say in the concept and design of the houses and had moved from traditional earthen houses to brick houses); presence of sewerage and electricity (which they did not have in their former homes); the fact that they were no longer beholden to commercial farmers. It was anticipated that in 6 months' time will be given title to their land and houses (they had been landless farm laborers in their previous location).

16. On the negative side they: were now further from school and health facilities, the logistics of which posed a challenge; had experience maintenance issues with their new houses (cracks, blocked sewerage system etc.) and had not known how to get these resolved for a long time (Eskom had not shared the telephone number of their liaison officer); felt that the land they had been given was not large enough to graze their animals. Overall though they were satisfied with the relocation process and their new location.
17. **On farm relocation:** Approximately 6 cases have not yet been closed and there are 2 cases where families have not moved (as per report of June 2016). The mission requested an update on the status of these cases which will be provided.
18. Additional information has been requested on the following also: labor influx information; stakeholder managers consultation reports and complaints handling; demobilization/staffing plan; aggregate health data. The information will be provided by the first week of February 2018.

Environmental

Progress on impact of illegal sand mining

19. The mission understands that the concerned firm has mining rights along the Mokolo river and that it secured the necessary permits and approvals for the EMP. When mining permits and/or rights are issued by Department of Mineral Resources (DMR), there is a requirement for the respective entity to establish a rehabilitation fund. Eskom's role is to ensure it procures from sources that meet the relevant legislative requirements and to ensure that Eskom contractors conduct due diligence and inspections at the suppliers in question. Rehabilitation is not Eskom's responsibility. *Eskom will continue to monitor to ensure that contractors source materials from approved sources and that environmental obligations imposed on the suppliers through authorizations, permits and licenses are adhered to.*

High SO₂ and PM emissions spikes

20. SO₂ peaks continue to occur (a few times per week) up to 16 exceedances/month) beyond the current limit of 3,500mg/Nm³. Particulate emission (PM) spikes have also occurred due to continuing fabric filter bag tears and other pulsing problems. Higher Sulphur coal deliveries are still the trend. Eskom continues to control the PM spikes by de-rating the boiler (up to 17% at times). Eskom's application for an increased SO₂ emission limit to 4,000 mg/Nm³ is at an advanced stage with a final environmental decision expected in late Feb/18. The lenders again expressed concern that this is not a desired approach and requested Eskom to seriously pursue measures to that will ensure that the current standard is met.
21. An encouraging development is that Eskom is making good progress on the intended installation of an on-line coal analyzer (to be operational in September 2018) which is to be integrated into its future coal blending goal to reduce average coal Sulphur content to reduce SO₂ emissions and spikes. The remaining coal lay down area (north/south leg of the stacker/reclaimer path) is also on schedule. In addition, as suggested by the lenders, Eskom agreed to do coal sampling of the large coal stockpiles (from the take or pay

supplies) to determine if these reserves contain lower Sulphur coal. If all this is successful, it has the potential to eventually reduce SO₂ emissions and spikes as an interim measure before the wet FGD project is operational. The mission urged Eskom to speed up this work to urgently resolve the issue

Update on FGD

22. Eskom remains committed to the retrofit installation of wet Flue Gas Desulphurization (FGD) technology at Medupi Power Station and is actively pursuing schedule acceleration to meet committed dates for four of the units with potential for the remaining two units. There is slippage in completion of the water augmentation project with the water availability for the operation of the FGD. Considering the identified risks (further approvals, availability of financing, etc.) it is likely that water may not be available on time. The delays will exacerbate the situation whereby Eskom (Medupi) will not be able to meet the Minimum Emissions Standards 6 years after the commercial operation of Units 3, 2 and 1, and hence perpetuate the concerns raised by communities about the perceived health risks due to air pollution by SO₂ emissions. Eskom is moving forward with its coal blending plans to mitigate SO₂ emissions until FGD is operational.
23. Eskom has made further progress in developing the FGD design and two financiers have indicated interest in financing the project. Although Eskom's preferred contracting strategy is for several packages they are considering alternatives.

DEA compliance

24. DEA conducted an environmental compliance inspection on February 7 and 8 and identified several cases of non-conformance/ partial conformance. Eskom submitted its response on July 3, 2017. The mission requested Eskom to send to the lenders the two DEA responses to establish if Eskom is now in compliance. This will be done by first week of February 2018.

Occupational Health and Safety

25. The mission noted the importance Eskom gives to Occupational Health and Safety in its operations and its commitment to the implementation of a sound Occupational Health and Safety (OHS) Management System. *The mission was informed about a fatality that occurred in December 2017 (on Transmission) and urged Eskom to provide a full report. It reiterated the importance of the timely reporting of work site accidents and the need to urgently address the underlying issues.*

Majuba Railway Project

26. **Occupational Health and Safety:** The mission was pleased to note the strong commitment and excellent performance on occupational health and safety at the project sites. No fatalities and only minor accidents were reported since the beginning of construction activities. Overall, there is excellent management of health and safety issues at the construction site.
27. **Railway embankments, bridges and culverts:** The mission noted a few challenges that will need to be addressed. These relate to the rehabilitation of burrow pits and soil erosion

on the railway embankments. The mission shared these observations with the Construction Manager and his team recommended to use slope stabilization measures to avoid greater erosion in the future which would undermine the stability of the railway line.