



WWF
TECHNICAL
REPORT

ZA

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Energy

**A review of the local community
development requirements in
South Africa's renewable energy
procurement programme**



EXECUTIVE SUMMARY

South Africa's National Government began procuring electricity from large-scale renewable energy plants in 2011.

By May 2015, the renewable energy independent power producer procurement (REIPPP) programme had approved 79 wind, solar and hydro projects and tasked each of them to contribute towards local community development through socio-economic and enterprise development, local ownership and local job creation. These requirements have to be fulfilled within a 50km radius of the project and oblige renewable energy companies to engage with the developmental opportunities and needs of communities around their project sites.

This report sheds light on the policy requirements and initial implementation experiences of the REIPPP. It explores emerging evidence of local community development schemes established by the renewable energy industry and proposes steps to overcome emerging challenges. Information in this report is based on a review of the bid documents submitted to the Department of Energy as well as engagements with policy stakeholders in public forums such as conferences and workshops. Stakeholders include Government and the private sector, non-governmental organisations as well as members of communities engaged with renewable energy projects.

The findings indicate that private sector companies are taking the requirements seriously, but they require support to maximise the developmental benefits of the programme and minimise the risk of unintended consequences that will hamper the success of community benefit initiatives. The REIPPP assigns renewable energy companies with the difficult task of creating local developmental benefits in an effort to reduce the weight of structural and systemic issues of poverty and inequality. Companies, however, lack the capacity and incentive to appropriately engage with issues of development planning.

The renewable energy industry is a necessary addition to the South African energy landscape. Successful project management led to about a third of the approved projects already delivering electricity to the grid, only four years after the launch of the REIPPP. The same dedicated project teams are attending to Government's stipulated requirements for local economic development. Without a clear understanding of the policy makers' vision associated with these requirements, project developers are approaching the governance and investment of the allocated funds in various ways, including the establishment of new community trusts and the funding of for example, bursary schemes.

To date, Government has failed to guide project developers through requirements for impact monitoring and prescribed consultation with local stakeholders towards a

more inclusive and transparent practice. Additionally, the competitive and uncertain policy environment contributes to project companies mostly planning and dealing with the requirements in isolation, consulting with private development service providers instead of engaging local government and residents around the governance and investment of the funds allocated to local community development. Project companies also seldom communicate with neighboring corporate development funders or other renewable energy projects. This leads to confusion amongst local residents and carries the risk of causing conflict and other unintended consequences such as duplication of efforts.

Key findings

The policy creates opportunities for local community development

- The REIPPP obliges private sector renewable energy projects to engage with local community development around the project sites. Government awards projects with preferred bidder status partially based on promises made by companies to contribute towards economic development.
- Awarded projects are required to spend a certain amount of their generated revenue on Socio-Economic Development (SED) and Enterprise Development (ED) and share ownership in the project company with local communities. These criteria, as well as the creation of a specific number of jobs, are incentivised through awarding higher scoring to projects that realise such criteria within a 50km radius to the project site during the evaluation process. Additionally, projects add value to the local economy through targeted procurement from local businesses.
- Based on the 64 REIPPP projects, awarded in the first three procurements rounds, approximately R1.17bn will be available for local community development through the REIPPP's SED, ED and local ownership requirements over the next 20 years.
- Job creation requirements target national and local citizens. Between 12% and 20% of people employed on a project should represent local citizens that reside within a 50km radius.

... but the policy also has its weaknesses

- This research indicates that the SED plans, which are submitted as part of the bids for the REIPPP, might not be taken into account by Government when evaluating projects for their approval or rejection. SED plans add to the costs of bid developments and carry the risks of either being superficial desktop studies or of raising expectations within communities if developed through a consultative process. Government should rather request companies to submit these plans at a later stage in the projects, for example with financial close.
- The projects are incentivised to create temporary employment opportunities mainly for unskilled workers from local communities. While appropriate in many communities, this does not lead to permanent job creation – a reality often misunderstood by the public and politicians.
- Despite the specific attention to local communities in the REIPPP, there is no guidance or even mandatory process (besides the Environmental Impact Assessment) for the actual engagement with the local communities around projects. The degree to which communities participate in decision-making around the project's local economic development investments is therefore at the sole discretion of the company in question.

- The procurement documents lack a clear definition of a framework associated with the SED, ED and local ownership criteria. They therefore fail to direct projects on objectives and vision associated with the requirements as well as the monitoring and evaluation of impact of the spend.

Practices employed by projects require attention

- Employment for local unskilled workers occurs mainly during the construction phase of projects. This needs to be effectively communicated to the surrounding communities in order to manage expectations. Communication is also a crucial and currently under-utilised element of recruitment, which, in practice, differs between projects and can involve municipalities and/or labour brokers, or may be done by the project team alone.
- Local community development is not part of the core business of renewable energy developers and therefore project companies find the programme's requirements challenging. Companies are developing strategies and expertise to fulfill the requirements, but a lack of time and experience often prevents meaningful engagement. This results in the potential for unintended consequences associated with the investments into local economies.
- The REIPPP supports a competitive business environment. Projects are prone to competing, even when it comes to the planning and implementation of local community development measures. Projects communicate very little with each other and generally do not collaborate. This is a problem, especially in cases where, due to the close proximity of projects, the beneficiary radius overlaps and funding needs to be spent in the same communities.
- The review of bids at the IPP-unit shows that various governance schemes for SED, ED and local ownership were proposed to Government. Feedback on this aspect of bids is not provided. Subsequently, it can be concluded that the governance approach chosen is irrelevant for bid evaluation. Further, the diversity of governance approaches increases the need for IPPs to communicate with each other. Project companies need to at least be aware of the approach taken by neighboring projects in order to effectively communicate with local stakeholders and Government needs to incentivise communication and collaboration amongst projects.
- Companies are concerned about project compliance, meeting investor and shareholder expectations and negotiating associated risks. Community involvement in projects is associated with high risk, which leads companies to favour the funding of established NGOs and pre-established projects and shy away from more community-driven development processes. These processes, however, have great potential to contribute towards empowerment and the creation of more inclusive local economies.
- Uncertainty exists amongst project companies regarding appropriate public relations in the context of the REIPPP's specific expectations for confidentiality. This particularly hinders the communication of the community development aspect of the projects and results in a misinformed public. Government has failed to mitigate this, as public awareness campaigns and access to information about the programme are basically non-existent.
- The secrecy around the projects and associated local community initiatives needs to be overcome to allow sufficient discussion of the different ways to govern and invest the SED, ED and local ownership funds in light of the national development goals and the REIPPP's rules. Innovative and promising approaches should be used to inspire other projects practices.
- Bid preparation experience and implementation insights needs to inform policymaking. This requires a dedicated task team to collect, evaluate and

formulate suggestions for (and potentially with) Government, thereby assisting the renewable energy programme and local community initiatives to succeed in the long run.

Steps urgently needed to maximize developmental benefits and mitigate unintended consequences

Improve communication

- Information about the REIPPP needs to be more widely disseminated. The arrival of renewable energy in South Africa brings visual and economic changes for the regions where renewable energy projects are implemented. The local economic benefits are of particular interest to the public and need to be communicated to allow for a meaningful engagement with the public.

Foster collaboration

- More open engagement is also needed between Government and the renewable energy companies. Companies are concerned about complying with the regulations of the programme while making a meaningful contribution to local community development. Government has the opportunity to enhance the practice companies' employ by fostering dialogue between companies and other relevant stakeholders including provincial and local government.

Increase capacity

- The renewable energy industry requires support to ensure projects have the capacity to engage with development and the responsibility to spend R1.17bn in an appropriate way. Tailored training is required for companies and their community liaison staff. In addition, cross-sectoral learning to access lessons from mining and other industries is crucial in this regard.

Support creativity

- The private and public sector need creativity to develop long-term strategies for local community development. Such strategies must allow for the initial training and employment benefits to be continued through the later commencing SED and ED investments. Local ownership funds ideally build onto these achievements. Aligning these efforts and investments requires sufficient communication, collaboration between the relevant people and organisations and the capacity to ensure the developed and implemented approach is comprehensive and sustainable.

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ABBREVIATIONS

ADS	Agency Development and Support Department (unit within the IDC)
BWR	Bid Window Round
CDM	Clean Development Mechanism
DBSA	Development Bank of Southern Africa
DoE	Department of Energy
ED	Enterprise Development
FET	Further Education and Training
GIZ	Deutsche Gesellschaft fuer Internationale Zusammenarbeit
NGO	Non-Governmental Organisation
MW	Mega Watt
IDC	Industrial Development Corporation
IDP	Integrated Development Plan
IPP	Independent Power Producer
REIPPP	Renewable Energy Independent Power Producer Procurement Programme
SED	Socio-Economic Development
SMMEs	Small-and Medium Enterprises
UNFCCC	United Nation Framework Convention on Climate Change
WWF	World Wide Fund for Nature

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Note about the author

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INTRODUCTION

To date, the Renewable Energy Independent Power Producer Procurement (REIPPP) programme has led to the approval of 79 Independent Power Producer (IPP) renewable energy projects since the programme's launch in August 2011.

The Department of Energy (DoE) claims that the programme offers great potential to realise positive socio economic outcomes. Concerns have been raised about whether the private sector, in this instance the developers of REIPPP projects, has the necessary skills (and appetite) to manage the envisaged social economic development – listed as job creation, local ownership, socio-economic development and enterprise development. All of which has to happen within 50 km of the project site.

The report serves to inform key stakeholders – Government, private sector and civil society – of the issues that should be taken into account when engaging with the local community development requirements of the REIPPP tender process. The WWF sees this report as essential to communicating the importance and sensitivity around this challenge with the aim of encouraging more attention and resources.

This report is organised in three parts. Part A provides an overview of the procurement process and the associated jobs and financial resources that have been allocated to local community benefits to date after the first three procurement rounds. Drawing on lessons and examples from other industry engagements with community development, part B of the study assesses both the proposed development plans in bid documents and emerging implementation experiences in current projects. This section also introduces two Government-led initiatives that support the realization of the REIPPP's economic development potential. Part C then discusses stakeholder specific success factors and associated risks. The report identifies pragmatic recommendations on how to enhance the implementation practice towards a greater developmental impact.

Information in this report is based on a review of bid documents of approved renewable energy projects in the REIPPP to which access was negotiated with the IPP-unit at the Department of Energy (DoE). The report also draws on insights from IPP projects across the country, gathered through engagements with project stakeholders in the context of the author's postgraduate research. Further concerns and current issues important to this topic were documented and analysed at industry events including workshops and the annual Windaba Conference.

The matter on paper





PHOTO: COURTESY OF DROOGFONTEIN SOLAR POWER

CHALLENGING ENERGY COMPANIES WITH DEVELOPMENT

South Africa has anticipated the implementation of renewable energy technology to finally utilise the abundance of solar, wind, hydro and biomass resources available in the country.

The anticipated shift in the national energy landscape is generally associated with hopes for increased energy security, reduced greenhouse gas emissions, new industrial developments and economic benefits through employment creation. Renewables have arrived through a competitive bidding programme consisting of five rounds. The focus in this report is on local community development, which has been added as an additional requirement for companies partaking in the procurement programme.

The REIPPP programme is unique. It presents a top-down approach that enforces partial project ownership and benefits for local residents through large-scale wind, solar, hydro and biomass energy plants. In other countries, renewable energy rollouts might also generate local benefits, however, the ways these are informally negotiated differ significantly from the commitments companies are obliged to make in South Africa. Driven and informed by the country's Broad Based Black Economic Empowerment (BBBEE) act, the policy makers have required the emerging renewables industry to dive straight into this techno-social learning experience. The REIPPP tender process is challenging and necessitates technical, legal and financial innovation. On top of this, the project teams, usually staffed with engineering, logistic and commercial expertise, are afforded a real opportunity to engage with the social dimension of renewables, way beyond the shallow Social Impact Assessments, which is part of the statutory Environmental Impact Assessments (EIA).

This is an opportunity for more meaningful engagement of project teams with the people living in close proximity to the renewable energy projects. Some welcome the chance to contribute towards social development in the country. Others may be more nervous of the task. Regardless of the initial reaction to the REIPPP's economic development requirements, industry stakeholders can be found embracing the task and trying their best to make use of this opportunity.

Poverty and inequality, as every textbook, academic and policy maker echoes, is systemic and extremely difficult to tackle. It requires comprehensive measures including economic, labour, education, health and social policies. The South African National Development Plan identifies the elimination of poverty by 2030 as an overarching development goal for the country. National, provincial and local government, through numerous policy instruments, is working towards this goal and a myriad of other national goals. Progress is slow and not always straightforward. Diverse interests and limited resources have to be negotiated. Unintended consequences, external influences, natural disasters and many other factors provide daily stumbling blocks on this road.

The REIPPP presents a policy with two clear objectives. On the one hand, energy security is tackled through the procurement of additional electricity generating capacity and on the other hand, economic development is stimulated through a set of criteria independent power producers have to satisfy. There are examples of dual policy instruments including the National Social and Labour Plan obligations in the mining industry, the somewhat historic Clean Development Mechanism (CDM) and its younger brother, National Appropriate Mitigation Action (NAMA). The latter are instruments of the United Nations Framework Convention on Climate Change (UNFCCC) with the intention to combat greenhouse gas emissions while attempting to ensure that mitigation actions make a contribution to the national or local economy. Contributions to sustainable development through the Clean Development Mechanism (CDM) are critically debated and a suitable framework for NAMAs to contribute locally has been negotiated internationally for years. Bottom line is that alleviating poverty and reducing inequality is a complex and difficult undertaking.

The REIPPP provides people and organisations involved with the contractual obligation to contribute to local economic development around IPP projects for the 20-year duration of the Power Purchase Agreements (PPA) between IPPs and Eskom. The challenge is to invest the currently committed R1.17bn in a way that results in maximum developmental benefits and minimal possible unintended consequences. Collectively, we have 20 years to identify locality specific, appropriate and sustainable ways to govern and invest this money. Private sector, Government and civil society have the opportunity to engage, collaborate and build capacity in order to translate it into a meaningful contribution towards the country's developmental goals.

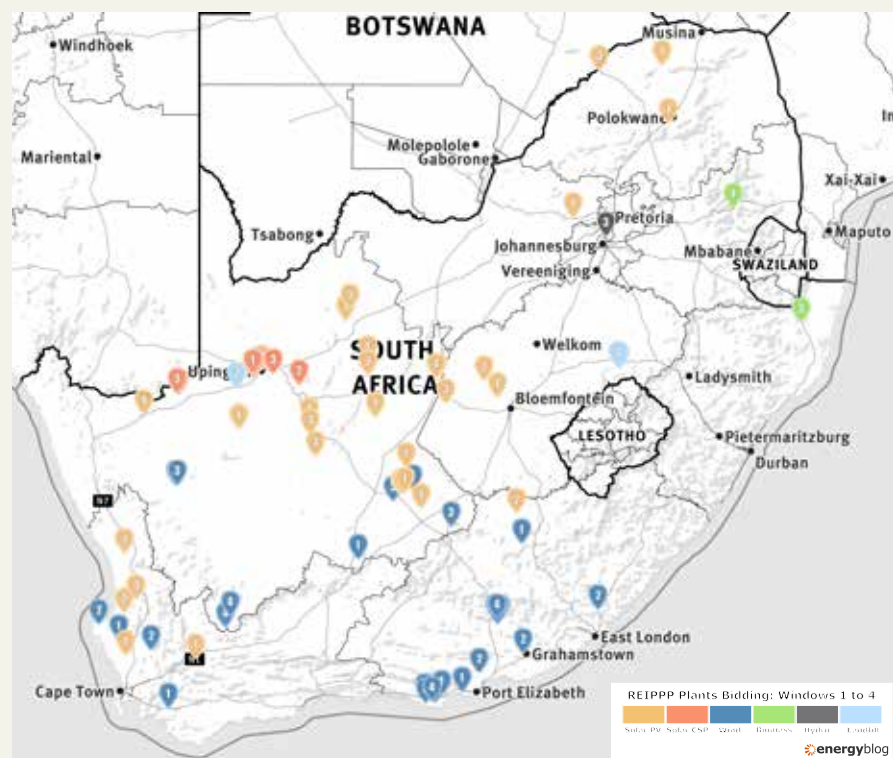
THE REIPPP TO DATE IN BRIEF

To date, South Africa's Renewable Energy Independent Power Producer Procurement (REIPPP) programme has allowed 79 private energy plants access to the electricity market.

The procurement follows an annual bidding schedule. The first three procurement rounds allocated 3916 MW across 64 projects. After some delay, the fourth round results were announced in April 2015. Government selected an additional 13 projects promising 1 121MW as preferred bidders. The fourth round projects are now working towards financial close while the projects of the earlier rounds are either delivering electricity to Eskom already or are busy with construction (Department of Energy 2015).

Projects are spread across the country, with three provinces seeing the most project activity. After four bidding rounds, the Northern Cape has 41 projects, the Eastern Cape 16 and the Western Cape 9.

Figure 1 Map of all 79 approved REIPPP projects after four bidding window rounds



Economic development in the REIPPP

The REIPPP is already a celebrated policy instrument. “In less than three years, South Africa has signed up more investment for more independent power generation than has been achieved across the entire African continent over the past 20 years” (Eberhard et al 2014). The programme also stands out due to its envisaged contribution to economic development. Specific focus is required from project developers on this matter through a set of economic development requirements that obliges bidders to attend to national and local development needs. These requirements are formulated in seven criteria including job creation, local content, ownership, management control, preferential procurement, enterprise development and socio-economic development. The criteria are weighted according to the REIPPP specific scorecard. Four of these requirements score most points if implemented within a 50km radius of project sites. Through this, local efforts leading to job creation, socio-economic development (SED), enterprise development (ED) and ownership are incentivised. This report focuses on these four criteria even though preferential procurement can also support the local economy around projects if companies make a deliberate effort to contract locally, often with small and medium enterprises (SMMES).

The criterion for the creation of jobs is separated in national and local jobs. A total of 25% is allocated to the criterion in its weighting in the economic development scorecard. Various indicators define thresholds and targets for the occupation of South African based citizens, black citizens, skilled black citizens and local communities in proposed projects. Between 12% and 20% of the people employed on each project have to be residents of local communities located within 50km of the project site. Only “in the event that there are no residential areas or villages within 50km from the project site [are project developers allowed to source workers] in the nearest residential areas or villages to the project site” (DoE 2011).

Project developers have to also make quantitative commitments for SED, ED and local ownership. Between 0.7 and 1.5% of the total project revenue has to be allocated towards SED and up to 0.7% of the revenue can be chosen to fund ED measures. ED is therefore a voluntary criterion. In the first two bidding windows, local ownership was stipulated to be allocated to local communities through ownership of project shareholding between 2.5 and 5%. The different bidding windows saw only slight changes in these rules. For some of the economic development criteria, the upper targets were lifted from round three onwards. This meant that the highest compliant bidder set the new target. In round three for example, some projects have structured up to 40% local ownership into their projects.

The economic development criteria led much confusion amongst developers and advisors (Wlokas et al 2012). For example, the requirement to submit a SED plan raised questions. The procurement document stipulates that SED plans should consist of a needs analysis of the communities surrounding the project site and a plan on how to meet these needs utilising the funds allocated towards economic development. The capacity of the IPP-unit to evaluate the plans and monitor later implementation of them is, however, questioned (Eberhard et al 2014). Government has mentioned a possibility for the economic development criteria to change for future procurement rounds, but has not implemented any significant changes up to round four.

Table 1 Economic development criteria of the REIPPP as in the first issue of the Request for Proposals (RFP) in August 2011

	Economic Development Elements	Minimum Threshold	Maximum Target	Description
1	Job creation – SA citizens	Various indicators		Number of jobs help by local citizens
	Lob creation (local area)	12% of RSA employees	20% of RSA employees	
2	Local content	Differs by technology		This refers to the capital costs and costs of services procured for construction minus the finance charges, land and mobilisation fees of the contractor (DoE, 2011b)
3	Ownership (overall black ownership requirement)*	12% of project shareholding	30% of project shareholding	The percentage of company ownership measured through shares and other instruments that provide the holder with economic benefits such as dividends or interest payments (DTI, 2004)
	Ownership (community ownership requirement)	2.5% of project shareholding	5% of project shareholding	
4	Management control	0	40%	The effective control of a company with reference to 'top management' (DoE, 2011b)
5	Preferential procurement	Various indicators		The procurement of goods and services from suppliers that are BBBEE compliant.
6	Enterprise development (ED)	0	0.6% of project revenue	Supporting the development and sustainability of black-owned businesses.
7	Socio-economic development (SED)	1% of project revenue	1.5% of project revenue	Financial contributions to socio-economic development initiatives that promote access to the economy by black people.

Source: DoE 2011

ALLOCATIONS TO LOCAL COMMUNITIES THROUGH THE REIPPP

Local communities are crucial stakeholders in the programme.

However, thus far they are mostly discussed as beneficiaries – beneficiaries of temporary jobs during the construction period, of project company contributions towards SED and ED and beneficiaries of dividends accruing to them through community ownership in the project. While these contributions are significant, they appear to reinforce existing power structures within the South African economy and society. Why is this the case and how can it be remedied?

Job creation

The employment criterion related to local communities is in line with other national policies and programmes. It ensures that work is allocated to local residents wherever the available skills permit. Project developers mention job creation as one of the main benefits when presenting proposed projects to local residents in public hearings in the context of the EIA. Beyond these meetings, information about the work opportunities available are, however, less transparent. The recruitment process employed differs from project to project. Some project teams consult or collaborate with the local authorities to identify and hire workers. In other cases, the project team starts a database of available people and skills. The practice of communicating with community members also differs for example depending on whether a labour broker is consulted by the project company or whether a community liaison worker is employed to undertake community engagement. Other project companies manage recruitment without employing either of these channels.

The majority of local residents are mainly hired temporarily, for unskilled work and during the construction of the plants (Baker and Wlokas 2014, Stands 2014). Fewer people are needed to subsequently maintain and operate the technology. Employment opportunities are therefore mostly created during the first two years of a renewable energy project's lifetime. Workers are employed through the company responsible for the construction of the project (the Engineering, Procurement and Construction company or EPC) or one of the EPC's several sub-contractors. Employment conditions differ amongst the contracting companies in terms of salaries, working hours and training provided. Recent research publicised appreciates that the REIPPP provides a new work experience for unskilled workers compared, for example, to the harsh working conditions in the mines (Stands 2014). The various ways companies fulfill their employment commitments and the consequences thereof for local communities are interesting. Immigration of foreign technicians to rural towns as well as gender relations on-site provide material for further research. Stands' research indicates, for example, that project companies often employ women to secure the site or for catering. Despite the perception that women are more reliable and less likely to misuse drugs and alcohol while in

employment, it is very rare that women are hired for more physically challenging jobs.

Research by Sarah Stands (conducted on behalf of the renewable energy recruitment and consulting company Altgen) indicates that the REIPPP has created more jobs for South Africans than Government has declared. Altgen states that “beyond the numbers, personal interviews with bidders indicated that fewer internationals were taken on due to the unexpected skill level of local South Africans, resulting in better outcomes than what is presented in the results published by the DoE” (Altgen 2014). The amount of additional income associated with the jobs created for local residents and the actual achieved employment numbers are unclear at this stage. According to Altgen, it appears that projects might actually be employing more people and for longer than promised to Government in their bids. This is associated with the strong commitment of the industry to maximise its contribution to employment creation and economic development. However, the REIPPP’s conservative policy when it comes to the publication of information about the programme and its achievements leaves the public (and politicians) in the dark as to how much the implementation of renewable energy plants has contributed to job creation to date (Altgen 2014). This also holds true for the other economic development requirements as well as for the programme as a whole. These achievements are currently poorly communicated, leaving room for speculation and rumours about this new industry to emerge. In order to further enhance the impact of the employment created, project teams have to increase attention and creativity to develop long-term training and employment strategies allowing local residents to not only benefit through training and work during the construction time of the project, but also to ensure that these efforts are continued and enhanced through the SED and ED spend allocated to the community as well as the work of the community trust. Projects that already successfully procure from local SMMEs need to be motivated to share their learnings with other projects. Work in this direction is currently underway by the Eastern Cape Provincial Government and the Deutsche Gesellschaft fuer Internationale Zusammenarbeit (GIZ) and is featured in part B of this report.

Indirect impacts of IPP projects on local economies

Beyond prescribed contributions to local communities, projects impact the local economy indirectly in various ways.

These include:

- Temporary influx of people during construction time leading to short-term growth in population size, increased demand on service and retail industries and changes in social dynamics.
- Restaurant and entertainment businesses are positively impacted.
- Accommodation businesses and the hotel industry profits, often in terms of increased prices for accommodation. In rural areas where rentals are scarce, short-term rental prices increase.
- Transport and hardware businesses have the potential to benefit.
- Increased demand also impacts alcohol sales and prostitution.

Small and medium-sized enterprises (SMMEs) located around renewable energy construction sites have a unique opportunity to profit through new business relationships with the implementing companies. However, many SMMEs require additional support in order to elevate their business practices allowing them to satisfy the new and often multinational clients. SMMEs also have to take into account that these business opportunities are temporary and will mostly last only for the duration of construction.

Source: Compilation by the author

Local community development funding

Financial benefits accrue for local communities around projects through all four criteria as well as through indirect impacts on local business activities during the construction time (*see box on previous page*). While the Rand value associated with the employment created within local communities as well as the impact of procurement agreements with local SMMEs remains unknown to date, available research indicates the amounts associated with SED, ED and local ownership commitments. SED commitments accrue every year, as do ED allocations. Both are a percentage of the project's revenue and have to be spent locally and annually. Additionally, the shareholding in respect of the local ownership criteria leads to the increase in financial resources for the community. How much money do these criteria translate to and where will the funds go?

The project developers have committed significant amounts of money. The author's research at the IPP-unit, based on the submitted numbers in the bid documents, indicates that there is a 90% probability that the total resources committed to SED and ED around the 64 approved projects in round one to three of the procurement programme will accumulate to R570 780 737million over the next 20 years.¹ Local ownership is also expected to result in a significant financial value associated with dividends. For the first time, Government pronounced an amount associated with the local ownership requirement during the Windaba conference in November 2014 in Cape Town. Karen Breytenbach, who is a senior project advisor at National Treasury, stated that the total dividend flow to local community entities accumulates to R35.8bn over 20 years of project lifetime, taking the 64 projects which were approved by November 2014 into account.² The local ownership shares in many projects are funded through development finance, for example by the Industrial Development Corporation (IDC) or the Development Bank of Southern Africa (DBSA), therefore part of this money will go towards repaying debts. The remaining money, R12bn, would constitute the actual income available to community trusts across the country. The discounted value³ of this money is R600 000 000mil. These funds will become available over time, depending on the finance structure of the individual projects. Many trusts will see the annual income increase significantly once project debt is paid off and dividends increase. This is to be expected between years 7-17 of project operation. In IDC funded projects, the dividends are paid out as trickle dividends, which allows the community trusts to receive a steadily growing amount of money, starting already in year one or two. The amount available to the community trusts also depends on the shareholding percentage allocated to the community. The first three bidding rounds saw projects structures with up to 40% of the shareholding to be held by local communities.

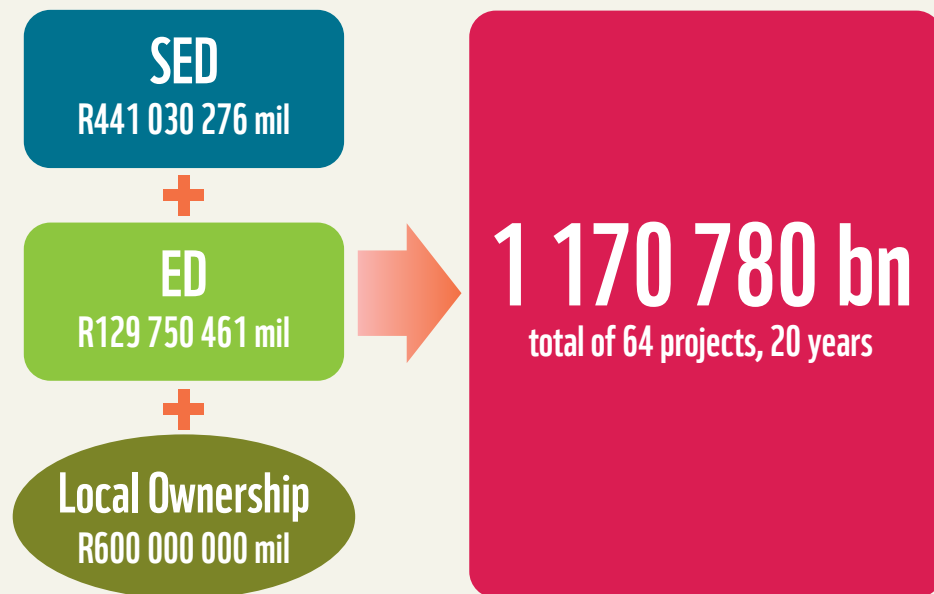
Summarising the financial commitments of projects in the first three rounds for SED, ED and local ownership, a total of R1.17bn is allocated towards local economic development investments in communities around projects. This is generated and will be available over the next 20 years.

1 All Rand values in this report associated with the REIPPP are discounted at the EOCC rate of 8.4%. This rate is recommended by National Treasury of the Republic of South Africa.

2 Speech of Karen Breytenbach at the Windaba Conference via Skype video call on the 4th November 2014 in Cape Town.

3 Discounting is a technique used to compare costs and benefits that occur in different time periods. The objective of discounting is to translate the future cash flows into present terms. The basic principle is to compare apples with apples (a Rand earned today is not the same as a Rand earned in the future due to the effects of inflation and currency appreciation or depreciation).

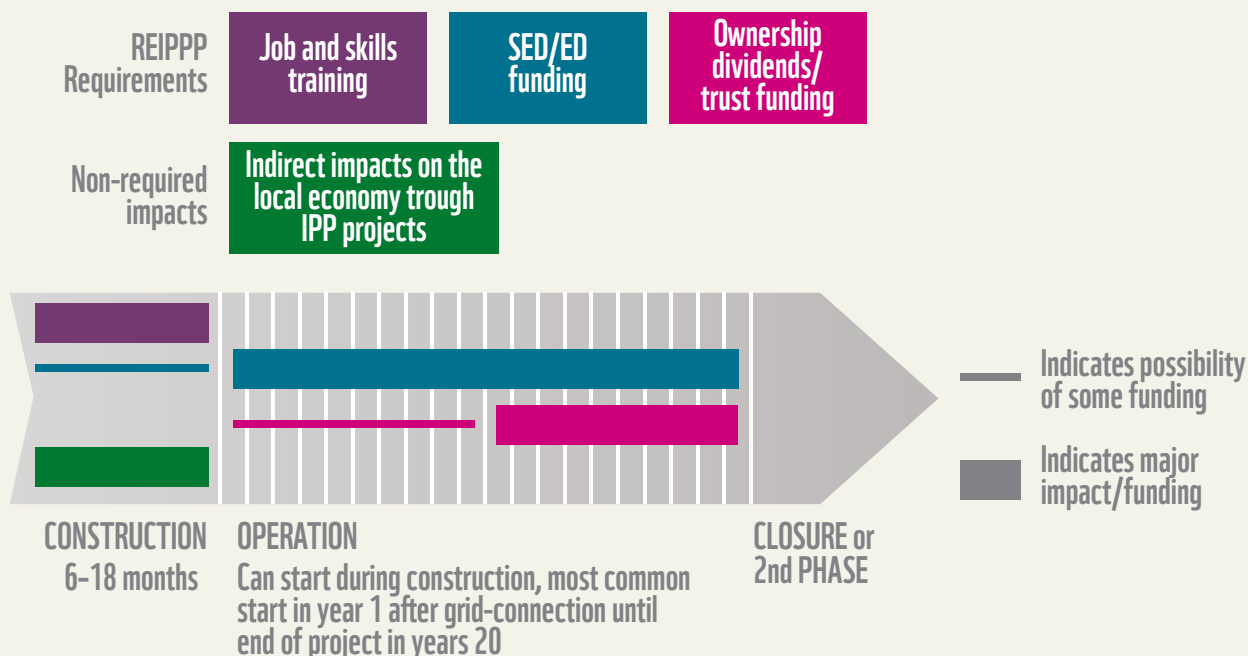
Figure 2 Funds allocated to local community development after the first three procurement rounds



Source: Desktop analysis by author in collaboration with DoE's IPP-office, approved for publication in 2014. Discounted with EOCK rate of 8.4%

It is important to note that jobs and funds do not occur at once, but are staggered throughout the project cycle. Initially, during the bid development phase, only very few project developers spend time and money on measures benefitting local communities. Land is sourced; permits secured and project developer teams usually work on more than one project at the same time. Time, budget and capacity are short and the outcome of the project proposals is uncertain. A few companies however make the funding of small community projects part of their work right from the start. Once a project has been selected as preferred bidder, time is scheduled for companies to reach financial close. During that time, benefits do not necessarily accrue either, but initial engagements around recruitment of workers and trustees for the community trust are common. The financial close date depends on Government schedule. Construction follows during which jobs are created and some project companies start spending initial SED and ED funds. Depending on the technology and construction schedule, projects usually connect to the national electricity grid after 6-24 months of construction. Once electricity is produced and sold to Eskom, revenue is generated and IPPs are obliged to report on their spending of the committed SED and ED funds stipulated in the Implementation Agreement quarterly. Local ownership dividends start accruing in most projects from year five to fifteen onwards, depending on the project finance structure. The small amounts which might flow into the trusts in the first couple of years, will increase significantly at that point. IPPs are currently contracted to generate electricity for 20 years. Beyond that, the future of the projects is uncertain and with that the future of any SED, ED or shareholding benefits for local communities.

Figure 3 IPP Project phases and timing of local economic benefits



Source: authors compilation

A glance at Corporate Social Investment by other sectors in South Africa

How much?

The CSI Handbook published annually by the South African consulting firm Trialogue states that the estimated total annual Corporate Social Investment (CSI) in South Africa accumulated to R7.8bn in 2013. CSI funding increased from 2012-2013 by 13% or 8% in inflation-adjusted terms. Half of the estimated funding in 2013 was generated by only 31 companies, with the largest share coming from the mining and quarry sector, followed by financial, retail and wholesale services. The industry survey that informed the CSI Handbook indicates that the majority of funds is motivated by a license-to-operate argument rather than being underpinned by moral convictions, the BBBEE codes or stakeholder pressure.

On what?

The survey also shows that regional distribution of the funds benefits the provinces of Gauteng, Western Cape and KwaZulu-Natal the most. Education, health, social and community development are the best-funded developmental sectors. A small percentage of CSI money is allocated to Government institutions like schools or hospitals (23% of the total R7.8bn). The majority of surveyed companies support a specific 'flagship' programme for 3-5 years (Triologue 2013).

What is the impact?

The available annual CSI funding is very little compared to the national budgets for education or health. A significant contribution towards the national development goals could be made if invested strategically. However, the collaboration between companies necessary to align investments remains a challenge. CSI forums flag this continuously. The National Education Collaboration Trust and the South African Business Coalition on HIV&AIDS are mentioned as examples that multi-stakeholder partnerships and collaboration can be facilitated (Tshikululu 2014). A clear answer to what impact is achieved nationally is not available. Monitoring and Evaluation (M&E) is essential to identify the impacts of CSI projects. Unfortunately, the current M&E practices employed are often inadequate and instead of evaluating impact, they simply track project activities (Triologue 2014).

GOVERNANCE OF COMMUNITY FUNDS

The policy document is clear on the quantitative commitments projects have to make on these criteria. It is less prescriptive in the ways the money should be governed and spent.

There is no openly available database or similar resource to inform the public about how much money each IPP has committed and what the investment plans are. In order to shed light on the matter, this report draws on information in two ways. Firstly, the author negotiated access to some of the IPP-unit's data. The Department of Energy (DoE) requested signing of strict confidentiality agreements. In exchange, the author was permitted to access and analyse the proposals, including the SED plans all bidders submitted towards the first three rounds of the REIPPP. The DoE approved aggregated results of the analysis for publication. This report draws on some of these results. Secondly, the report presents insights from engagements and conversations with the industry and associated stakeholders documenting the experiences and challenges in the implementation of these plans.

Identification of beneficiary communities in bid documents

The first step for project developers is to identify local communities that will benefit from the renewable energy project. The procurement documents define local communities as “settlements in a 50km radius around the project site” (DoE 2011). It is the responsibility of the project developer to decide what constitutes the benefitting community – this could be a specific village or neighborhood, or even the entire (eligible) population within this radius. Since the economic development requirements are driven by the BBBEE act, previously disadvantaged citizens are considered primary beneficiaries. A review of preferred bidder bid documents shows that local beneficiary communities were identified as both the general population within the 50km area and to a lesser extent, specific towns, villages or neighborhoods. One bid document indicated that the project's SED plans would also target people beyond the 50km, as the population within the 50km radius of that project is very small.

The identification of beneficiary communities is problematic for two reasons. Social and political dynamics can be negatively impacted by selectively identifying some people as beneficiaries over others. Also, the 50km radius competes with other administrative boundaries. Such a radius can stretch over one or more municipal areas. It can even cross provincial and national boundaries, which makes the alignment of SED plans with Government policies difficult. The accumulation of projects in certain parts of the country is another concern. Already, after two bidding rounds, towns like De Aar, Loeriesfontein and Poffadder were surrounded by a number of IPPs. It is likely that more than one IPP has chosen the same town as beneficiary for SED, ED and local ownership funding. In the case of De Aar for example, eight IPPs are located in close proximity to the town, each arriving with its own SED plan. Uppington in the Northern Cape is surrounded by seven IPPs.

Another three ‘hot-spot’ areas include the towns of Cookhouse and Jeffrey’s Bay in the Eastern Cape and Saldanha Bay on the West Coast.

Assessing needs of beneficiary communities

The second step for project developers is to assess the needs of the identified beneficiary communities and develop measures for how to meet these needs with the committed SED funds (DoE 2011). This assessment and these measures are documented in the SED plan, which forms part of the bid submission to Government. The procurement documents provide projects with basic direction on what the SED and ED funds should be spent on. It is stated that SED efforts should be directed towards health, education, service delivery, arts and sports programmes. ED funds are meant to support local enterprises and bid submissions should contain ‘a list of the type of enterprises earmarked for development and also give an indication of the programmes that will be implemented with these enterprises. Provision should also be made for new enterprises’ (DoE 2011). Despite the fact that developers are not receiving feedback from Government on the SED plans and measures, companies generally perceive their SED, ED and local ownership proposals to be a unique selling point and these are kept as secret as other parts of the bid. This secrecy is a reflection of the uncertainty and confusion around the REIPPP, which is particularly apparent around the economic development requirements of the programme (Eberhard et al 2014).

SED plans submitted with bids

When reviewing the first three bidding rounds SED plans, submitted with project bids, it is evident that plans differ in length and depth from merely mentioning what ED, SED and local ownership funds will occur and how they will be spent in local communities; to 100-page reports outlining detailed plans for the projects and programmes that are to be implemented with the funds. Project developers tend to develop similar SED plans for all of their projects. The ‘needs assessment’ towards some reports has involved community consultation and some projects have even gone as far as appointing mainly preliminary trustees for community trusts. Other projects provide reports, which seem to be based on a review of documents like the municipal Integrated Development Plan (IDP).

In terms of priorities, the REIPPP programme’s Request for Proposal (RFP) document suggests project developers attend to education, health and infrastructure. SED plans, where they exist with sufficient depth, also indicate specific local priorities. Other plans sketch investment ideas around infrastructure services, electrification, energy efficiency and skills development. One SED plan studied identified a nearby mining house as a potential collaborator for community development activities and many reports are guided by development priorities identified by local government in the Integrated Development Plan (IDP).

Over and above these basic directions outlined in the RFP, projects are on their own to decide how and when to communicate and collaborate with local government, communities and other local stakeholders around the governance and investment of these funds. Project developers therefore develop different strategies, reflected in their bids and business practice as the projects unfold on the ground and in local communities. The proposed governance structures and the emerging funding allocation practices in the individual projects across the country carry potential for benefits to materialize, but are also associated with risks.

Proposed governance schemes for community funds in approved REIPPP bids

According to the bid submission documents reviewed (round one to three only), project developers also propose different schemes for the governance of the funds associated with SED, ED and local ownership. The review categorised the proposed schemes into eight distinct approaches. The first and most popular one is to channel all community benefit investments into the one entity being the community trust. This approach is apparent with projects in bid window round (BWR) 1 and 2 only. The second scheme is also popular. Here the SED and ED investments and local ownership dividends are channeled (directly and through the trust) into a 3rd party organisation. This is not the local community trust or the project company, but could be an established organisation or an entity established specifically for the project. The third scheme is common as well and it entails making provision for the external management of all community benefit funds. In such cases, SED, ED and the trust are overseen, capacitated, supported, monitored and reported on by the 3rd party. However, equally popular is a fourth approach, in which developers plan to manage the SED and ED funds and trust dealings in-house. Project companies speak in the bids about this as 'building in-house capacity'.

Approaches appearing less frequently are the schemes five, six and seven. Scheme five foresees the IPPs partnering with Government, a specific NGO or proposing to start a new enterprise. Three project bids make provision for local government to collaborate closely on either the SED or ED spending. Municipal priorities and FET colleges will be supported in that way. One of these projects proposed to channel the SED funds to the local municipality for service delivery of infrastructure projects. Another company decided to establish an academy close to the project site. The area is scarcely populated and the academy allows the project to benefit a wider group of people while spending the money in proximity to the project.

Scheme six is proposed in two bids and suggested that the IPP starts a new enterprise to invest the ED funds. In both cases these are envisaged to be agricultural enterprises. One project developer chose scheme seven and developed the idea to partner with one established NGO for their local ownership funds. A community trust was established, but the NGO was noted as main beneficiary in the bid. Finally, there are also bids, which didn't allow for the identification of any specific characteristics in terms of how the SED, ED and local ownership funds will be managed. These projects were grouped separately in scheme eight.

Table 2 Community benefit schemes identified in bid documents

Scheme	Main characteristics of the scheme
1	SED and ED are channeled into the local ownership trust
2	SED, ED and local ownership are channeled into a 3 rd party entity
3	SED, ED and local ownership are externally managed and monitoring is coordinated
4	In-house capacity is built to manage spends and trust dealings
5	(local) Government or FET colleges close partner for SED
6	ED enterprise to be established
7	NGO is chosen as major local ownership partner
8	Governance of SED and ED is unclear in bid

Source: Desktop analysis by author in collaboration with DoE's IPP-office, approved for publication in 2014

Government indicated some flexibility for projects to amend and update the local economic development plans and ideas that were submitted.⁴ The governance of funds is often incorporated into the project structure and therefore difficult to change, but the allocation of funds is more flexible and can be adjusted. That is good news because even though it is still early days for the industry with regard to the actual investment of these funds, proposed governance schemes and emerging practices in projects indicate that there is a need to support the industry and Government by identifying and discussing their experiences and challenges. The diverse range of ideas regarding the governance and investment of the SED, ED and local ownership funds indicates that bids are approved or rejected as IPPs regardless of the content of their SED plans. In the absence of a Government opinion (in the form of feedback to the bidding companies) about the SED plans submitted, REIPPP stakeholders have the opportunity to convince Government and the public with thoroughly researched, designed and successfully implemented solutions.

To date however, project developers continue to approach this aspect of their bid competitively. This has the potential to impede the developmental benefits compared with a situation in which project developers planned collaborative approaches to the governance and investment of these funds. A competitive approach also places local communities at a disadvantage. Each project in its preparation for submission to Government sees consultants attending to the preparation of SED plans. If a project developer chooses to prepare such plans in collaboration with local stakeholders, these are subject to a multitude of developer teams costing them time and energy and likely risking conflict within the communities in the anticipation of incoming funds. The development of SED plans prior to bid selection appears to be an unnecessary challenge for developers who have to budget for the preparation of these plans. If plans involve consultative processes with members of the local communities, the management of expectation is important – such a task becomes particularly difficult in cases where project applications are not approved by the IPP-unit and the developer then has to inform communities.

⁴ Speech of Karen Breytenbach via Skype video call at the Windaba Conference on the 4th November 2014 in Cape Town.

An aerial photograph of a vast solar farm in a desert. The solar panels are arranged in long, parallel rows, creating a striking blue pattern against the reddish-brown desert floor. The farm stretches from the foreground towards the horizon, where a small town and distant mountains are visible under a dramatic, cloudy sky.

The situation in practice



EXPERIENCES IMPLEMENTING LOCAL COMMUNITY DEVELOPMENT

Once projects have reached financial close and start construction work on site, the community benefits proposed in the bids and employment creation promised to Government are to be implemented. At this stage, project companies sit with experiences and questions which would benefit from the input of peers.

Since the REIPPP was launched, a number of multi-stakeholder workshops have been conducted on this topic. For example, two were hosted by the University of Cape Town's Energy Research Centre in 2012, while the South African Wind Energy Association (SAWEA) hosted two further engagements in Cape Town and Johannesburg, both in 2014. The author was involved in the organisation of these workshops and reports are available on the host's websites. Other organisations, including the Catholic Parliamentary Liaison Office, the NGO's Green Connections and the Community Development Resource Association as well as the Eastern Cape Provincial Government, held seminars and round tables in other parts of the country. Furthermore, the author visited numerous projects and interviewed relevant stakeholders personally.

Three key reports were published on the issue of community benefits in the REIPPP including a study funded by the International Institute for Environment and Development (IIED) with the title Making Communities Count by Tait, Wlokas and Garside (2013), the REIPPP Review 2014 by the Electricity Governance Initiative of South Africa and thirdly a research report authored by Prof. Anton Eberhard and colleagues published in May 2014 under the title South Africa's Renewable Energy IPP Procurement Program: Success Factors and Lessons. Academic and student research investigates the topic further. The accompanying research and engagements have contributed to the establishment of an industry-led working group within SAWEA. This group constitutes the first institutional response to the challenges emerging around the design and implementation of local community benefits. Also SAPVIA has subsequently launched a SED-ED sub-committee dedicated to issues IPP's, communities and development.

Noticeable is a high degree of nervousness and almost secrecy in the emerging industry. This tends to hinder and impact research. In this context, this report draws on publically available workshop reports and information, which has been shared with the author in conversations that were not classified as confidential, although only Government sources and published reports are referenced to allow an unbiased and open-minded engagement with the report. The following presents insights from IPP's efforts with the implementation of local community benefits. Various stakeholder perspectives are outlined and two Government-led initiatives introduced. The first initiative provides a platform for project companies as well as SMMEs interested in benefitting from the REIPPP to engage and network, while the second attempts to coordinate the development contributions of five IPPs in the Northern Cape.

Different approaches to spending SED and ED

In light of the different approaches projects propose in their bids and eventually take to the governance and allocation of available funds, it appears even more important to collaborate. In the absence of a clear framework guiding the investment of funds or providing clear objectives for community benefits, project teams establish project- or company-specific practices and objectives. These tend to depend on the location of the project and the available capacity within the local authorities and communities to participate, inform or even guide the private sector practice. Such capacity relates to the level of organisation within the communities surrounding the project and the existence of the functioning of traditional and municipal leadership structures in the area. Of course the willingness and openness of companies to engage with local stakeholders determines the degree of participation as well. Companies associate community involvement with risk. The appetite to expose their project to this risk differs. Project companies choose to appoint external consultants, who may be based in Cape Town or Johannesburg, or within the project area. Companies therefore build different levels of in-house capacity; some tasking the engineers and commercial staff in their team with dealings related to local communities, others appointing dedicated and trained staff. This can include public relations or marketing staff, or community liaison officers and teams. They can be based entirely within the project company's office or be partially or fully in the project area or even on-site. These are just some of the factors that influence the capacity of companies to direct their thinking and action related to local community development.

Another issue is terminology used in the REIPPP and its interpretation. Government uses the terms socio-economic development and enterprise development in the RFPs. Both terms have to be realised within local communities, which is another REIPPP-specific concept. Nothing in the policy document stipulates that project developers must approach the matter following a specific approach to development or understanding of communities. The consequence is that the definition of the beneficiary community varies between project developers. Some choose one or more villages as beneficiaries and others a specific neighborhood or town. Others decide to target the entire population residing within the 50km radius.

Currently, around 30 projects are connected to the national grid (Feb 2015) and the first SED and ED funds are allocated. Emerging news in the media and industry discussions indicate that common funding decisions include the bursaries for tertiary education, funding of existing NGOs engaged with development projects in the project area, investment into service delivery type projects implementing street lights or solar water heaters and community-driven development processes.

One possible way to separate these approaches is by their starting point. The community-driven development process can start anywhere. Such processes are generally facilitated and committed to follow the ideas of the participants. Service delivery interventions and bursary schemes are based on a defined idea of what the pressing issues are. These ideas can be developed with or without the participation of the beneficiaries. The funding of existing NGOs could be described as a quick and safe route. The local NGOs are assumed to serve a real need identified in the area and project companies like to associate themselves with the good reputation of an existing organisation.

All of these funding approaches will make a contribution in one way or another. Project companies pay little attention to how their individual funding allocation aligns with the contribution of neighboring renewable projects or other private sector initiatives in the area. Even municipal plans might have only been consulted on paper through a desktop review of the published strategies and plans. Only a few projects actively engage with local government around their local development investment plans. Local government has the mandate to develop the local economy. National Government, however, fails to demand that IPPs consult or collaborate with local government on this matter. This is causing local authorities to question national Government. Capacity issues, which, in some instances, take the form of unprofessional conduct on the side of the local authorities, hinder timely and successful interactions between project companies and municipalities. Suggestions in support of this situation call on national Government to improve the general functioning of local government as well as the provision of targeted capacitation to allow local government to support the IPPs and benefit from their local community efforts. Benefits are thought to accrue through the SED and ED investments into the local economy, the activities of community trusts and commercial benefits of SMMEs and associated job creation opportunities. Project developers explain their hesitance to engage with the fear of the association with the bad reputation of local government. In light of the strict compliance obligations from the IPP-unit, they often decide against involving the municipality. The intention is to minimise risk to the project. It is important to note that IPPs have to report to the DoE on successful payments of SED and ED funds on a quarterly basis. Compliant spending of the funds does, therefore, require strict planning and action, which is known not to be a strong point for local municipalities.

Local ownership dividends still years off

Depending on the financial structure of an IPP project, dividends for local communities are generally only expected to flow a few years into the project lifetime. In the first years of the projects there might be no return or only very little. This changes a few years into the project, when some financial projections predict a significant jump of funds going into the trust account. As mentioned before, IDC-funded community shareholding results in a steady growth of income for the trust from early on. Essentially, the funding available depends not only on the percentage of shareholding allocated towards the community trust, but also on the financial structure of the IPP.

The project companies engage with communities and community trusts at a different pace. In some projects, community meetings have been held, community representatives for the trust board appointed and trust accounts registered. The timing and extent of community involvement in the process is partly determined by the funder and REIPPP requirements. The DBSA currently provides funding in

eleven projects and requires trust boards to be constituted by a DBSA representative, a project company representative and two independent (professional) trustees. In December 2014, the Industrial Development Corporation (IDC) was funding the community shareholding in 22 IPPs. In these projects, community trust boards include community representatives, the project company and the IDC. Differently financed local ownership might result in other requirements for the trust by their funders.

The REIPPP rules generally ask projects to establish the shareholding entity at the time of financial close. Again, specific funder requirements might compel the project team to either establish a preliminary trust or appoint the definitive trust board at that point.

Curious is that neither the RFPs nor any briefing note by the IPP-unit stipulates that IPPs have to make use of a community trust in order to be compliant. Some funders might have this requirement, but theoretically project developers could choose to meet the local ownership criteria in other ways. Discussed alternatives include, for example, entity types like Non-Governmental Organisations or Section 21 companies. Conversely, the review of bid documents at the IPP-unit revealed that all approved projects choose to work with trusts. The reasons for this are assumed to lie with the legal and financial advisors of projects and are linked to the fact that trusts have been utilised in other sectors. The CSI consulting firm Tshikululu Social Investments commissioned a comprehensive study to examine the role and success of community trusts in BEE transactions. Their results indicate that community trusts are continuously failing to deliver on developmental objectives and “that even the immediate outcome for private enterprise (meeting the Ownership target obligation) is inherently problematic” (Tshikululu Social Investment 2011). Tshikululu suggests different categories of trusts. Community trusts established under the REIPPP fall within type 4, which are trusts that are constituted to broaden the “empowerment base” of a specific BEE transaction – in this case through local ownership in the IPPs. The study report outlines in detail the weaknesses associated with type 4 trusts and concludes that “trusts currently represent the only credible solution to extending enterprise ownership to a broader base”.

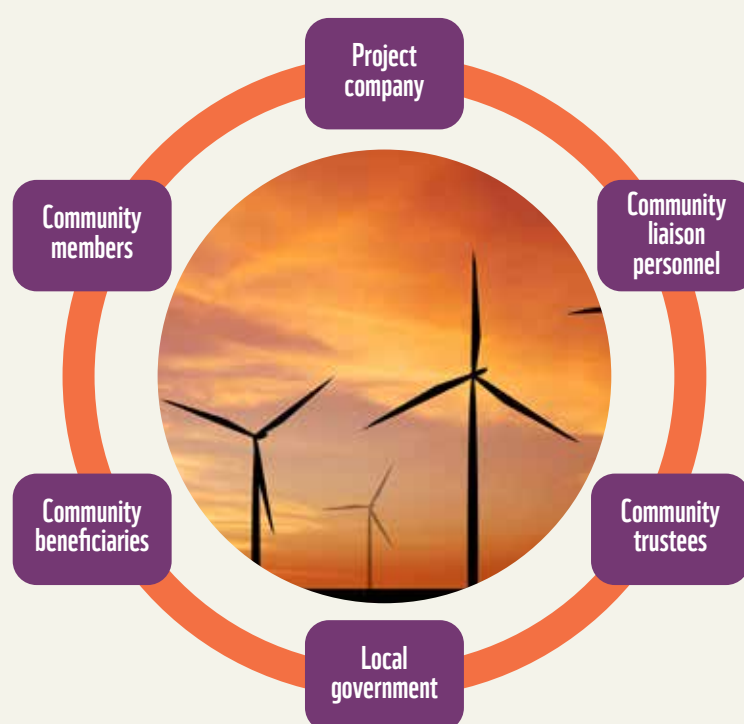
Following this finding and in light of the fact that currently all IPP’s have chosen to work with trusts, attention is required in their implementation. Careful decisions need to be made about the formulation of the trust deeds, in the selection of trustees and about the way the beneficiary community is consulted. Trustees require mentoring and training and the activities of the trust need to be monitored. Conversations with project teams indicate that some IPP’s already finalised the establishment of a trust. They are already collaborating with a fully functioning trust while others are still exploring how to incorporate a trust into their SED and ED implementation. The bid documents revealed that some projects foresee channeling the SED and ED funds into the trust. It will take a few years until the different approaches and practices are fully developed and can be assessed. Currently, Government does not require IPP’s to monitor the impact of their investment. It is for that reason important for the public and research to pay attention and engage the companies in an open dialogue about their work in local communities.

The situation through the eyes of the people involved and affected

Six groups of stakeholders are currently either involved or affected by the early local community development work of IPPs. Each group has a unique perspective. It is critical to take the various realities and interests of individuals and organisations

involved and affected into account when working towards establishing benefit schemes that contribute sustainably to local economic development. Immediately, various opportunities for collaboration as well as support and training become apparent.

Figure 4 Stakeholders directly involved and affected



Stakeholder groups include the Independent Power Producer unit at National Government level, on the corporate side the project company responsible for the planning and implementation of the community funds and the community liaison personnel that is hired by the project company and tasked with communication between the company and community. Then there is the local municipality or metropol in which jurisdiction the IPP is located. Civil society is another stakeholder and is involved through (professional trustees or local community) representatives on the community trust board and through projects and organisations benefitting from the IPP's SED and ED allocations. Finally, there is the general local population which resides within the boundaries of the communities identified as beneficiary communities by the project developer. The perspective of financial institutions is also important to understand, but is not included in this report. The following presents a snapshot of some of the issues important and specific to stakeholders.

Independent Power Producer Office (IPP-unit)

The DoE is the custodian of the REIPPP and the IPP-unit is its implementing body. Staffing of the unit includes the DoE and National Treasury employees, which are supported by contracted external consultants. The IPP-unit is an active

conversation partner on matters of concern to industry stakeholders. This includes issues around the economic development requirements. In May 2014, a focused economic development unit was established within the IPP-offices. Staff members of this unit often participate in workshops and are generally open to conversations with interested and concerned parties. The IPP-unit's staff is aware of some of the weaknesses of the economic development requirements and have spoken about reviewing and potentially amending the economic development criteria in the past.

Independent Power Producers (IPPs)

The IPP stakeholder group is difficult to identify and, at the same time, is one of the most powerful actors in this situation. A consortium of companies generally develops a project together. During this phase, one specific company usually presents itself to the public as the project developer. After bid approval, projects are often sold and it is subsequently more difficult to identify who is in charge of which part of the project. IPPs establish a Special Purpose Vehicle (SPV). In many cases, one company represented in the SPV is referred to as the project owner and is therefore responsible for the implementation of SED, ED and local ownership. According to the RFPs SPVs can restructure after 3 years of the project being operational. It can be anticipated that this will result in further changes of the individual people and companies involved.

Often the company in charge of the community benefits in a specific project is also engaged in the development of other bids or in other IPP projects, which may be in various stages of development. This is important because their attention will be divided between a range of projects and tasks.

Companies have limited capacity and experience available and are still learning while implementing the projects. The engagement with community development turns into an onerous task when the construction phase begins. At this point, companies have to commence the required monitoring and reporting. Quarterly reports have to be generated about the employment numbers and SED and ED spending achieved. IPP's staff have to ensure that the project remains compliant, meeting its promised economic development obligations and reporting these accordingly. These reports are generally not required to include any information about the nature of the investments or any possible impact achieved. Government is currently revisiting this shortcoming, and some IPPs voluntarily developed monitoring systems observing qualitative and quantitative indicators.

As discussed, the task to design community development measures that contribute through lasting and positive changes to the socio-economic situation in local communities is difficult. Companies generally acknowledge this but also perceive it as a welcome challenge. In the absence of clear instructions given by Government on what to spend the accruing funds, space is provided to develop company-specific practice. In public forums, companies therefore express confidence about the approach chosen to create developmental benefits in spite of the imperfect policy.

Community liaison personnel

Community liaison (CL) staff assist with the communication between the project company and the public. Who constitutes the public depends on the company policy. CL staff might be involved with general marketing or more specific stakeholder

engagement including consultations with local communities about the community funds and management of the relationship with local government. In some projects, companies employ and situate CL staff in the actual project area. Only a few IPPs open an office that is not located on site, but in close by towns or villages. These offices are open to the public and can serve as registration points for job seekers.

CLs are generally in a challenging situation. They have access to knowledge within the company, in particular about the funds available for community benefits, while they also gain immediate insights into the often desperate socio-economic conditions of the surrounding communities. In order to negotiate this position, some CLs have to educate the project company's management about what they require in terms of training and support from the company. Their work requires different activities compared to the technical aspects of projects and can include having to attend community meetings held on weekends or being available for grievances of local residents sometimes outside of office hours.

Confidentiality is a major problem for many CLs. This impacts their work as it can disallow them from networking with CL staff of other IPPs in the country. Even though CLs might hold professional experience in other sectors in South Africa, nobody has previous work experience as a CL of a wind farm or solar farm. These projects simply did not exist at this scale within South Africa before the REIPPP. Professional networking to exchange experiences and foster practice is therefore crucial.

Local government

Local government is under pressure to collaborate with companies when they require permits for submitting a compliant bid. Many companies establish working relationships with the technical and legal personnel within the local municipalities.

Very few project companies, however, chose to consult with the Local Economic Development (LED) unit. This unit has the Government mandate to develop the local economy including measures to support small and medium enterprises and job creation. This unit should be crucial for IPPs to consult and involve when recruiting workers during construction and also in the planning and implementation of local community development investments. Unfortunately, not only companies, but also the municipalities themselves lack either the will or understanding of this opportunity. The result is that LED units are left uninformed about the renewable energy developments in the area. In some cases, the municipality might call for attention from the LED unit once a strike or protest associated with the industrial relations of an IPP occurs. Going forward, this practice needs to be changed and ways have to be found to involve LED units from the start in communications and consultations of project developers and IPPs.

Community trustees

Excitement and skepticism is associated with community trusts. Many villages and town across the country have experience with trusts and not many positive stories to tell about them. Trustees on IPP community trusts have varying degrees of access to information. Some are well informed about the REIPPP, its requirements and the resulting funds and anticipated timeline for when the funds will arrive. Others are merely aware that the trust they are serving on is related to a specific wind

or solar project and that trust funding will accrue as a result of this relationship. Increased communication and capacitation of trust boards including the community representatives on these boards is crucial in order to create an environment for trusts to excel beyond their reputation.

Community beneficiaries

The first SED and ED funds are allocated by IPPs. To a large extent, beneficiaries experience the positive benefits and associated impacts from such funds without an understanding of the bigger picture regarding where the money comes from. NGOs are amongst the first receivers in many project areas. In other places, small community run projects and initiatives also receive money. Beneficiaries can be nervousness to share information about the funds received; as to them it is unclear where and why the funds were allocated to them.

Community members

Public awareness about the REIPPP is weak. Even amongst people living in areas around wind and solar projects, only a few people know about the REIPPP and its associated benefits for local communities. A study which interviewed community members in places close to IPPs found that “most community representatives were under the impression that the renewable energy project’s benefits were short term construction jobs, and that once the projects were operational, there were no more jobs, and no further benefits” (Electricity Governance Initiative 2014). This indicates that the general public remains relatively uninformed. The research in communities concludes “there is a consistent failure across the study area to engage with communities transparently and to set up meaningful institutions that can allow local communities to participate in their own local economic development planning”.

TWO GOVERNMENT INITIATIVES AT WORK – EXAMPLES OF GOOD PRACTICE

Proactive Government initiative supports SMMEs and project developers in the Eastern Cape

**EASTERN CAPE
SUSTAINABLE ENERGY**
CONNECTING FOR A GREEN ENERGY FUTURE



In the Eastern Cape, the Department of Economic Development, Environmental Affairs and Tourism (DEDEAT) is pro-active in creating an enabling environment for renewable energy and the REIPPP. Their mandate is, in fact, wider since the Eastern Cape Provincial Executive Council adopted the Eastern Cape Sustainable Energy Strategy in 2012. The strategy “focuses on improved provincial energy security and self-sufficiency, improved access to energy among the poorest in the province, and the need to stimulate a green and low-carbon economy underpinned by decent and sustainable jobs” (DEDEAT 2012). Senior Manager for Renewable Energy Alistair McMaster and his team are working hard to realise this vision through, for example, supporting SMMEs to benefit from contacts with IPPs, assisting project developers to find their way through the jungle of permits and hosting a stakeholder forums.

The DEDEAT’s work on economic development in the REIPPP is supported by SAGEN, the South African German Energy Programme of the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ). Since 2012, activities aligned to the REIPPP in this regard include over 20 workshops in 14 municipalities, the REIPPP mapping studies for municipal officials and IPPs, and the Renewable Energy One-Stop-Shop www.greenenergy-ec.co.za. The Eastern Cape Sustainable Energy Stakeholder Forum is the most prominent effort and is continued on a quarterly basis. The forum “covers all areas within the renewable, sustainable and energy efficiency sector like job creation, skills development, business / SMME support, REI4P, legislations and more” (www.greenenergy-ec.co.za). Another forum hosted regularly focuses on green skills and facilitates conversation between the industry and training sector. At one of the stakeholder forum meetings in 2014, the need for a programme supporting SMMEs to benefit through contracts with successful bidders of the REIPPP was identified.

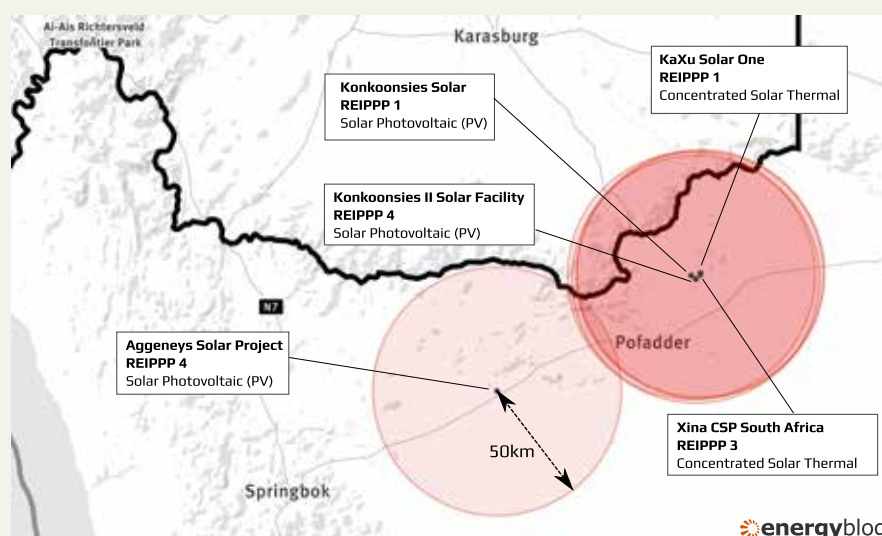
The team around McMaster partnered with the consulting firm Strategic Edge Solutions and started providing support services to small and medium-size enterprises in four municipalities. The Blue Crane Route, Gariep, Great Kei and Kouga Municipality all host REIPPP projects and opportunities for SMMEs are

found to be plentiful (catering, consumables, bricklaying, security, toilet attire, clothing, fencing, civil works, site clearing and transport). Workshops were hosted in the municipal areas and the subsequently interested and eligible SMMEs selected for tailored support measures. Such measures include an SMME Resource Pack, one-on-one enterprise development support and support liaising with relevant government and state-owned agencies (Strategic Edge Solution 2014). The SMME programme is still underway and a comprehensive report will be published soon.

Another resource for the public to engage with the REIPPP is the Sustainable Energy Eastern Cape website, launched in October 2013, which allows visitors to access the presentations and key outcomes of past forums. It also provides information for various renewable energy stakeholders and has, for example, a help section for IPPs (<http://greenenergy-ec.co.za/help-for-ipp>) which outlines the various permitting processes project developers and IPPs have to engage with for the REIPPP.

Multi-stakeholder forum in Pofadder facilitates cross-sectoral development planning

Figure 5 REIPPP plants near Pofadder



The Khai Ma municipality is located in the Northern Cape with its administrative seat in the town of Pofadder. The REIPPP process led to the development of three solar farms north of the town. The 50km beneficiary radii of the five projects overlap, providing reason enough for projects to discuss ideas and objectives for the investment of SED, ED and local ownership funds. In practice however, the companies involved don't naturally come together for such discussions. This report outlines some of the factors constraining communication and collaboration amongst IPPs. Khai Ma is different and that difference is largely the result of a government-led initiative presented as a showcase of what is possible, even within the given competitive policy environment.

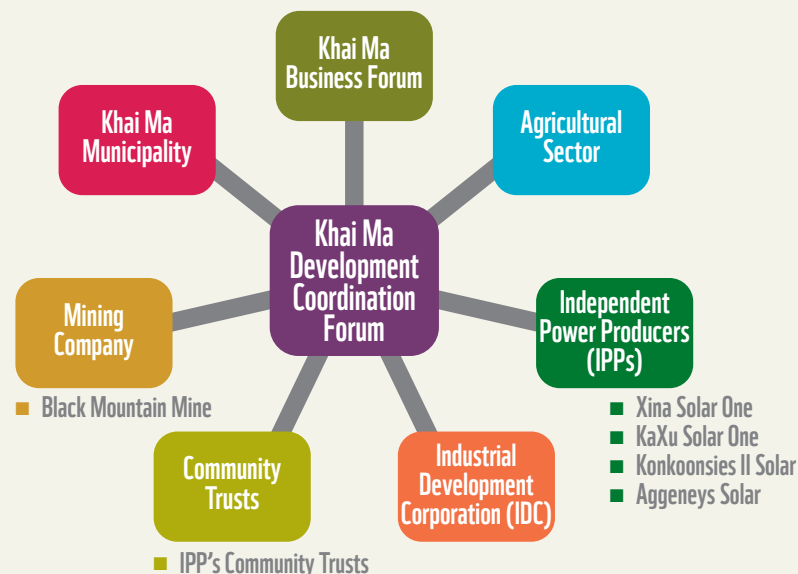
The Industrial Development Cooperation (IDC) funds the local ownership component of 22 projects in the first three bidding rounds. Within the IDC, the Agency Development and Support Department (ADS) of the IDC has a Spatial Intervention Programme focusing on bringing public, private and civil society together to plan and implement local social and economic development. These three sectors each have their own agendas and processes, which often constrain effective collaboration. Planning efforts in these sectors include:

- Municipalities: IDP (Integrated Development Plan); LED (Local Economic Development Strategy) and SDF (Spatial Development Framework);
- Renewable Energy Companies: (SED) Social Enterprise Development and ED (Enterprise Development) Plans;
- Mining Companies: SLP (Social Labour Plans) and
- Civil Society: Through the Community Trusts, a CED (Community Development Plan)

Conducted in isolation, these planning efforts risk duplication, gaps and unfunded projects. With this in mind, the ADS has embarked on setting up Development Cooperation Forums (DCF) where these three sectors collectively plan the social and economic development opportunities in order to address the priority social needs and challenges. Such forums will also include civil society in cases where private or public sector funded community trusts exist. The DCF does not take away from the public sector's obligation, but rather provides an opportunity for collective planning and funding of projects.

This process is underway in the Khai Ma municipal area, the IDC provides funding for the local ownership shareholding in all three existing IPPs and more solar projects might be approved for the area in following bidding rounds. The IDC initiated the process through their ADS department. IDC staff holding expertise in social and economic development provide process facilitation. The affected project developers welcome the organised development process and are reported to be very supportive, participating actively in the DCF.

Figure 6 Stakeholders of the Khai Ma Development Coordination Forum



Source: (compilation by the author)

The DCF was initiated by the IDC but they hope to hand over the operation of the forum eventually. With this in mind, for the functions of treasury and chairperson, local stakeholders have already been nominated. The involved stakeholders in Pofadder are in the process of approving Terms of Reference to govern the DCF and ensure good governance. In early 2015, the next step is the registration of a not-for-profit organisation, and then opening a bank account and transferring funds from the IDC for the operation of the DCF. The DCF will then proceed to contract project management capacity to undertake the following work:

- Pull in all studies completed for the area over the last 5 years, review and update them.
- Establish household profiles: how many people live in the house, ages, income sources, skills and employment status.
- Map the current economic activities in the area and earmark opportunities for expansion and value adding.
- Identify current social needs and the challenges to overcome them.
- Compile a list of plans for bulk infrastructure from the municipality.
- The project management will then present to the DCF and on consensus will prioritise and complete a list of quick wins, medium and long-term projects.

The idea is that funding for projects will be sourced from the DCF stakeholders and other sources and that implementation will be facilitated either through partnerships, mentoring processes or invitation to externals to present proposals in this regard. The DCF provides IPPs in the area with a platform to communicate and potentially collaborate with other stakeholders around their SED and ED investments. The community trusts associated with the IPP projects are also represented in the forum. The forum further includes the Black Mountain Mine and local farmers. Both have engaged in local economic development efforts in the area for many years. The local business forum is also represented, as well as the municipality.

Through conversations at the DCF, IPPs have the opportunity to tap into some of the lessons learnt by these others sectors. This allows the municipality to be aware and potentially guide private sector investments into development. It also involves community trusts in identifying unmet needs while including the IPPs to align their SED and ED investments with projects of the other forum members. The forum model is promising in that regard and it will be interesting to assess the process and potential project collaboration in a few years. The IDC is interested in replicating this work in other areas where the IDC is a (partial) funder of IPP projects and these are located in close proximity to another, for example in Upington and Jeffrey's Bay. It is important to tailor such process to the context-specific conditions and not assume that what works in one part of the country will automatically work in the same way elsewhere. Process design and facilitation style need to accommodate the sensitivities and (business) culture of the parties invited to such a process.

The way forward





Members of the Al Jazeera network visit the Droogfontein Solar Power site in February 2015

RECOMMENDATIONS

The following section presents recommendations for next steps. The challenges discussed in this report require not only attention, but also action.

The challenges demand increased attention to the four Cs; communication, collaboration, capacity and creativity. Further, stakeholder-specific suggestions for actions are identified.

Four Cs – Communication, collaboration, capacity and creativity

Communication has to be improved. Information about the REIPPP needs to be more widely disseminated to the general public and local residents around IPPs in particular. The arrival of renewable energy in South Africa, with the visual and economic changes for the regions where wind and solar projects are implemented, is an important change. The local economic benefits are of particular interest to the public and need to be communicated.

Collaboration between renewable energy companies, other private sector actors, Government and civil society has to be advanced towards integrated planning of local economic development. More open engagement is needed between Government and renewable energy companies. The forums held in the Eastern Cape and the Development Coordination Forum in Khai Ma are examples of such engagement. Companies are concerned about complying with the programme's regulations while also making a meaningful contribution to local community development. Government has the opportunity to enhance the practice companies are employing by fostering dialogue between companies and other relevant stakeholders including academia and civil society.

Capacity of project teams needs to be supported to ensure that they engage with the responsibility to spend R1.17bn in a meaningful way. Training for companies and their community liaison staff in community engagement and development is needed. Lessons from mining and other industries are an important resource to draw on in order to strengthen renewable energy industry capacity. Enhanced capacity within local, provincial and even National Government is critical in appropriately comprehending the possibilities and challenges associated with the REIPPP and developing strategies to support IPPs and local communities. The latter require support and attention to monitor, inform and prepare for the impacts SED, ED and local ownership funds will cause locally – allowing them to maximise the benefits and prepare for any negative consequences.

Creativity is required from the private and public sector to develop long-term strategies for local community development. These need to allow for the initial training and employment benefits to be continued through the later commencing SED and ED investments. Local ownership funds ideally build onto these achievements. Creativity needs to also fuel the discussion of alternative governance and development investment approaches. Such models could, for example, include cash-based dissemination of financial resources to local residents instead of project-

based development efforts. Aligning efforts and investments requires sufficient communication, collaboration between the relevant people and organisations and capacity to ensure a comprehensive and sustainable approach is developed and implemented.

Specific suggestions for stakeholders

<p>Explore synergies of the economic development requirements in the REIPPP and other Government policies and strategies. Government policies and programmes with objectives similar to the REIPPP need to be identified and synergies and alignment analysed and enhanced if found inappropriate. For example, the National Development Plan and the Community Development Worker Programme.</p>	<p>Independent Power Producer Office (IPP-unit and National Government)</p>
	<p>Ensure the unit engages REIPPP stakeholders in a regular dialogue. Communication could be improved through implementing regular dialogue sessions and enhanced online communication with stakeholders through feedback mechanisms including grievance processes for the public.</p>
	<p>Define vision for economic development through REIPPP. Explore the achievable developmental impact possible through the current framework of the REIPPP. Consider amending reporting and monitoring requirements to create an enabling environment for anticipated impact and results.</p>
	<p>Incentivise and support IPP's investments towards desired positive impact. Refocusing the attention of Government and IPPs away from compliance and towards positive impact is crucial to ensure relevant stakeholders engage proactively with meaningful developmental issues. An effective strategy monitoring and evaluating impact is crucial in this regard.</p>
	<p>Remain open to and supportive of diverse approaches by companies. The current SED, ED and local ownership efforts indicate that project-based development efforts are popular amongst IPPs. Alternative models e.g. cash-based benefit dissemination of funds could provide valuable alternatives and should be explored and tested.</p>
	<p>In-service supervision of ED managers. Supervision and practice support is missing in the national Community Development Worker (CDW) Programme. Both are equally important for ED managers and Community Liaison staff and could be facilitated through the IPP-unit, potentially in collaboration with the CDW.</p>
	<p>Identify where the REIPPP fosters competitiveness amongst IPPs even after the approval of projects. Eliminate or reduce the competitiveness of the programme with regard to the local community benefits to allow for more collaborative development initiatives to be planned and implemented. More clarity about the relevance of SED plans could be a first step in this direction.</p>
	<p>Support IPPs in developing meaningful strategies for their economic development contribution. In light of diverse interpretations of SED, ED and local ownership as well as job creation, preferential procurement and local content requirements, these carry greatest developmental potential if implemented through one cohesive strategy.</p>
	<p>Company practice is ultimately only as good as the REIPPP's requirements. ED criteria, monitoring requirements and auditing processes determine the quality of company-community engagements and the impact of economic development spend.</p>

Practical suggestions	Project companies and community liaison staff
	Create for each IPP a point of contact for the public. Options for this include a community liaison office, a visitor center, a website with contact details, or a Facebook group.
	Widely communicate information about the IPP and associated local community benefits. This can be done through the industry association websites, emailed newsletters, municipal noticeboards, information events and meetings and other existing local communication channels.
	Implement a complaints mechanism for the public. Experiences with grievance procedures exist in the mining sector, for example. Communication channels need to be established to receive public reporting and complaints. The industry associations could, for example, provide for such on their websites.
	Collaborate with surrounding IPPs, government and other local stakeholders involved with development work. Efforts in this regard include, for example, initiating or participating in multi-stakeholder planning processes concerning LED, sharing and aligning investment decisions with other IPPs and informing or partnering with local government on projects. Observe and learn from the IDC's multi-stakeholder process in Khai Ma.
	Share experiences and learning with industry colleagues and engage also other sectors. Industry associations and working groups provide the platform for intra-industry exchange. Initiate and support cross-sector learning with e.g. mining houses, agricultural and tourism industry. Also explore international experiences.
	Create an environment for ED managers to network. Professional networking is currently constrained by company policies, but essential to developing a community of practice stimulating learning and identifying good practices. The SAWEA Working Group and SAPVIA sub-committee are a starting point for this.
	Build capacity for community engagement and development within your team. Employ, contract or train appropriate staff to allow appropriate engagement with developmental issues and the broader public.
	Apply creativity and explore less known, but possibly equally or more effective approaches to create local community benefits. Community trusts are criticised by research and practitioners. SED and ED investments currently support organisations and projects in communities. However, investment decisions could include cash-based benefits for residents and might provide a valid alternative. Low administration costs and the possibility for immediate change of the existing economic power structures need to be proven.
	Contribute towards capacitation of local government and communities towards a more equal relationship with the private sector. Establish good working relationships with community leaders and members and inform and consult them regularly, spreading information as widely as possible. Work with the available capacity of local municipalities; involve them accordingly in decision-making.

Practical suggestions	Local government
	Inform all relevant departments within the municipality about the REIPPP. Relevant departments also include the Local Economic Development (LED) unit/team. Involve them early to ensure procurement and employment practices of IPPs are informed by municipal experiences and regulations.
	Engage with the existing IPPs in your area. Seek ways to establish regular communications with local IPPs regarding their local community investments and plans.
	Develop a strategy on how to utilise private sector funding. Private sector funding and investments into the local economy also occur through other sectors. The REIPPP experience can be useful as learning experience for the municipality and its approach to LED. The IDPs should take into account the IPP's local community investments. Take note of the Eastern Cape's work on renewable energy.

Practical suggestions	Community trustees
	Seek advice from older functioning community trusts. Trusts with relevant experience can be found associated to mining, land reform or the agricultural sector. Platforms need to be established for networking and learning for trustees. Trust-to-Trust training could be organised on a provincial or national level.
	Motivate for a mentoring programme for trustees. Similar to ED managers and Community Liaison staff, supervision and mentoring is important for trustees to fulfill their roles satisfactorily and they require support in situations of conflict and difficulty.
	Request full disclosure about the funds committed to the community trust to allow for appropriate planning and training. Trustees need to be in full understanding of the funding available to the trust in order to plan for activities accordingly.

Practical suggestions	Community beneficiaries
	Inform yourself about the REIPPP and its local community development requirements. This will allow you to engage with the IPP in a more informed manner. Resources available are listed at the end of this report.
	Make an effort to get to know the local IPP and its local community funding approach. Identify which company is in charge of which project and secure contact details for each. If you cant find information on the internet, ask your municipality or go to the construction site and request a contact.
	Support or initiate a cohesive local development planning process. Ask the local IPPs to come together and discuss a cohesive development plan for the area. Explore options to initiate or even facilitate a multi-stakeholder planning process. Start small with a networking event and progress to a more regular conversation.
	Engage with the local municipality around the funding provided and allocated to the area through IPPs. Support the local municipality through informing them if needed. Encourage them to facilitate a multi-stakeholder planning process, involving all local IPPs and other relevant stakeholders like yourself.

Practical suggestions	Community members
	<p>Keep your ears and eyes open for information about the REIPPP and local IPP projects. Information is available online, for example on the EnergyBlog (http://www.energy.org.za) Here, a map of all approved IPPs to date can be found as well as news articles related to the projects. More and more IPPs have websites for public information.</p>
	<p>Attend EIA meetings for proposed IPPs and public engagements around municipal planning processes. Renewable energy projects on the scale of IPPs have to go through an EIA process, which contains public engagement requirements and allows for early access to information about planned projects. Meetings have to be advertised in the local newspapers and are open to the general public.</p>
	<p>Request that local IPPs share information about their local community investments. In cases where public information about an IPP is scarce, it might be worth researching the companies involved in the project and being proactive about requesting information.</p>
	<p>Offer local IPPs advice on suitable governance and development approaches for your community. Local expertise is important when designing effective institutions and processes to govern and invest in local community benefits. If not readily available, discuss possible recommendations and communicate them to the corporate decision makers.</p>
	<p>Observe and question local authorities to share information about governance structures for the community funds. Request that local authorities share their knowledge about the REIPPP and local IPPs. If information is lacking, raise awareness about the need to be informed.</p>
	<p>Consider reporting local engagements with IPPs in public forums like Facebook groups, EnergyBlog or start a dedicated communication/watch-dog platform. In some mining communities, company promises and development initiatives in local communities are observed and monitored by local residents and discussed in public forums. This allows for dissemination of information beyond the leadership of communities and contributes towards a more informed conversation between companies and communities.</p>

CONCLUSION

Project companies have committed a significant amount of money in response to the local community development requirements in the REIPPP. In the absence of guidance provided by Government, these companies have developed a range of proposals for the governance of the funds.

Eight different schemes were identified in the bid documents reviewed. Companies are hesitant to collaborate with one another and Government fails to incentivise or mandate this with the result that even local government is often excluded from the IPP's plans for the governance and investment of the committed funds. Government's capacity is weak to amend the policy in order to support collaboration. Companies meanwhile are struggling (in isolation) to develop meaningful local economic development plans with the limited human resources skilled to engage with community development available to them. The Khai Ma case study shows that some of the obstacles preventing collaboration can be overcome. It provides a platform that enhances communication amongst stakeholders involved with local economic development around Pofadder. The process attempts to address capacity shortcomings of companies through collaborative learning and creative solution seeking when issues arise.

Eventually, all suggestions made in this report are formulated with the goal in mind to create an enabling environment for communication, collaboration, capacity building and fostering creativity. The REIPPP might continue beyond the five procurement rounds currently underway. The criteria might be amended for the fifth round, or they might remain the same as in the first four rounds. The current procurement programme impacts local community development investments around the current 79 IPPs for the next 20 years. This allows for Government, companies and communities to build relationships and learn together about what it is that creates sustainable and meaningful developmental benefits. On the other hand, it also requires research, monitoring of the development initiatives underway and active engagement with the stakeholders involved to ensure ambition is not lost along the way. The needs for research and support will change over time, as will the resources and capacity available for these.

FURTHER READINGS

Publically available information is scarce and research on the topic is just commencing. This is a list of currently available reports and resources.

- The EnergyBlog: <http://www.energy.org.za/>
- Eastern Cape Sustainable Energy: <http://greenenergy-ec.co.za/>
- IPP-units website: <http://www.ipprenewables.co.za/>
- IIED: <http://pubs.iied.org/16043IIED.html>
- Electricity Governance Initiative: <http://www.egi-sa.org.za/2014/review-renewable-energy-independent-power-producer-procurement-programme/>

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WWF

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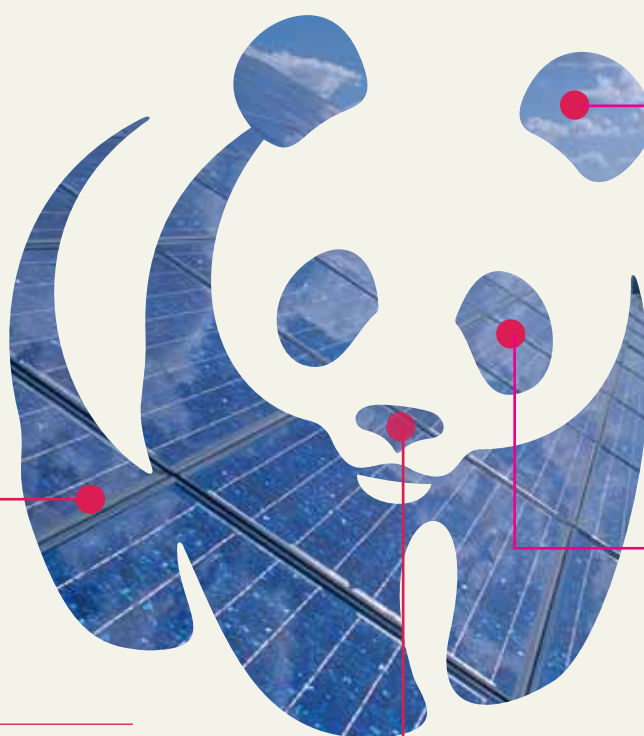
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RECYCLED



Recommendations: A review of the local community development requirements in South Africa's renewable procurement programme



CAPACITY

of project teams needs to be supported to ensure that they engage with the responsibility to spend funds in a meaningful way. Training for companies and their community liaison staff in community engagement and development is needed.

COLLABORATION

between renewable energy companies, other private sector actors, Government and civil society has to be advanced towards integrated planning of local economic development.

CREATIVITY

is required from the private and public sector to develop long-term strategies for local community development.

COMMUNICATION

has to be improved. Information about the REIPPP needs to be more widely disseminated to the general public and local residents around IPPs in particular. The local economic benefits are of particular interest to the public and need to be communicated.



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To stop the degradation of the planet's natural environment and to build a future in which humans live in harmony with nature.

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