CASE STUDY

South Africa

1. Noteworthy practices for project preparation

EXISTING ENABLING ENVIRONMENT

Establishment of active financial markets and a vibrant ecosystem of quality transaction advisers

The widening of financial markets and the deep expertise of financial stakeholders in managing infrastructure investments has been one of the critical factors for success in project preparation. The high-quality standards prescribed by the financial community have also facilitated the availability of a steady pool of transaction advisers for project preparation.

PROJECT IDENTIFICATION AND CONCEPT DEFINITION

Multi-dimensional and integrated framework

South Africa's planning approach seeks to integrate geospatial planning with medium-term sector and departmental plans that are contextualised in the medium-term expenditure framework. Infrastructure development comes under the National Development Plan, a long-term multi-sectoral plan, along with the National Infrastructure Plan, which aims to coordinate high priority projects in a geospatial context. Infrastructure implementation is provided by the medium-term plans such as the User Asset Management Plan, Annual Performance Plans, Five-Year Strategic Plans, the Infrastructure Programme Management Plan (IPMP), and the Medium-Term Expenditure Plan (MTEF). Implementation of the pipeline is closely monitored and reported by the National Treasury and the Government Technical Advisory Centre (GTAC).

PROJECT APPROVALS AND QUALITY ASSURANCE

Strong quality assurance for planning and monitoring of large infrastructure projects under BFI

The Budget Facility for Infrastructure (BFI) is a reform to the budget process that supports the execution of national priority projects by establishing specialised structures, procedures and criteria for committing fiscal resources to public infrastructure spending.

The objective of the facility is to address shortcomings in the planning and execution of infrastructure projects and help the government to build a pipeline of projects, through robust project appraisal, effective project development and execution, and sustainable financing arrangements.

Strong gatekeeping and good practice guidance by National Treasury

National Treasury performs stringent checks at key stages of the project preparation process. The National Treasury's PPP manual provides a systematic guide to project preparation, which has become a best practice guide for PPP practitioners across Africa. The National Treasury provides comprehensive guidance to drive quality assurance in project preparation. Its portal serves as a single point of disclosure for all of the guidance documents.

Restructuring of the PPP unit and empowerment of GTAC as an effective technical and financial intermediary for project preparation

GTAC's role as an independent appraisal and advisory unit has strengthened the independence of and transparency in the project approval process in South Africa. The dedicated project development account managed by GTAC has also ensured the availability of quality Project Officers and a Transaction Advisory team for driving quality of project preparation.

2. Snapshot of project preparation activities

South Africa has adopted a systematic approach to project planning and preparation that has delivered great success in crowding-in private investment in infrastructure.

South Africa plans and executes capital projects exceeding ZAR 300 billion (US $22 billion) on an annual basis. The successful implementation and management of the projects are due to a strong foundation in the country's project preparatory environment. Private investment in infrastructure emerged in the second half of the 1990s with the appointment of an inter-departmental task team to create an enabling environment for PPPs (in 1997). South Africa has emerged as a successful model for PPPs because of the effective implementation of marquee projects and the establishment of a sound PPP-specific regulatory framework to manage risks and secure returns for private investors.

INSTITUTIONAL FRAMEWORK

Project preparation activities in South Africa are largely driven by the Government Contracting Authorities (GCAs), which include individual line ministries, sectoral agencies, and state-owned enterprises (SOEs). The GCAs prepare their long-term project plans, which provide an active pipeline of projects for implementation. These include the Strategic Plan (five-year plan), the Annual Performance Plan and the Annual User Asset Management Plans. The GCAs are guided and assisted in project preparation by national level public institutions, such as the National Treasury, the Presidential Infrastructure Coordinating Commission (PICC) and the Government Technical Advisory Centre (GTAC).

As per the cabinet's mandate, the PICC plans and coordinates the National Infrastructure Plan (NIP). The NIP presents the PICC's spatial mapping of infrastructure gaps and development priorities through 18 Strategic Integrated Projects, each comprising several infrastructure components and programs, to support economic development and address service delivery in the poorest provinces. The PICC is driven by the highest level of political office, which helps bring in a greater degree of harmonisation in perspective planning and coordination across the government.

The National Treasury of South Africa leads infrastructure financing policy and expenditure management at the national level. It is involved in long-term project planning, such as the National Development Plan 2030, and appraisal and treasury approvals of individual projects. The National Treasury also leads on policy formulation and guidance on project preparation, and monitors progress of GCAs through their Annual Performance Plans.

The PPP and Transaction Advisory Unit of GTAC, an agency of National Treasury, supports PPP project preparation and implementation in South Africa. GTAC aids with public finance management through professional advisory services, program and project management, and transactional support. GTAC also provides support to the National Treasury in the appraisal of capital projects, including PPPs, prior to treasury approvals.

PROJECT PREPARATION LANDSCAPE

South Africa follows a structured approach to project preparation, championed largely by the line departments and agencies. The focus of the Government of South Africa continues to be on promoting solicited proposals. In the case of unsolicited proposals (USPs), South Africa's National Treasury USP framework accepts USPs for projects featured on the government's list of priority projects but makes innovation a core element of its evaluation criteria. For a USP to be considered, it must involve innovative design, project development and/or management, or a new and cost-effective method of service delivery. A snapshot of the project preparatory landscape is summarised below:

Project conceptualisation and planning. The New Growth Path and the National Development Plan (NDP) 2030, prepared by the National Treasury, serve as vision documents, while the National Infrastructure Plan (NIP), championed by the PICC, focuses on geospatial planning and coordination amongst various government agencies to fast-track strategic projects. The line departments prepare five-year strategic plans and annual asset management plans, which form the core planning documents and inputs to the budget document. Based on the project plan, the National Treasury finalises a three-year Medium-Term Expenditure Framework (MTEF), which serves as the guidance document on the government's fiscal situation.

Project feasibility studies and structuring. Project preparation is largely performed by the line departments. The line departments may be supported by international development partners and the private sector. The National Treasury's Standard for Infrastructure Procurement and Delivery Management (SIPDM) provides the benchmark for the preparation of concept notes, and pre-feasibility or feasibility reports.

Project appraisal and review. The project appraisal and review are done through a multi-institutional framework to ensure high quality project preparation. The project appraisal process covers financial analysis (lifecycle cost and Internal Rate of Return (IRR)), economic analysis (Cost-Benefit Analysis (CBA) and cost-effectiveness analysis), risk assessment, sensitivity analysis, and review of the implementation and procurement plans.

The project guidance and approval process is structured according to the following project categories:

- Centrally-funded projects (as outlined in the capital planning guidelines);
- Large and/or strategic projects (as outlined in the Budget Facility for Infrastructure (BFI)); and
- PPP projects (as outlined in the PPP manual).

BUDGET FACILITY FOR INFRASTRUCTURE – REFORM TO SUPPORT NATIONAL PRIORITY PROJECTS

The Budget Facility for Infrastructure (BFI) is a reform to the budget process that creates a specialised institutional framework and processes to support the planning and implementation of national priority projects. The facility is established and managed jointly by the National Treasury, the Presidential Infrastructure Coordinating Commission (PICC) secretariat, and the Departments of Planning, Monitoring and Evaluation (DPME) and Economic Development (EDD). The facility has also established the Joint Technical Committee (JTC), comprised of senior officials from the National Treasury, the PICC secretariat and the DPME, which manages the detailed technical assessment process.

Projects submitted to the facility undergo a rigorous independent appraisal on their technical merits. The technical parameters of assessment include value-for-money, socioeconomic rationale, affordability, risk profile and readiness for implementation. The facility prepares a recommendation report for the Medium-Term Expenditure Committee (MTEC) and the Ministers' Committee on the Budget (MINCOMBUD), which decides on the allocation of budget. The project sponsor is also engaged on the draft recommendations report before it is presented to MINCOMBUD.

The objective is to build a pipeline of infrastructure projects and programs, where approvals are sought at each stage of project development, starting with initial concept documents. The process of project identification is linked to the budget preparation process. Under the BFI cycle, project proposals are invited at different levels of project development (concept, pre-feasibility, feasibility) for review. Project sponsors will be notified of the decision at each gate.

For the financial year FY 2018-19, the BFI received 64 large infrastructure project submissions. Of these, 38 projects that met submission requirements were assessed.

The Treasury follows a four-stage review process for PPP projects at the following stages:

- Completion of the feasibility study (Treasury approval I);
- Preparation of the bid documents (Treasury approval IIA);
- Evaluation of bids (Treasury approval IIB); and
- Conclusion of negotiations (Treasury approval III).

Where the project has been supported by one of the project preparation facilities (PPFs), then it would also need to be approved by the respective project facility donors prior to the treasury approvals.

STATE-OWNED ENTERPRISES – LEADING QUALITY ASSURANCE IN INFRASTRUCTURE PLANNING

State-owned enterprises (SOEs) are independent entities partially or wholly owned by the government. South Africa is reported to have over 700 SOEs that together account for an estimated 76% of the country's infrastructure investment. Some of the major SOEs include SANRAL (roads), TRANSNET (rails, ports and pipelines), PRASA (passenger railways), ESKOM (power), ALEXKOR (mining), DENEL (military equipment), SAFCOL (forestry), Trans-Caledon Tunnel Authority, Rand Water, and the Development Bank of Southern Africa ((DBSA) project financing). These SOEs promote a programmatic approach to project preparation, although fiscal challenges and credit limitations within SOEs have constrained infrastructure investment more recently.

SOEs in South Africa have created internal capacities and strong quality assurance standards for project approval, which has helped in scaling up project delivery. For example, TRANSNET is a freight and logistics company responsible for pipelines, ports, and rail transport infrastructure and operations in South Africa. TRANSNET has established a multi-year planning framework (Long-term Planning Framework – LTPF), which defines TRANSNET's long-term port, rail and pipeline infrastructure capacity investment plans. The LTPF is based on a 30-year integrated freight demand forecast (Freight Demand Model, Transportation Model, and Market Share Model) and is closely aligned with the government's National Development Plan. This plan is updated on an annual basis. Project preparation is guided by extensive review processes across four major phases:

- FEL 1 – Master planning and concept development;
- FEL 2 – Pre-feasibility study;
- FEL 3 – Feasibility study and detailed engineering;
- FEL 4 – Procurement and construction management.

The detailed guidelines of each phase are provided in the 'Project Life Cycle Process Gate Review Manual'. While South Africa has been facing some fiscal challenges driven by the credit constraints of SOEs, the process and service delivery model framework established by the SOEs is an efficient "model for infrastructure delivery".

Financing project preparation. Financing for project preparation comes from three sources:

- *Budgetary allocation within the respective line agencies and SOEs,* including SANRAL, TRANSNET, PRASA, ESKOM, SAFCOL, Trans-Caledon Tunnel Authority, Rand Water, and DBSA.
- *Government budget-supported project preparation facilities.* These include the Project Development Account, which sits under the National Treasury to support the preparation of PPP projects targeting private investment. In addition, there is the newly created Budget Facility for Infrastructure (BFI), which supports the execution of national priority projects by establishing specialised structures, procedures and criteria for committing fiscal resources to public infrastructure spending. Often public entities in South Africa have not adequately budgeted for project planning and preparation. Therefore, these facilities seek to bridge the funding gap. The aim is to support quality public investments through robust project appraisal, effective project development and execution, and sustainable financing arrangements.
- *Multiple other project preparation facilities at the national and regional levels.* For example, the Infrastructure Investment Programme for South Africa[1] (IIPSA) is a collaboration between the Government of South Africa and the European Union (EU) to promote key infrastructure projects in South Africa and the Southern African Development Community (SADC) region. Similarly, the DBSA Project Preparation Fund, which is sponsored by DBSA under the National Treasury, finances the preparation of bankable infrastructure projects in South Africa and the SADC region. Beyond this, there are other autonomous international project preparation facilities that contribute to project preparatory financing in South Africa.

[1] The Development Bank of Southern Africa (DBSA) has been appointed as the Secretariat and Fund Manager to implement the IIPSA program and invites project proposals from eligible public entities and private entities with a public service mission to apply for IIPSA Grant Funding for the financing of infrastructure investment projects in support of long-term financing by participating DFIs. This funding can take the form of technical assistance or direct investment grants. Although the DBSA is the implementing agent, an IIPSA Project Steering Committee that comprises the National Treasury, Department of Economic Development, Department of Public Enterprises and the Department of International Relations and Cooperation will make the final funding decisions regarding the IIPSA program.

GTAC AND THE PROJECT DEVELOPMENT ACCOUNT (PDA) FACILITY

In 2012, the Government of South Africa split the regulatory functions of the PPP Unit (in the National Treasury) from its advisory role, which was then transferred to the Government Technical Advisory Centre (GTAC). Since this transfer of responsibilities, GTAC has been providing technical support and advice to national and provincial departments (or municipalities) in getting a PPP project through all stages of Treasury approvals (or for municipalities – "Views and Recommendations"); while the Infrastructure Finance Unit in the Budget Office is now responsible for the regulatory function and for recommending project approvals to the Deputy Director General of the Budget Office.

The Project Development Account (which is a revolving fund) is a dedicated project preparation facility under the National Treasury utilised by GTAC to finance technical assistance for all projects including PPPs, NDP projects etc. These functions include technical consulting services, specialised procurement support for high impact government initiatives and advice on the feasibility of infrastructure projects. In all instances of PPP-related financing support, funds are paid to advisors in accordance with the terms of the contract between the implementing authority and the advisor. In non-grant funding instances, disbursed funds will be recovered from the successful private party bidder when the PPP reaches financial close, as a 'success fee', which is part of the procurement conditions for the project. The Evaluation/ Investment Committee appointed by the Head of GTAC shall decide whether the funds allocated to the project are recoverable or not.

PDA provides financial assistance for hiring both project officers and transaction advisors. A project officer reports directly to the accounting officer of the sponsoring department and manages the implementation of the transaction advisor's terms of reference to ensure compliance with Treasury Regulation 16[2].

The project officer is then procured, followed by the procurement of the transaction advisor. A Project Steering Committee (PSC) is thereafter created, composed of senior departmental officials, particularly those who will ultimately be involved in implementing the PPP. One of the tasks of the transaction advisor is to undertake capacity building with the departmental PSC members so that they will be able to implement the project once approved. The transaction advisor will then conduct a feasibility study, the elements of which include: a needs analysis, an options analysis, project due diligence, a value assessment, and an economic valuation and procurement plan. Upon conclusion of the feasibility study, it is submitted to the Budget Office for approval.

Apart from providing project development funds, one of the main objectives of the PDA facility is to drive the public entities to define medium-term planning objectives and earmark funds for planning and preparation. The PDA facility has supported project preparation activities in more than 33 projects across multiple sectors. Examples of projects where PDA funding was used are listed below:

- ***The National Department of Health–Biovac vaccine distribution program.*** In South Africa, the provinces are responsible for the distribution of all pharmaceuticals, including vaccines procured for them by the National Department of Health. Vaccines are particularly vulnerable to variations in temperature and the passage of time. In 2003, subsequent to a PDA partially-funded feasibility study, a PPP was entered into between the National Department of Health and Biovac, a developer of vaccines and pharmaceuticals, for the distribution of vaccines procured by the State to all nine provinces. The distribution agreement is scheduled to expire on 31 December 2018.

continued...

[2] Treasury Regulations for Departments, Trading Entities, Constitutional Institutions and Public Entities, published in GN 740 GG 23643 of 25 May 2002 (the "Treasury Regulations"), issued in terms of the Public Finance Management Act, 1999 (the "PFMA"), as amended.

- ***Province of the Western Cape. Chapman's Peak toll road.*** The Chapman's Peak toll road PPP agreement was entered into on 31 May 2003 with the private party contracted to construct and maintain a toll road from Cape Town to the Cape Point National Park area. In February 2009, the province applied for PDA funding for consultants to negotiate suitable amendments to the PPP agreement, which was causing difficulties among the residents along the toll road route. On 25 July 2009, the parties signed an amendment to the PPP agreement, negotiated by the consultants, which resolved the major resident-stakeholder issues. This project illustrates how the creation of the PDA provides an alternative source of funding for the resolution of any operational problems that may arise during the implementation of a PPP agreement.
- ***Free State Province Universitas and Pelonomi Hospitals.*** In 2000, the Province of the Free State's Department of Health undertook the assessment of a possible PPP project, whereby the province would obtain the services of a private sector medical services provider at its Pelonomi Hospital, located in an underprivileged area of Bloemfontein, by pairing it with another hospital also located in Bloemfontein, but in a wealthier area. Transaction advisors funded by the PDA were appointed in 2002, and a PPP for 26 years was thereafter executed between the Free State Department of Health and a private sector medical services provider. The agreement was that the service provider would redevelop and upgrade certain aspects of Pelonomi Hospital, use its wards and theatres, and generate revenue therefrom, while at the same time, providing world-class medical services to former Pelonomi patients at Universitas Hospital.
- ***Gauteng Province Cradle of Humankind World Heritage Site.*** The Cradle of Humankind World Heritage Site in Gauteng Province is the source of many hominid fossils. It is currently the site of much research regarding our hominid ancestors, with the discovery of Homo Naledi being announced recently. Much of the site is under the control of South Africa's University of the Witwatersrand (Wits), located in Johannesburg. In 2001, the province initiated PPP processes, partially financed by the PDA, with the understanding and cooperation of Wits. A cooperation agreement was executed by the province and Wits in 2003, followed by the signing of a PPP agreement with Maropeng a l'Africa (MAL) for the design, construction, maintenance and operation of the Interpretation Centre at the site.

3. Guidance for project preparation

Guidance	FOUR-STAGE TREASURY APPROVAL PROCESS
Owner	National Treasury
Project development stage	Quality assurance
Details	Modules 1-4 (out of nine modules) of the PPP Manual systematically guide public and private parties through the phases of PPP project preparation for national and provincial governments. Each module of the PPP Manual is issued as a National Treasury PPP Practice Note, as per the 1999 Public Finance Management Act. The PPP Manual should be read together with the South African National Treasury's Standardised Public-Private Partnership Provisions. The manual draws on South African project experience to date and on best international practice and sets rigorous risk-assessment standards by which the government will make affordable project choices that best leverage private investment for quality public services. Module 1 (Regulations for PPPs) and Module 2 (Code of good practice for Black Economic Empowerment (BEE) in PPPs) deal with the enabling environment for project planning and delivery. Module 3 provides the steps in the PPP inception phase, including the hiring of transaction advisors and arranging of preparatory financing for the subsequent module. Module 4 (PPP Feasibility Study) explains in detail how an institution should carry out a feasibility study to decide whether conventional public sector procurement or a PPP is the best choice for the proposed project. **Link for further details:** *https://www.gtac.gov.za/Publications/1160-PPP%20Manual.pdf*

Guidance	BUDGET FACILITY FOR INFRASTRUCTURE (BFI)
Owner	National Treasury, Presidential Infrastructure Coordinating Commission (PICC) and Department of Planning
Project development stage	Quality assurance
Details	The Budget Facility for Infrastructure (BFI) is a reform to the budget process that supports the execution of national priority projects by establishing specialised structures, procedures and criteria for committing fiscal resources to public infrastructure spending. As directed by the Cabinet, the National Treasury is working jointly with the Presidential Infrastructure Coordinating Commission (PICC) secretariat, the Department of Planning, Monitoring and Evaluation (DPME) and the Economic Development Department (EDD) to establish the facility. The aim is to support quality public investments through robust project appraisal, effective project development and execution, and sustainable financing arrangements. The objective of the facility is to address shortcomings in the planning and execution of infrastructure projects and help the government to build a pipeline of projects. The facility shall put a mechanism in place to improve the rigour of planning and budgeting for large infrastructure projects through standardised appraisal methodologies that ensure that full lifecycle costs of projects are planned, adequately budgeted and provided for in future budgets. **Link for further details:** *http://www.treasury.gov.za/publications/guidelines/Infrastructure%20 Guidelines%20Final%20May%2018.pdf*

Guidance	INFRASTRUCTURE DELIVERY MANAGEMENT SYSTEM (IDMS) AND STANDARD FOR INFRASTRUCTURE PROCUREMENT AND DELIVERY MANAGEMENT (SIPDM)
Owner	National Treasury
Project development stage	Project planning
Details	The government's Infrastructure Delivery Management System comprises three core systems, namely a planning and budgeting system, a supply chain management system, and an asset management system, all of which have forward and backward linkages. These core systems are located within portfolio, program and project management processes, as well as operation and maintenance processes. Collectively these processes and systems, together with a performance management system, establish the institutional system for infrastructure delivery. The SIPDM (a component of the government's IDMS) establishes control frameworks (through a stage-gate review process) for the planning, design and execution of infrastructure projects and infrastructure procurement. **Link for further details:** *http://www.treasury.gov.za/legislation/pfma/TreasuryInstruction/Annexure%20A%20-%20Standard%20for%20Infrastructure%20Procurement%20and%20Delivery%20Management.pdf*

Guidance	CAPITAL PLANNING GUIDELINES
Owner	National Treasury, GTAC
Project development stage	Quality assurance
Details	Capital planning guidelines provide guidance on how infrastructure programs and project proposals should be planned, appraised and evaluated before significant funds are committed. The guidance encourages a lifecycle evaluation process, which is analytically robust. The National Treasury evaluation process recommendations are made to the Medium-Term Expenditure Committee (MTEC), which in turn advises the Ministers' Committee on the Budget (MINCOMBUD) on projects that should be allocated funding. The guidelines bring together the key principles involved in deciding whether a project is good, and worth the government's investment. A 'funnel' through which projects can be sifted is set out and includes: (1) assessing projects for alignment with the country's strategic considerations; (2) whether there is truly demand for the project; (3) whether it represents the most cost-effective option; (4) whether it is affordable; and (5) whether it is likely to be implementable. **Link for further details:** *https://www.gtac.gov.za/Publications/Appraisal_of_Infrastructure_Guideline_Revised.pdf*

Guidance	GTAC PROGRAMME AND PROJECT MANAGEMENT (PPM) TOOLKIT
Owner	National Treasury, GTAC
Project development stage	Project management
Details	This toolkit provides a practical approach to the management of projects. The Programme and Project Management (PPM) Toolkit is designed to simplify the processes required to manage a project successfully from beginning to end. It defines project management in simple terms and provides the necessary documentation, tools and templates required to make the project a success throughout different phases. The National Treasury, through GTAC, took the initiative to roll-out the PPM Framework, Guides and Toolkits in all national departments and the nine provinces. The Project Management Body of Knowledge (PMBOK) approach was adopted as a basis for the development of the Programme and Project Management Framework. The material is customised to suit the South African public sector and is available to all in the public sector. **Link for further details:** *https://www.gtac.gov.za/knowledge-products/ppm-toolkit*

Guidance	USER GUIDE FOR BUDGET FACILITY FOR INFRASTRUCTURE (BFI) FINANCIAL MODEL
Owner	National Treasury
Project development stage	Project appraisal and review
Details	The BFI Financial Model has been designed to appraise the affordability of any infrastructure project proposal submitted to the BFI. It provides the financial information required for any submission made by sponsors to the BFI, such as budget statements and Risk-Sensitivity Analysis. The user guide is designed to aid the user of the BFI Financial Model in setting up the model and to guide them through where and how to populate the model with data. In addition, this guide explains the use of output sheets and scenarios. **Link for further details:** *http://www.treasury.gov.za/publications/guidelines/2018%20Large%20Strategic%20Infrastructure%20User%20Guide.pdf*

4. Project case example: Renewable Energy IPP Procurement (REIPPP) Programme

PROJECT BRIEF

The REIPPP Programme was a landmark initiative by the Department of Energy (DoE) to rapidly scale-up grid connected renewable energy generation through private participation. The REIPPP Programme was implemented against the historical backdrop of several failed initiatives to contract Independent Power Producers (IPPs), owing to institutional shortcomings, capacity gaps and weak incentive structures. To overcome these limitations and to run the REIPPP Programme as a sophisticated, multi-project, multibillion-dollar international competitive bidding process for renewable energy, the DoE co-opted and took the assistance of the National Treasury's PPP Unit to manage the process. A small team of technical staff from the DoE and the PPP Unit established a project office, known as the DoE IPP unit, which effectively functioned outside the departmental structure and acted as a facilitator for the REIPPP Programme.

Since inception, the REIPPP Programme has received private sector investment of US $14 billion and created 36,528 job years[3]. Overall, 44% (i.e. 6,422 MW) of the total targeted renewable energy capacity of 14,725 MW, has been procured from 112 IPPs. More than 3,776 MW of electricity generation capacity from 62 IPP projects have also been connected to the national grid. The challenge for the government now is to provide timely grid connectivity to the renewable energy IPPs.

QUICK FACTS

VALUE
(IN US $ BILLION)

15

STATUS

Five bid windows*

PROJECT OWNERSHIP

IPP Office, DoE

SOURCE OF PROJECT
PREPARATORY FINANCING

National Treasury PDF**

SUPPORT AGENCIES

PPP Unit NT, DoE, ESKOM

[3] The equivalent of a full time employment opportunity for one person for one year.

* Does not include the small projects IPPP program; ** National Treasury Project Development Facility; Preparatory actions leading up to the first round auctions supported by DBSA

PROJECT TIMELINE

1998	White Paper on Energy Policy
2003	White Paper on Renewables and Integrated Energy Plan
2006	Electricity Regulation Act 2006
2008	Inter-Ministerial Committee on Energy to unblocking hurdles in scaling up energy sector; Strategic commitment of leadership to drive private sector investment in renewable energy
2009	Renewable Energy Feed-in Tariffs (REFITs) policy
2010	Integrated Resource Plan 2010-2030
2010	Establishment of IPP office in DoE
2010	Memorandum of Agreement (MOA) signed by DoE, NT and DBSA for ZAR 80 million (US $11-12 million)* assistance for consultants, a project office, and capacity building
2011	Electricity regulations on new generation capacity
2011	Informal consultations with potential developers, lawyers and financial institutions on existing policy; Review of international tender processes in India, Brazil, Germany, France, Spain and elsewhere
2011	Launch of Renewable Energy Independent Power Producer Procurement (REIPPP) Programme
2012	National Development Plan 2030

BID WINDOWS

Bid Window 1
- 4 November 2011
- 28 bidders
- 1425 MW

Bid Window 2
- 5 March 2012
- 19 bidders
- 1040 MW

Bid Window 3
- 19 August 2013
- 17 bidders
- 1457 MW

Bid Window 3.5
- 31 March 2014
- 2 bidders
- 200 MW

Bid Window 4
- 18 August 2014
- 26 bidders
- 2205 MW

* Average exchange rate of US $1 = ZAR 7 in 2010

LEARNINGS FOR PROJECT PREPARATION

The success of the REIPPP Programme is an outcome of the government's leadership and vision, meticulous planning and detailing, and structural and operational interventions. The preparatory work involved in creating and implementing the program has been extensive.

1. Multi-year planning horizon for infrastructure backed by consistent and coordinated policy and reform actions is central to the success of transformational projects

The success of the REIPPP Programme entails a resilient political vision for the country and sectors reflected in the multi-year planning framework, backed by a strong political will to achieve the vision's objectives. The consistent and coordinated policy actions to initiate regulatory and institutional reforms and operationalise the recommendations of the Integrated Energy Plan, the Integrated Resource Plan, and the White Paper on Energy and Renewables remains the foundation of the project's success. Each element of success is discussed below:

- A multi-year capital investment planning framework that is consistent with development priorities. The sectoral planning documents (the Integrated Energy Plan 2003 and the Integrated Resource Plan in 2010) were aligned with the nation's commitment to reducing its carbon footprint. The initial impetus to the program was provided in the White Paper on Energy Policy in 1998 (which promoted a greater role for the private sector and diversification of energy sources), and the White Paper on Renewables in 2003 (which envisaged 10,000 MW of energy from renewables).
- The government also created the necessary legal and regulatory framework for implementing the REIPPP Programme. The Electricity Regulation Act [No.4 of 2006] facilitated the establishment of an energy regulator (Section 3), the licensing of activities (Section 7), an estimation of new generation capacity across sources, the tendering procedure and the promotion of private sector participation (Section 34), and regulations on new generation capacity (Section 35). Specifically, Sections 34 and 35 of the Act set the framework for the REIPPP Programme.

2. Programmatic approach to project preparation through an empowered institution and sectoral focus

Realising the need for a dedicated establishment to design and implement the REIPPP Programme project preparation process, the Government of South Africa established a separate IPP office within the DoE in 2010, to drive project management. The DoE and National Treasury (NT) entered into a Memorandum of Agreement (MoA) with the Development Bank of Southern Africa (DBSA) to facilitate the establishment of this IPP office. The clarity in accountability, the operational independence of the project unit and its arms-length position with the government departments helped to minimise procedural overheads, as well as bureaucratic restrictions, driving project scale. The unit also focused on ensuring sustained capacity building initiatives including training, case studies and communications programs.

3. Strong program champion supported by a resourceful and dynamic team

The REIPPP Programme team was headed by a dynamic officer from the National Treasury PPP Unit with deep expertise in project appraisal. Several other key stakeholders were also drafted into the team early in the program planning phase. Giving autonomy to this management team helped streamline program management. The management team included experts from the legal, technical, banking and financial sectors to create a resourceful and dynamic project team. The team's private sector experience and familiarity with management in private sector circles facilitated the engagement process. The team also created an entrepreneurial/start-up type of work culture, which was received favourably by the private sector players, as well as the bankers. The quality of the management team and its dynamic leadership were key to driving private sector trust, especially when the general outlook towards PPPs was muted[4] .

[4] A host of factors contributed to this sentiment and included (i) policy uncertainty, (ii) limited government support, (iii) cancellation of several PPP contracts, especially in social sector projects like prisons, and iv) negative public opinion over PPPs.

4. Access to an independent high-quality team for evaluation

The team was supported by a high-quality private advisory team of private domestic and international advisers, including international reviewers (legal, technical and governance), project management consultants, legal support, and a financial and technical evaluation team. The primary reason for access to such a high-quality team was the availability of a dedicated project financing facility. The project team received technical assistance from the expert teams from Spain and Denmark under the bilateral assistance program. The DoE IPP office also had a large number of transaction advisers with strong national and international expertise. The opportunity to imbibe learnings from the European counterparts, as well as the availability of quality advisers, have been highlighted as critical success factors for project preparation in South Africa. The table below provides a snapshot of consultants and transaction advisers, among many others, providing technical, legal and financial assistance to the DoE IPP office.

REIPPP PROGRAMME EVALUATION CONSULTANTS
International Reviewers: Legal: Linklaters (UK), Technical: Tony Wheeler Consulting (UK), and Governance: Ernst & Young
Project Management: SPP Project Solutions
Legal Evaluation: Bowman Gilfillan, ENS Africa, Ledwaba Mazwai and Webber Wentzel
Technical Evaluation: Mott MacDonald
Financial Evaluation: Ernst & Young (EY) and PwC

Source: South Africa's Renewable Energy IPP Procurement Programme: Success Factors and Lessons May 2014 (PPIAF)

5. Availability of adequate and sustained project preparation financing

The REIPPP Programme was backed by dedicated financing for project preparation and capacity building. Some of the sources include: (i) the National Treasury (made available through DBSA) approximately US $7.5 million; (ii) technical assistance financing from bilateral donor agencies (Denmark, Spain, and the UK), and multilateral agencies (US $6 million from the World Bank through the Global Environment Facility); and (iii) self-financing through bidder registration fees and project development fees of 1% of the project cost (transferred to a project development fund, which is managed by the DoE). The multiple financing sources have ensured the sustainability of the program and helped it to remain off the formal government budget after the first round. The availability of dedicated funding for the process ensured that high quality private advisory assistance was available for the DoE IPP office in planning the process. The cost of preparing a bid and taking it to financial close for the first round of auctions is estimated at around ZAR 25 to 30 million (US $3-4 million) and was supported by the National Treasury, the World Bank and DBSA.

6. Continuous engagement with the market participants helped shape the program design

The team made continuous engagement with the private sector players and bankers a priority, to ensure that the program design was aligned with the prevailing market environment. This also helped to allay general concerns related to the PPP model during this period. Design factors, including the signing of the PPA early on, and implementation arrangements, were an outcome of this effective engagement process. One of the unique elements of the program was that the bidders were expected to come with lenders already locked in, which helped in incorporating the lenders' concerns into the program design.

7. Strengthening baseline information and high governance standards to aid private sector interest

To aid with the significant risk of delivery transferred by the program to the private sector, the South African Government created information disclosure systems to enable private sector decision-making. The government had already taken initiatives to provide base information regarding renewable energy sources like solar and wind energy, which would serve as guidance for the prospective private sector partners. Some of the key initiatives include:

- The Solar Data and Resource Mapping study conducted by the Southern African Universities Radiometric Network (SAURAN)
- Wind Atlas for South Africa (WASA I) under the DoE, the Global Environmental Facility (GEF), the United Nations Development Programme (UNDP) and the Danish Government

Further, transparency and high standards of professionalism in program management, adherence to timelines, and high standards of quality assurance led to the program's credibility and resulted in high participation by the private sector.