

**Quarterly Report 98/01**  
**Performance and Monitoring Report (PMR)**  
**April 1998 - June 1998**

**ASSISTANCE TO THE SOUTH AFRICAN  
MUNICIPAL INFRASTRUCTURE INVESTMENT UNIT (MIU)**

**CONTRACT NO. 674-03120-C-00-8023-00**

**PROJECT NO. 674-0312-3-70210**

**PROJECT OFFICE: USAID/SOUTH AFRICA**

Prepared by  
**PADCO, Inc.**



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United States Agency for International Development

# MIIU

Municipal Infrastructure  
Investment Unit

## PADCO QUARTERLY REPORT 98/01

**List of Exhibits to PMR**

- A. 3 April 1998 Interim Business Plan**
- B. Mission and Mandate of the MIU**
- C. Interim Administrative Procedures**
- D. List of MPPP projects**
- E. Report to the Minister on the MPPP projects**
- F. MIU project list and current status report**
- G. Draft Conflicts of Interest Policy**
- H. Model TOR and Model Agreement**
- I. MIU logo and stationery**
- J. Implementation Letter #8**
- K. PIL**
- L. Project Preparation Report template.**

**Performance and Monitoring Report (PMR)**

**For the Quarter ending 30 June 1998**

Submitted by PADCO, Inc., as Contractor under  
USAID/South Africa Contract No. 674-0312-C-00-8023-00

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The following is submitted pursuant to § F.3 of the above-referenced Contract:

Introduction:

Contractor's expatriate team landed in South Africa on 13 April 1998, and commenced work the following day. The team was composed of James Aiello, Municipal Development Specialist and Chief of Party, Michael Jamiolkowski, Municipal Infrastructure Specialist, and James Leigland, Municipal Finance/Cost Recovery Specialist. The fourth member of the team and its local hire, Jackie Lesaone, joined the team thereafter.

Work Plan

§F.3(a) requires the Contractor, within 60 days of mobilization, to present the MIU Board of Directors and USAID a proposed Work Plan for their review and concurrence. On 3 April 1998, prior to arrival of Contractor's team, the MIU interim Board of Directors held a meeting at which certain actions were taken. Included were the approval of (1) the signatures for account of the MIU, (2) amendments to the MIU Articles of Association, (3) the management agreement presented by the Development Bank of Southern Africa, and (4) an interim Business Plan for the MIU's Project Preparation Unit. The Interim Business Plan is attached as "Exhibit A." An extract from the Business Plan was developed as a one-page Mission Statement, Mandate and Scope of Activities of the MIU. A copy of this document is attached as "Exhibit B."

The Business Plan constitutes the "Work Plan" referenced above. Contractor and the PPU are developing for presentation to the full Board of Directors (See subsections 3.3 and 3.4, below) amendments to the Business Plan. A copy of the Amended Work Plan, once adopted by the Board of Directors, will be provided USAID. The necessity of amending the existing Work Plan was discussed with the COTR on 14 April 1998.

The time period for which this report is filed, therefore, is from 14 April 1998 through 30 June 1998.

**Section 1, Specific Work In Progress or Completed.**

1.1 Work in Progress

A. PPU ADMINISTRATIVE PROCEDURES. An immediate task for Contractor and the PPU was the development of procedures whereby South African municipalities might apply for grant assistance from the MIU. An interim Application Procedure, Approval Procedures and Delegations, and Procurement Policy were developed and presented to the interim board at its 7 May 1998 meeting. These procedures and delegations were adopted as interim measures on 15 May 1998. Copies of these interim administrative procedures were also presented to USAID on 15 May 1998, and are attached as "Exhibit C."

B. MPPP PROJECTS. Prior to the arrival of the Contractor's team, the Department of Constitutional Development (DCD) of the Government of South Africa instituted a pilot public-private partnership program whereby municipalities could apply directly to the DCD for grant funding of technical assistance for the purpose of assessing or accessing private sector participation in the delivery of municipal services. A list of these projects which were in existence when the PPU became operational in April 1998 is attached as "Exhibit D." Some of these projects were managed by personnel from the Development Bank of Southern Africa. The status of the individual MPPP projects, as reflected in the latest report to the Minister of the Department of Constitutional Development is attached as "Exhibit E." To the extent known at this time, Exhibit E also sets forth the information suggested in §F.3(b)(1) of the Contract.

Effective 31 March 1998, fiscal responsibility for these projects was handed over by the DCD to the MIU. Since that time, all disbursements to the sponsoring municipalities have been the responsibility of the PPU.

A remaining task regarding the MPPP projects is the development of a Terms of Reference which spells out the ongoing relationships, if any, between the current staff of the DBSA which were previously managing these projects, and the PPU staff to which they have been allocated.

C. MIU PROJECT PIPELINE. From and after the adoption of the interim procedures described in subsection (A) above, a number of municipalities have applied for grant funding of technical assistance to determine the feasibility of private sector participation in the provision of municipal services, or for project preparation funding for the procurement of such private sector participation. A list of municipalities that have formally requested MIU assistance is attached hereto as "Exhibit F." Exhibit F also sets forth our assessment of the current status of each project, per the requirements of §F.3(b)(1).

D. CODE OF CONDUCT AND CONFLICTS OF INTEREST POLICY. Pending inauguration of the full board of directors (see below), a draft Code of Conduct and Directors' Disclosure of Interest Policy was developed. It was presented to the board at the inauguration, for information and will be discussed in the July Board meeting. A copy is attached hereto as "Exhibit G."

#### 1.2 Work Completed

A. MODEL DOCUMENTS. The interim board, at its 15 May 1998 meeting, approved use of the model Terms of Reference, model Agreement for Grant Funding of Technical Assistance, and Questionnaire which are attached hereto as "Exhibit H."

B. MIU LOGO AND STATIONERY. Also during this period of time, the interim board gave its approval to the MIU Logo and Stationery, an exemplar of which is attached hereto as "Exhibit I."

C. DELIVERY OF PROJECT IMPLEMENTATION LETTER 8 TO BILATERAL AGREEMENT NO. SO6AG-674-0312C. On 8 June 1998, the cited project implementation letter was executed. It relates to the various

authority and responsibilities of USAID, the Contractor, and the Manager of the PPU. A copy of this letter is attached hereto as "Exhibit J."

D. EXECUTION OF PROJECT IMPLEMENTATION LETTER NO. 7 (PIL). On 10 June 1998, the PIL committing US\$800,000 to the MIU and confirming the PPU Manager as having signatory authority over matters pertaining to USAID support to the MIU was executed. A copy of the PIL is attached hereto as "Exhibit K."

E. INAUGURATION OF THE FULL BOARD OF DIRECTORS. On 19 June 1998 at ceremonies held at the Turnberry Conference Centre in Kyalami, the interim board of directors was replaced by the new full board of directors which had been appointed by the Ministers of Constitutional Development and Finance, per the MIU Articles of Association. At this meeting, the interim administrative arrangements with the PPU were continued pending the official board launch, scheduled for 24 July, and the board plenary session scheduled for 25 July 1998.

## **2. Summary of the accomplishments and recommendations of any short-term consultants.**

None of Contractor's short-term consultants were called upon to render any services during this time period. Allocation of short-term Level of Effort (LOE) is dependent upon the board of directors' approval of the revised Business Plan.

## **3. Analysis of and significant problems being encountered in carrying out responsibilities under the contract.**

### **3.1 Problem: Development and Implementation of Administrative Procedures.**

Before the PPU could begin accepting applications for grant funding by the MIU, applications procedures, delegation of authority, and procurement procedures had to be written, adopted by the interim board of directors, and implemented. These activities took up much of the initial effort by Contractor, culminating in the adoption by the interim board, on 15 May 1998 of the interim administrative procedures detailed above. Also as noted above, the full board, at its 19 June 1998 inaugural meeting, extended the operation of these procedures pending final adoption at a later time.

### **3.2 Problem: Development, Refinement, and Use of Model Documents.**

Development of model documents was necessary in order to standardize the application and approval process. In parallel to the development and implementation of the administrative procedures mentioned in subsection 3.1, Contractor developed, refined, and implemented several model documents that have permitted the MIU project pipeline to expand quickly. Among the documents that were so developed were the Model Terms of Reference, the Model Agreement for Financing of Technical Assistance, and the Questionnaire.

### **3.3 Problem: Board of Directors Will Meet Only Quarterly**

With both the interim and full board of directors announced policy of adhering to a quarterly meeting schedule, it became necessary for the PPU to obtain delegated authority for the approval of applications for grant funding within reasonable parameters. The full board continued the delegation of authority to the Manager of the PPU to approve applications for grant funding for

feasibility studies up to and including R200 000, and applications for project preparation funding up to and including R1 000 000, for "core" municipal services. Details of the delegation of authority are contained within Exhibit C. However, at its 19 June meeting, the full board of directors added a further constraint, to-wit, that the *total* amount which may be committed by the Manager of the PPU during the period from 19 June through and including 25 July, may not exceed R1 000 000.

#### 3.4 Problem: Definition of "Core Services."

Also operating as a constraint to the Contractor are the limitations imposed by the definition of "Core Municipal Services." Under the interim procedures adopted as described in §1(A) above, the PPU is required to obtain board of directors approval of all applications for assistance which do not fall within the ambit of water and sanitation, industrial wastewater treatment, solid waste management, transportation facilities, fire and emergency services, and energy reticulation and generation. In the time period the PPU has been in operation, it has received inquiries regarding MIU assistance in assessing the potential for private sector participation in a host of other municipal services activities, including IT (Information Technology), fleet management, markets, and central business district upgrading. Adding to this constraint is the current board policy of quarterly meetings. As part of the Business Plan amendments discussed in the Introduction, the PPU will suggest a different procedure for allocating MIU resources.

#### 3.4 Possible Constraint Posed by Municipal Union Opposition to PPPs.

Two MPPP projects inherited by the PPU subsequent to mobilization, the Nelspruit and Dolphin Coast water and sanitation projects, are being opposed by SAMWU, the South Africa Municipal Workers Union. Union opposition has delayed negotiations with the preferred bidder in Nelspruit considerably – over six months. The union has also threatened to delay the Dolphin Coast project, although there has been no action taken as of the date of this report. Furthermore, the PPU has been informed by counsel for the municipalities that litigation has been undertaken by both the union and municipalities which may significantly affect the nature and extent of future union actions regarding public-private partnerships. In the meantime, the PPU has commenced drafting a proposed SAMWU-municipality consultative framework that may provide a means for PPPs to proceed.

#### 3.5 Possible Constraint Imposed by Draft Water Services Act Regulations and Other Pending Legislative or Regulatory Action.

The Water Services Act, passed in December 1997, contains several provisions that are possible constraints to carrying out responsibilities under the Contract. Among them is the requirement that a municipality must first consider any public water services provider that is willing and able to provide any services being contemplated to be provided by the private sector. Another troubling provision is the requirement that each municipality develop and implement a multi-year water development plan which must contain any intention to utilise private sector participation in the provision of water services, including a statement of the allowable rate of return on any private investment which may be made. Finally, the Act allows the Minister of the Department of Water Affairs and Forestry to review tariffs contained, *inter alia*, in contracts between municipalities and private sector providers of water services. This latter element threatens to undermine the attractiveness of PPPs to domestic and international financiers.

Other legislation is pending which may place further constraints upon the ability of the Contractor. A Competition Bill may have an adverse affect. A Water Act, which on its face only applies to control over water resources, may also be constraining. Also in the draft stage at this time is a bill to provide new authority to South Africa's national environmental agency. Finally, legislation is being written currently which seeks to place into legislative context, the provisions of the White Paper on Local Government issued last year by the Department of Constitutional Development. Among the legislation which might issue is a Municipal Systems bill that could provide the framework by which PPPs are considered, procured, and implemented.

The PPU has responded to the provisions of the Water Services Act by liaising with various agencies currently drafting regulations to implement the provisions of the Act. The PPU is also in communication with the USAID/South Africa-DCD Legislative and Regulatory Task Force. Finally, the PPU has been asked by an author of the Municipal Systems bill to provide input that might obviate otherwise constraining provisions.

**4. Copies of any Reports, Studies, etc., Prepared During the Quarter.**

Most of the documentation prepared during the quarter is referenced under Section 1, above. However, certain other, routine documents prepared within the PPU might be of interest. One such document is the Project Preparation Report that is prepared internally within the PPU to seek approval for delegated-authority funding, the template of which is attached hereto as "Exhibit "L."

Respectfully submitted,



James A. Aiello  
Chief of Party

Cc: M Hlahla  
PADCO

**MUNICIPAL INFRASTRUCTURE INVESTMENT UNIT COMPANY  
(MIIU)  
APPROVED BUSINESS PLAN  
FOR THE FIRST OPERATIONAL YEAR  
April 1998 - March 1999**

**1. MISSION STATEMENT**

To encourage and optimise private sector investment in core local authority services, on a basis that is sustainable for both local authorities and at a national level.

To assist the development of an established market containing informed local authority clients, private sector advisers, and private sector investors and service providers, so that the MIIU can be wound up no later than five years after the date of its original establishment.

**2. MANDATE AND SCOPE OF ACTIVITIES**

The MIIU is conceived as a five year intervention to develop a market for technical assistance for project preparation in the sphere of municipal infrastructure and services. Its scope of activities will include:

- Provision of grant funding to local authorities to hire expertise for project preparation assistance from the private sector (up to the Request For Proposals, evaluation, negotiation, or initial implementation stages).
- Assistance to local authorities in the process of hiring private sector consultants, where necessary.
- Assistance to local authorities with the management of contracts with the private sector, where necessary.
- Marketing and publicity of the MIIU's services.

These activities will be undertaken with local authorities that are developing project proposals involving private sector investment. The investments can take any of a broad range of forms, including, but not exclusively:

- Private sector financing of municipal debt.
- Contracting out of the management of ongoing services.
- Concessions to operate the local authority's assets over a defined period.
- Contracts requiring the private sector to Design, Build, Finance and Operate assets to deliver services for the local authority.
- Privatisation of assets and services.

As part of its remit, the MIIU will take responsibility for the management of pilot projects of the Municipal Public Private Partnership (MPPP) programme of the National Department of Constitutional Development (DCD). Its activities will include review of proposals received under the MPPP programme and its Project Preparation Facility. Some monitoring of MPPP pilot projects will still be undertaken by the Department of Constitutional Development's Project Management Team.

### **3. KEY OBJECTIVES**

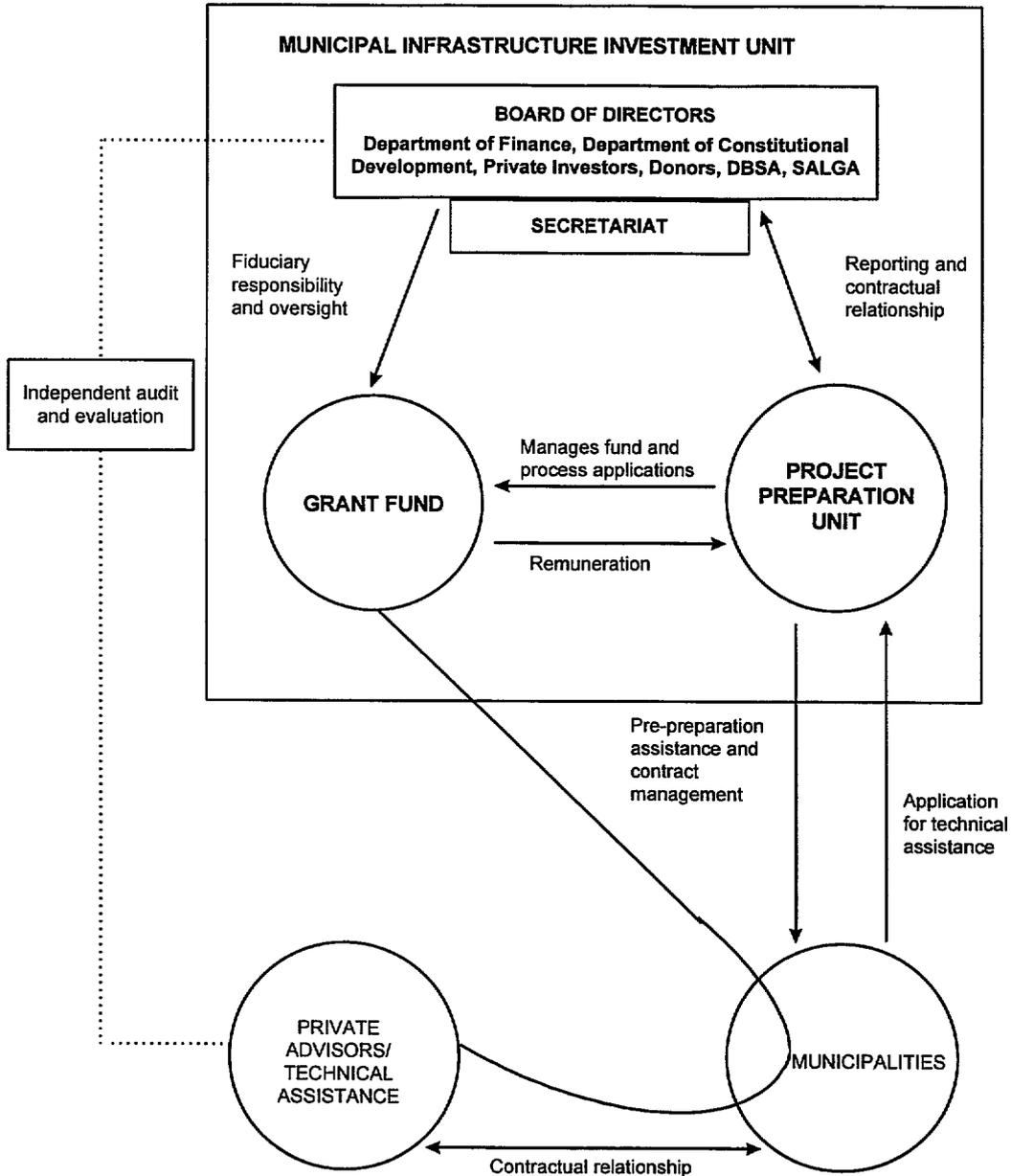
- 3.1 To fully operationalise the MIIU by no later than 30 April 1998. This will involve:
- Establishment of the Project Preparation Unit (PPU) at the Development Bank of Southern Africa (DBSA) offices in Midrand, with appropriate financial and management information systems as well as operational guidelines.
  - Creation of an appropriate staff complement for the PPU with professionals and administrative staff seconded by the DBSA.
  - Integration of donor financed international expertise into the PPU.
  - Establishment of the Grant Fund with seed money from the Government.
- 3.2 To make local authorities and the private sector aware of the opportunities and support available through the MIIU.
- 3.3 To design and distribute a brochure to all local authorities and private sector companies. The brochure will set out the role and purpose of the MIIU, and how to applications and enquiries can be made.
- 3.4 To create a Internet Website for the MIIU, and to use it as a medium for improving access to case studies and best practice guidance.
- 3.5 To establish application and project approval procedures for local authorities.
- 3.6 To begin assessment of all proposals put forward by local authorities, and identify schemes to receive financial support for pre-feasibility studies or further project preparation.

- 3.7 To develop databases of local authorities, consulting firms, NGOs, parastatals, operators and financing institutions which form part of the MIIU's stakeholder community.
- 3.8 To develop a comprehensive training and team-building programme for the PPU staff.
- 3.9 To develop a co-financing policy for the MIIU and Local Authorities.
- 3.10 To develop a basic procurement policy for consultancy services on projects involving the MIIU while maximising local authority discretion.
- 3.11 To make a proposal to the Board of Directors on an annual percentage limit of money to be paid to the DBSA for its provision of direct project preparation assistance out of the Grant Fund (See Annexure A).
- 3.12 To develop standard approaches and contracts on an ongoing basis.
- 3.13 To disseminate best practice and lessons of experience from South Africa and the rest of the world on PPPs to municipalities and other stakeholders.
- 3.14 Develop 'Partnerships' into an MIIU Publication.
- 3.15 To establish co-operating arrangements with other sources of technical assistance (e.g. DCD, INCA, DBSA) to ensure optimum use of resources and avoid duplication.
- 3.16 To raise additional financial support from donors as specified in the management agreement between the MIIU and the DBSA.
- 3.17 To take over the management and associated funding of projects from DCD's MPPP Programme, and to establish clear terms of reference to be agreed to by DCD and the MIIU.
- 3.18 To have identified the principal statutory, regulatory and financial obstacles to progressing with private investment in local authorities, and to have set out their impact for consideration by appropriate institutions and fora, such as the Inter Departmental Task Team on Public Private Partnerships.
- 3.19 To develop an exit strategy for discussion and approval by the Board of Directors by the end of the first operational year.

**4. RESOURCES**

**4.1 Human Resources**

**4.1.1 Organisational Structure**



**4.1.2 Board Of Directors**

The MIIU is a Section 21 company governed by a non-executive Board of Directors. The Board of Directors will comprise representatives from the Departments of Constitutional Development and Finance, as well as individuals appointed by

the Minister of Constitutional Development from the private sector, civil society, local government and the DBSA.

#### **4.1.3 Project Preparation Unit (PPU)**

The PPU will be staffed by six professionals as follows:

##### **4.1.3.1 Three full time staff equivalent from the DBSA:**

- One full time DBSA staff member who will be the Chief Executive Officer of the MIIU.
- One full time DBSA staff member with project management experience with investing into, or creating public private partnerships with South African local authorities.
- One full time staff equivalent from the DBSA to be shared between two individuals.
  - \* A senior policy analyst with skills related to partnerships in municipal infrastructure delivery and related regulatory environments.
  - \* A senior administrator with skills in project/programme management systems and procurement processes relevant to local government PPPs.
- Two secretaries.

##### **4.1.3.2 Three full time equivalent donor financed staff members with international experience of public private partnerships(PPP contracts), municipal financing and regulation.**

This staff composition should be reviewed annually by the Board of Directors to ensure effective use of resources as well as optimal use of private sector skills. The MIIU may use staff from the DBSA in relation to specific local authority projects. Annexure A identifies the exceptional circumstances under which the DBSA may be employed as consultants to municipalities, as well as a protocol on how the MIIU will avoid any perceived or actual conflicts of interest in relation to the activities of the DBSA.

#### **4.2 Financial Resources**

A multi-year budget is attached as Annexure C.

## **5. APPLICATION OF RESOURCES**

The MIIU will report to the Board of Directors on at least a quarterly basis, setting out its performance against the objectives contained in this Business Plan.

As a general guideline, 55% of overall resource allocation should be targeted at Public Private/Public Partnerships (PPPs), 30% to private financing of municipal debt, and 15% to diagnostic, marketing and training initiatives as set out in Annexure B and the attached budget for provisional allocations of overall resources.

### **5.1 MPPP Projects**

The MPPP programme will be managed as a separate programme by the MIIU. This programme has pre-agreed financial allocations and activities to which local authorities can use the funds. The terms of reference for the MIIU will be clearly articulated in a memorandum of understanding to be formalised between DCD and the MIIU.

The following is the MPPP's project list to be managed by the MIIU:

- \* Cape Town City Council, Water and Sanitation
- \* Nelspruit City Council, Water and Sanitation
- \* Lekoa/Vaal Metro Council, Water and Sanitation
- \* Dolphin Coast City Council, Water and Sanitation
- \* Kyalami Metropolitan Council, Industrial water and water treatment complex
- \* Stanger Town Council, Solid waste construction complex
- \* Richards Bay City Council, Solid waste construction complex
- \* Kimberley City Council, Support to investigate better management of recreation/pleasure resorts
- \* Port Elizabeth City Council, Water and Sanitation
- \* Durban Metropolitan Council, Energy from Waste Plant
- \* Tzaneen - Duiwelskloof, Regional waste site
- \* Bloemfontein TLC, Passenger Transport
- \* Nkadimeng Dam, Rural Water reticulation scheme
- \* Johannesburg Metropolitan Council, Inner City Management Cleaning Services and Water
- \* Plettenberg Bay, Water and Waste

### **5.2 MIIU Projects**

#### **5.2.1 Project work will include:**

- I. Solicitation and assessment of new proposals from local government.

- II. Provision of financial support to local authorities to hire consultants to:
- Undertake pre-feasibility work to assess project viability, and to
  - Assist in project preparation.
- III. Where necessary, provision of advisory support to local authorities to hire and manage consultants throughout the contract.
- IV. Development of standardised approaches and formats on selection of appropriate projects, selection of consultants, request for proposals etc., based on international best practice and local experiences.

The following cumulative project targets entail envisaged commitment of funds from the MIIU to municipalities:

Envisaged Cumulative Project Targets				
Project Type	1998-99	99-2000	2000-01	2001-02
Partnerships	13	30	47	63
Municipal Debt	7	15	23	30
Total/year	20	45	70	93

#### 5.2.2 MIIU Pipeline as at 30 March 1998

##### i) **Water and Sanitation**

Stellenbosch, Grahamstown, Harrismith, Umtata, Knysna: Brief proposals prepared through DCD grant. MIIU has been requested to help develop a deal.

Johannesburg Southern Metro Local Council: The SMLC is currently embarked on a joint investigation with Randwater to gather data to assess the feasibility of a Public/Public partnership. The MIIU has been invited to intervene in this process to ensure that the Council is exposed to other options and can negotiate a fair deal.

Brits, Welkom, Krugersdorp: Councils have requested help in investigation of water and sanitation sectors with a view to concluding a PPP deal.

**ii) Solid Waste**

Umtata: Awaiting MIIU go ahead to proceed with an integrated solid waste PPP proposal where the preliminary proposal was conducted through the DCD grant.

Johannesburg Southern Metro Local Council: Application received to assist in the outsourcing of the collection function.

**iii) Urban Transport**

Cape Town Metro: MIIU requested to be involved in the development of urban transport PPP options and the identification of pilot opportunities.

**iv) Recreation Facilities**

Kroonstad: Interest expressed in MIIU providing similar help to Kimberley.

**v) Fire And Emergency Services**

Pietermaritzburg: Outsourcing of function is under consideration. The preferred option would be an employee buyout with a negotiated contract. MIIU help has been requested. Other similar opportunities exist elsewhere.

**vi) Information Technology Services**

Johannesburg Metro: MIIU help requested in the formation of an appropriate outsourced solution to perform the IT operations. An appropriate model needs to be developed.

**vii) Airport Facilities**

Rand Airport(Germiston), Richards Bay, Pietermaritzburg, Uitenhage?: Opportunity for the MIIU to package a deal if further interest is shown.

**xiii) Produce Market**

Johannesburg Metro: Application received for MIIU to help to move market off balance sheet using appropriate vehicle.

**xiv) Fleet Management**

Johannesburg Southern Metro Council: Application received to investigate and facilitate outsourcing. Further expected from the Metro.

The above projects are at different stages of development, and require immediate decision to allocate resources. The projects below are ideas discussed with the MIIU, but no formal applications have been received.

**xv) Miscellaneous**

→ Pretoria Central Council: Have started a tender process to out-source the street-lighting function. The MIIU may be requested to intervene.

→ **Airport Facilities**

Rand Airport (Germiston), Richards Bay, Pietermaritzburg, Uitenhage?: Opportunity for the MIIU to package a deal if further interest is shown.

→ **Urban Transportation**

Johannesburg, Pretoria: Possible outsourcing of the Metro Bus services although no official application yet. Possible involvement in the development of metro transportation pilot PPPs such as tramway rehabilitations, inter-modal facilities etc.

→ **Other**

Johannesburg Metro: Other than those mentioned above the metro has prioritised the Gas works for possible sale;  
 Klerksdorp: - water;  
 Ladysmith: - water;  
 Wartburg: water;  
 Hoedspruit TLC: water;  
 Central District Council - North West: various requests to be explored;  
 Port Alfred: Environmental management services outsourcing.

**6. MARKETING AND PUBLICITY**

The MIIU will wish to make all local authorities aware of its services, and to encourage both the local authorities and the

private sector to consider using private investment to improve delivery of public services.

**6.1 The publicity will also have to make clear that:**

- 6.1.1 The MIIU's principal role is to provide financial support towards the cost of external advisers - not to provide the advice itself.
- 6.1.2 The MIIU will maximise co-financing opportunities with local authorities for project preparation. Full financing of project preparation from MIIU grant funds will be under exceptional circumstances still to be determined.
- 6.1.3 The development of private sector investment in local authority services is seen as a long term initiative, and that the intention will be to make the lessons and experience derived from the pilot schemes available to the whole local authority community.

**6.2 The key marketing and publicity initiatives will therefore include:**

- 6.2.1 A brochure, to be distributed to all local authorities setting out the role and purpose of the MIIU, and the support available.
- 6.2.2 Attendance at important conferences of local authorities or their representatives, to increase awareness of the existence of the MIIU and the support available.
- 6.2.3 A programme of visits to local authorities, and co-ordinated workshops for local authorities to meet together, focusing on pilot projects.
- 6.2.4 Creation of a n Internet site for the MIIU as already mentioned elsewhere in this document.
- 6.2.5 By demonstrating the opportunities, and steps taken to deliver successful agreements, to attract additional funding or other assistance from donor organisations, amounting to at least R45million (in 1997 Rand) over the 5 year life of the MIIU.
- 6.2.6 Through the publication 'Partnerships' which will be issued bimonthly to all key stakeholder. The publication an information source on partnerships in local government.

**7. CAPACITY BUILDING**

**Capacity Building for Local Authorities**

The MIIU will not provide any training courses on municipal infrastructure partnerships. It will contribute to the design and

delivery of appropriate courses offered by relevant training institutions to local authorities and private sector firms.

Through actual projects however, key personnel from within local authorities will access hands on experience on how to prepare, implement, monitor and regulate emerging partnerships. The MIIU will encourage local authorities to maximise practical learning from their working relationships with consulting firms and the PPU, and vice versa.

The principal way in which the MIIU will contribute to training and capacity building is through dissemination of lessons of experience from the South African pilot projects and best practice from other countries. These will be done through conferences, workshops and publication through the Partnership newsletter, the Internet and other communication media.

In addition, the PPU is negotiating with the National Business Initiative to produce a Good Practice Manual before the end of the second year.

#### **MIIU capacity building needs**

To upgrade the skills of the PPU staff, the PPU is investigating appropriate training courses which will look into all aspect of procurement; the fit of PPP options to the nature of the problems and when to advise what; tariff setting, salient points about the different sectors; inputs from private sector consultants and operators, and project financing differences as applied to the various sectors. Training on these aspects will be provided mainly by the International contractor. When necessary, the PPU will seek approval from the Board of Directors to finance an external trainer.

It is expected that the Board of Directors may require some capacity building activities for purposes of expanding their knowledge base and team building. To this end, the PPU will receive guidance from the Board, and will provide all necessary support.

As part of these broad training investigations, the PPU will explore possible visits to municipalities(worldwide) which provide best practice for South African municipal infrastructure delivery. The PPU will also maximise its relationship with international training institutions and donor agencies to source cheaper training opportunities and other support for to meet all training needs.

## 8. **OBSTACLES AND POLICY ISSUES**

In order to influence policy, the MIIU plan by the end of its first year of operation to have identified the principal constraints to the implementation of PPPs and to other forms of private investment in local authorities, and envisage to prepare a statement setting out their impact, for submission to the Inter-Departmental Task Team on PPPs and other relevant institutions. The areas where obstacles may arise include the following:

- 8.1 Resistance to the idea of private sector involvement in the operation of services.
- 8.2 The legal standing of local authorities and their ability to undertake PPPs.
- 8.3 The financial standing and structure of local authorities, and whether schemes to be entered into will be affordable.
- 8.4 The impact of PPPs on the job security of public sector employees.
- 8.5 Poor performance in cost recovery, credit control, metering and billing.
- 8.6 The pending demarcation of new local authority boundaries.

## 9. **EXIT STRATEGY**

One of the key activities of the Board of Directors will be to structure an exit strategy for the MIIU. The Board of Directors will be responsible for the design of appropriate indicators for the exit, as well as the mechanism of the exit. It will make a recommendation in this regard to the Minister of Constitutional Development early in the fifth year. The Minister will make the decision.

## 10. **MONITORING AND EVALUATION**

The key performance indicators for the MIIU will include:

- 10.1 Number of local authorities assisted:
  - Referred to other institutions.
  - Pre-feasibility and project preparation grant provided.
  - Other.
- 10.2 Extent of involvement of South African private sector consulting companies in projects.
- 10.3 Extent of information sharing on best practice.
- 10.4 Value of grant funding raised.

10.5 Amount (actual and expected) of private sector funding leveraged for provision of infrastructure.

The Board of Directors should appoint an independent performance evaluator within the first year of the MIIU's operation. Progress reports will be submitted to the Board of Directors every six months.

**ANNEXURE A****1. CIRCUMSTANCES UNDER WHICH THE DBSA CAN PROVIDE DIRECT PROJECT PREPARATION ASSISTANCE<sup>1</sup>**

In certain circumstances, the DBSA may provide direct project preparation assistance to local authorities (using outside consultants as part of the team when necessary (up to RFP, evaluation, negotiation, or initial implementation stage. DBSA will be able to be paid for these services with grants from the PPU, provided:

- 1.1 There will be an annual percentage limit on the amount of the PPU's grant funding that can be paid to the DBSA for such services.
- 1.2 The Board of Directors will have to approve any such payment to the DBSA, and will do so only when there is market failure.
- 1.3 The DBSA must be hired by the local authority in question through a competitive process.
- 1.4 The DBSA will not make financing available to the resulting project.

**2. MANAGING POTENTIAL CONFLICT OF INTEREST**

- 2.1 The MIIU will not act as consultants to local authorities.
- 2.2 The MIIU will screen applications, and assist in the appointment and management of project advisors.
- 2.3 To supplement core capacity, the MIIU may contract other DBSA staff to assist in this role.
- 2.4 The DBSA will not act as consultants to local authorities. The MIIU will not fund local authorities to engage the DBSA as project consultants.
- 2.5 The DBSA finance is equally available to all bidders. The DBSA has no bias in favour of any particular bidder.

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<sup>1</sup> Source: Cabinet memorandum

2.6 On PPP deals, the DBSA will limit its finance to between 20% and 30% of the total financing requirement. On small transactions however, this could go as high as 50% of total financial requirements, but never higher.

2.7 It has already been established that the DBSA investment finance is not available to projects where, for exceptional reasons, the DBSA is the advisor.

### 3. **CORE LOCAL AUTHORITY SERVICES**

The following are regarded as core services that are a first priority for support:

- 3.1 Water and Sanitation.
- 3.2 Energy.
- 3.3 Transport.
- 3.4 Waste Management.
- 3.5 Fire and emergency services.

Support can be extended to other municipal services when necessary, but not to divert from core services.

**ANNEXURE B****RESOURCE ALLOCATION PROPOSAL**

<b>TASKS</b>	<b>PRIVATE SECTOR (%)</b>	<b>PPU (%)</b>	<b>TOTAL (%)</b>
PPPs	50	5	55
BALANCE SHEET FINANCING	21	9	30
MARKETING AND TRAINING	5	10	15
<b>TOTAL</b>	<b>76</b>	<b>24</b>	<b>100</b>

## Annexure C

**MUNICIPAL INFRASTRUCTURE INVESTMENT UNIT COMPANY (MIIU)  
PROVISIONAL BUDGET 1997/98 TO 2001/02 (where year is April to March)**

	Notes	1997/98 R'000	1998/99 R'000	1999/2000 R'000	2000/01 R'000	2001/02 R'000	TOTAL R'000
<b>Sources of Funds</b>							
DCD Seed Capital Grant	A	12000	8000				20000
MPPP Transfer from DCD	B	10690					10690
Expected donor contribution	C		8000	9000	7000		24000
Required donor funds	D			15000	25000	25000	65000
<b>TOTAL INFLOW OF FUNDS</b>		<b>22690</b>	<b>16000</b>	<b>24000</b>	<b>32000</b>	<b>25000</b>	<b>119690</b>
<b>Application of Funds</b>							
Staff & Admin:							
USAID TA contract	E		6000	7500	5000		18500
DBSA direct expenses	F		1506	1657	1822	2004	6989
DBSA Management Fee	G		64	70	77	85	296
<b>TOTAL STAFF &amp; ADMIN</b>			<b>7570</b>	<b>9227</b>	<b>6899</b>	<b>2089</b>	<b>25785</b>
<b>Net funds available for projects</b>		<b>22690</b>	<b>8430</b>	<b>14773</b>	<b>25101</b>	<b>22911</b>	<b>93905</b>
<b>CUMULATIVE BALANCE AVAILABLE</b>		<b>22690</b>	<b>31120</b>	<b>45893</b>	<b>70994</b>	<b>93905</b>	
<b>ALLOCATION OF FUNDS TO OUTPUTS</b>							
Assumed Expenditure	H	0	22000	23500	24500	23905	
Public Private Partnerships	O: 55%	0	12100	12925	13475	13148	
Municipal Financing	O: 30%	0	6600	7050	7350	7171	
Marketing/Diagnostics/training	O: 15%	0	3300	3525	3675	3586	
<b>CUMULATIVE ALLOCATION OF FUNDS</b>		<b>0</b>	<b>22000</b>	<b>45500</b>	<b>70000</b>	<b>93905</b>	

**MUNICIPAL INFRASTRUCTURE INVESTMENT UNIT COMPANY (MIIU)**

**Figures are inflated at 10% per annum where applicable**

- A Seed Capital received from DCD
- B Transfer of MPPP fund - the non disbursed portion at March 1998.
- C USAID commitment of US\$ 4.8m at exchange rate of 5:1. Approximately 80% of this will be used to fund the contract for expert technical assistance - the balance will be added to the fund.
- D Anticipated fundraising requirement from future donors
- E 80% of US\$ 4.8m = 3.8m which equates to R19m distributed as shown. To cover 2 full time professional for 3 years plus 1 for 2 years plus a facility for 12 person months on a short term basis - distributable to the fund if not fully used.  
This contract includes dedicated administrative support to the USAID team
- F DBSA expenses comprising 1) total cost of equivalent of three full time professional DBSA staff and 2 secretaries and the costs as indicated in the attached schedule
- G A DBSA management fee calculated at 5% of DBSA total staff costs.
- H The balance of the fund each year, allocated pro rata to PPPs (55%), other municipal financing (30%), and diagnostics, marketing and training (15%)

# MIIU

Municipal Infrastructure  
Investment Unit

## **MISSION STATEMENT**

**To encourage and optimise private sector investment in core local authority services, on a basis that is sustainable for both local authorities and at a national level.**

**To assist the development of an established market containing informed local authority clients, private sector advisers, and private sector investors and service providers, so that the MIIU can be wound up no later than five years after the date of its original establishment.**

## **MANDATE AND SCOPE OF ACTIVITIES**

The MIIU is conceived as a five year intervention to develop a market for technical assistance for project preparation in the sphere of local government infrastructure and services. Its scope of activities will include:

- ⇒ Provision of grant funding to municipalities to hire expertise for project preparation assistance from the private sector (up to the Request For Proposals, evaluation, negotiation, or initial implementation stages).
- ⇒ Assistance to municipalities in the process of hiring private sector consultants, where necessary.
- ⇒ Assistance to municipalities with the management of contracts with the private sector, where necessary.
- ⇒ Marketing and publicity of the MIIU's services.

These activities will be undertaken with municipalities that are developing project proposals involving private sector investment and other forms of partnerships. The investments can take any of a broad range of forms, including, but not exclusively:

- ⇒ Corporatisation
- ⇒ Public-public partnerships
- ⇒ Private sector financing of municipal debt.
- ⇒ Contracting out of the management of ongoing services.
- ⇒ Concessions to operate the local authority's assets over a defined period.
- ⇒ Contracts requiring the private sector to Design, Build, Finance and Operate assets to deliver services for the local authority.
- ⇒ Privatisation of assets and services.

**Contact the MIIU at 011 313 3413**

# INTERIM MIIU APPLICATION AND APPROVAL PROCEDURES

## INTRODUCTION

The following shall be the procedures to be followed by the MIIU in order to process applications for funding by municipalities in South Africa. **Figure 1** provides an overview of the MIIU Project Development Process, and indicates the actors and actions necessary for the process to proceed. All applications are subject to the availability of funds to the MIIU for grant assistance purposes. **Applications shall be processed on a first-come, first-served basis; however the MIIU reserves the right to apportion grant assistance so that the greatest number of eligible applicants may receive at least some assistance.**

### I. PROJECT CONCEPTUALISATION PHASE

1. Receipt of initial expression of interest by municipality.  
Municipalities may communicate their interest in receiving grant funding from MIIU via phone, fax, letter, or Email.
2. Discussions with municipality regarding conceptualisation of a "project."  
After an expression of interest received from a municipality, MIIU staff will meet with the municipality to assist, if necessary, in preparing a preliminary conceptualisation of the sort of PPP project, or projects, that are likely to meet the municipality's perceived needs. The outcome of this process is a project concept for which the municipality may formally apply for MIIU development assistance, and which the MIIU can begin to evaluate using the decision making criteria outlined below. The project concept is expected to evolve considerably throughout the development process as described in Figure 1, but at this early stage it is a necessary starting point for further consideration by, and assistance from, MIIU.

### II. FORMAL APPLICATION PROCESS

1. Issuance of MIIU applications package.  
MIIU will provide applications packages to each municipality that has expressed interest in MIIU assistance in connection with a project, conceptualized as described above under I.2. One application package must be filled out for each project. Each package will include the following requests for information along with instructions for preparing the required documentation:
  - 1.1 The application must document that the municipality has designated a "project manager" who will be delegated responsibility for interacting on a day-to-day basis with MIIU regarding its provision of grant funding. MIIU recommends the creation of a "project committee" of in-house experts to support the project manager.
  - 1.2 The application must include a completed "application questionnaire," supplied by MIIU, which will help the municipality identify the assistance needed, as clearly and concisely as possible, in terms of the following information:
    - 1.2.1 The MIIU assistance needed, and to the extent possible the ultimate PPP project, must be defined and justified, using the step-by-step forms provided.

1.2.2 The ultimate project must be included in the municipality's prioritised list of planned projects, or its urgency assessed with the forms provided.

1.2.3 The municipal service operation targeted for a possible PPP must be subjected to a "notional ring-fencing" exercise that attempts, using already available information and best estimates, to account for all current revenues and expenditures associated specifically with that service. The application questionnaire will include forms to aid in the collection of data necessary for this exercise.

1.3 The application must include a formal letter of transmittal from the municipality; the letter should have the following characteristics:

1.3.1 It must be signed by the highest municipal official (or his/her designee);

1.3.2 It must demonstrate council agreement with the decision to apply for MIIU assistance.

2. Receipt of application.

Upon receipt of an application from a municipality, the MIIU shall carry out the following procedures:

2.1 The application shall be numbered next in accordance with MIIU's project indexing protocol;

2.2 The application shall be entered into the MIIU Project Log;

2.3 The project file shall then be forwarded to the Executive Director for assignment to appropriate MIIU staff.

**III. INITIAL APPLICATION APPROVAL PROCESS FOR FEASIBILITY STUDY (FS) FUNDING**

1. Application review.

The application shall be reviewed for the following:

1.1 Compliance with the MIIU Application Procedures;

1.2 Whether the proposed project involves a core municipal service.

2. Referral in instances of insufficiency

In those instances where the application is deemed insufficient regarding any of the foregoing, the municipality shall immediately be contacted, and advised on the means by which the insufficiency may be rectified.

3. Procedures subsequent to a determination of sufficiency

3.1 Eligibility Assessment for FS Funding. Utilizing resources internal to the MIIU and the information provided by the municipality in the application, the MIIU shall assess the eligibility of the potential project for grant funding. The focus of the assessment shall be on the potential to conclude a successful, sustainable project.

3.1.1 This assessment shall include:

- 3.1.1.1 An examination of the financial sustainability of the potential project, whereby the potential apparent revenues from all sources including cost recovery mechanisms are measured against all known costs, over the likely time period of the potential project;
- 3.1.1.2 An examination of the technical sustainability of the potential project whereby the apparent technology alternatives are measured for the suitability to provide the municipal services sought over the likely time period of the potential project;
- 3.1.1.3 A finding that the amount of assistance requested bears a reasonable ratio to the total potential project cost, applying a general guideline that the amount of grant assistance requested should be no more than three to five percent of the estimated total cost of the project contemplated;
- 3.1.2 To the extent requested by the municipality, the MIIU may suggest alternatives in order to demonstrate the eligibility of the potential project with regard to the foregoing assessment criteria.
- 3.1.3 The MIIU may, with concurrence of the Board of Directors, approve an application, notwithstanding the absence of one or more of the above-listed criteria, where the project presents an opportunity for learning regarding a potential private sector participation scheme which has not been widely applied in South Africa.
- 3.2 Exclusionary Criteria. An application may be denied where:
  - 3.2.1 The criteria set forth in Subsection 3.1 are not met;
  - 3.2.2 Pre-existing contracts or obligations to a private firm or firms exist which would prevent a transparent procurement;
  - 3.2.3 The specific project proposed would violate existing environmental standards;
  - 3.2.4 The specific project proposed is illegal;
  - 3.2.5 There are insufficient funds to provide the grant assistance required.
- 4. Decision on the Application; negotiation of Funding Agreement.
  - 4.1. Upon completion of the foregoing, the MIIU shall meet with officials of the municipality and review the information so gathered and the eligibility assessment of the application. If this review indicates support for FS funding, the MIIU shall prepare a report to the Chief Executive Officer so indicating. If the review results in qualified support for the application, the MIIU and staff of the municipality shall attempt to resolve remaining concerns. Where the MIIU intends to deny the application, a written statement of the reasons for such denial shall be provided the municipality.
  - 4.2. Upon approval by the Chief Executive Officer, if the potential project involves a core service, and the amount of assistance sought is within the delegated authority to the Chief Executive Officer, the MIIU shall commence negotiations with officials of the municipality for a Funding Agreement containing the terms

and conditions attendant to the FS grant, including a cost-sharing agreement and the Terms of Reference (TOR) for procuring the services of a consultant to prepare the FS.

- 4.3 If the potential project does not involve a core service, or the amount of assistance sought exceeds the delegated authority of the Chief Executive Officer, the Chief Executive Officer shall prepare a report to the Board of Directors seeking approval to proceed with the negotiations with municipal officials described in subsection 4.2, above.

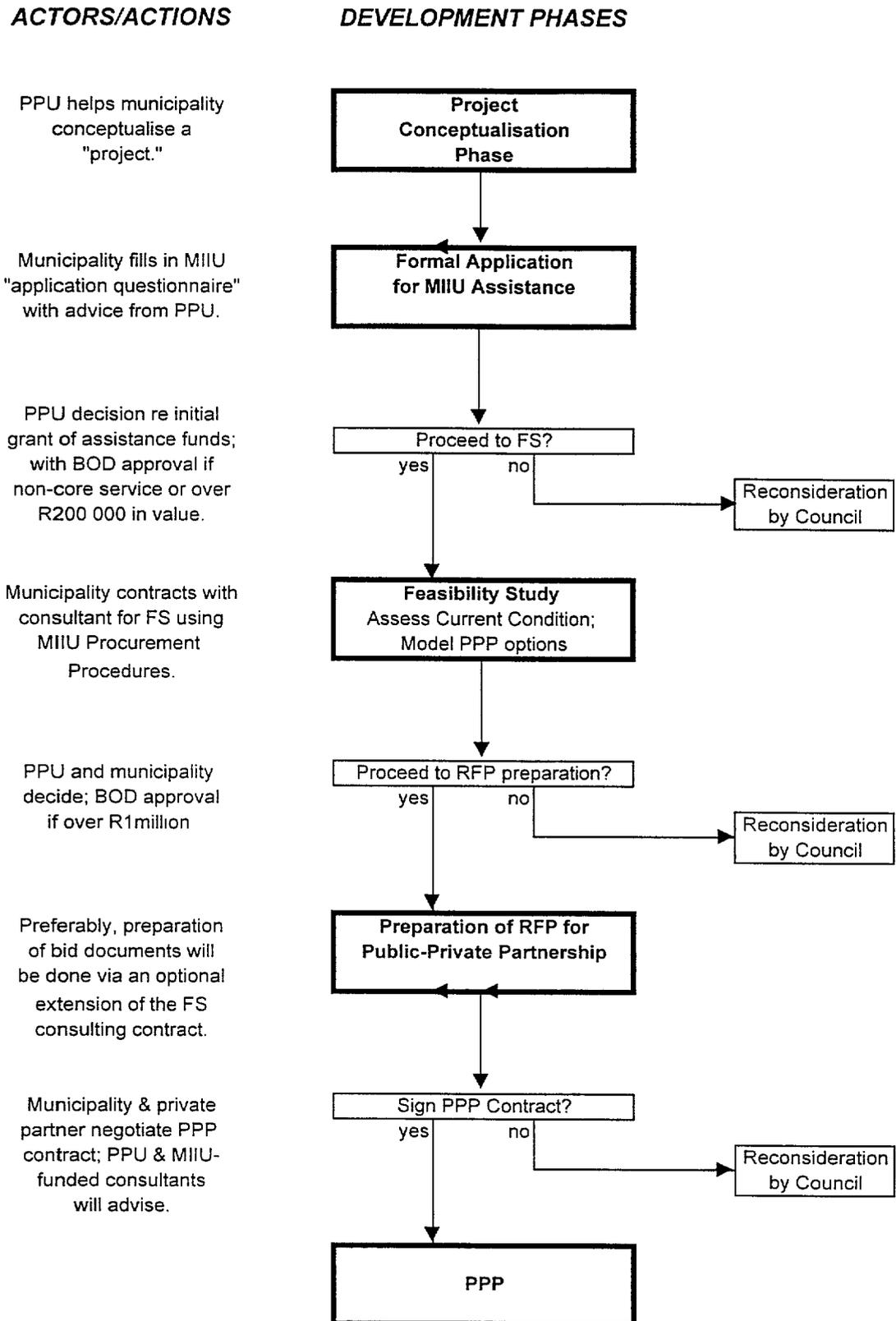
#### IV. APPLICATIONS FOR APPROVAL OF PROJECT PREPARATION FUNDING

1. Receipt of the approved FS and request for Approval of Project Preparation Funding.  
Upon receipt of a FS approved by a municipality, prepared under the provisions of Section III, above, together with a request for approval of Project Preparation Funding (PPF), the request shall be numbered next in order in accordance with the MIIU's PPF indexing protocol, and entered into the MIIU FS Project Log. The project shall then be forwarded to the Chief Executive Officer for assignment to staff.
2. PPF Request Eligibility Review.  
The PPF request and the underlying FS shall be reviewed for the following:
  - 2.1 FS compliance with the TOR;
    - 2.1.1 An examination of the proposed project's financial sustainability by reviewing the financial model utilized to assure that the key economic and financial factors were included and that the sensitivity analyses conducted reflect foreseeable circumstances as disclosed by the information generated in the FS;
    - 2.1.2 An examination of the proposed project's chosen technology, to assess whether the desired outputs will be achieved;
    - 2.1.3 An examination of the tariff structure proposed to assure compliance with existing South African law;
    - 2.1.4 A finding that the proposed project is consistent with all applicable local, provincial and national government laws;
    - 2.1.5 A determination that implementation of the proposed project will not seriously affect the municipality's existing agreements with other public agencies;
    - 2.1.6 A finding that appropriate project implementation staff have been proposed for the municipality and that adequate oversight provisions have been set forth to be included in a terms of reference;
    - 2.1.7 A determination that implementation of the proposed project will not deleteriously affect the financial condition of the municipality over the life of the proposed project;
    - 2.1.8 A finding that the risk sharing, dispute resolution, and private-sector performance standards are appropriate and reflective of similar provisions currently in effect in South Africa.

- 2.2 Adequacy, from a legal and practical perspective, of the proposed project procurement process;
- 2.3 Adequacy of the proposed PPF budget.
  - 2.3.1 Budgeted activities to be examined shall include:
    - 2.3.1.1 Bid preparation assistance;
    - 2.3.1.2 Adjudication;
    - 2.3.1.3 Negotiation;
    - 2.3.1.4 Establishing contract compliance provisions.
  - 2.3.2 At the conclusion of the foregoing, the budget shall be amended to reflect the findings and recommendations of the MIIU.
- 2.4 The degree of MIIU monitoring of the project preparation activities.
3. Actions in instances of deficiency.

In those instances where the Request is deemed deficient regarding any of the foregoing determinations, the MIIU shall immediately contact the municipality and undertake to remedy the same. Where, after collaboration and consultation with the municipality, the deficiency cannot be rectified in the opinion of the MIIU, a written statement so stating will be provided the municipality.
4. Approval after Request is deemed sufficient.
  - 4.1 Subsequent to a determination of the sufficiency of the request for PPF, a report shall issue to the Chief Executive Officer so noting, and requesting approval of the project preparation funding as stated in the final budget.
  - 4.2 Upon approval thereof, if the project involves a core service, and if the amount of assistance sought is within the delegated authority to the Chief Executive Officer, the MIIU shall commence negotiations with the municipality for a Funding Agreement containing the terms and conditions attendant to the PPF grant, including cost sharing and the preparation, by the Consultant, of the project Terms of Reference.
  - 4.3. If the project involved a non-core service, or exceeds the delegated authority of the Chief Executive Officer, the Chief Executive Officer shall prepare a report recommending approval of the request for assistance. Upon approval by the board of directors, the MIIU shall commence the negotiations described in subsection 4.2, above.
  - 4.4 The Funding Agreement shall also include provisions setting forth the contract monitoring activities of the MIIU.

**Figure 1**  
**Overview of MIIU Project Development Process**



**INTERIM PROJECT APPROVAL POLICY GUIDELINES  
BOARD OF DIRECTORS  
MUNICIPAL INFRASTRUCTURE INVESTMENT UNIT**

**I. INTRODUCTION**

The Municipal Infrastructure Investment Unit (MIIU) is an association incorporated under section 21 of the Companies Act, 61, of 1973. Cabinet Memorandum No. 14 of 1997, of the Department of Constitutional Development, described the Board of Directors of the MIIU, as having "... a broad oversight and policy role, and a specific fiduciary duty with respect to the grant fund." Section 5 (Duties and Powers of the Board) of the Management Agreement entered into between the MIIU and the Development Bank of Southern Africa on the 6<sup>th</sup> of March, 1998, states in part that the board shall be responsible for the overall policy direction of the MIIU and the Grant Fund, and shall broadly oversee policy and operational functions of the Project Preparation Unit (PPU). This section further states that the board shall approve the operational guidelines of the MIIU and the Grant Fund and shall monitor compliance of the PPU with policy and performance targets. Section 6 (Duties and Powers of the PPU) of this same agreement states, in pertinent part, that the PPU is the operational core of the MIIU, and shall have the power and responsibility to receive and screen proposals in terms of guidelines and criteria to be developed by the PPU and approved by the board; and approve applications for funding from the Grant Fund.

The interim board consists of two members. The full board of directors will consist of fifteen (15) members, and is expected to be seated at some time in the near future. However, in order that the PPU may act upon the grant application proposals from local authorities currently pending, it is necessary to adopt interim project approval guidelines.

The following interim guidelines are hereby adopted in accord with the foregoing.

**II. INTERIM POLICY GUIDELINES FOR APPROVAL OF CONTRACTS FOR CONSULTANTS TO PERFORM FEASIBILITY STUDIES.**

1. The PPU may, in accordance with the Application Procedures, Approval Procedures, and Procurement Policies and Procedures, approve applications for grant funding of contracts with consultants to perform feasibility studies for Public-Private Partnerships (PPPs) including private financing of debt, in the MIIU "core areas" as that term is defined in the Interim Business Plan, up to and including the amount of R200 000.
2. All applications for Feasibility Study grants in excess of R200 000 shall be referred to the board of directors for approval.
3. All applications for grant funding, of whatever amount, for feasibility studies in non-core municipal service areas, as defined, shall be referred to the board of directors for approval.

**III. INTERIM POLICY GUIDELINES FOR APPROVAL OF CONTRACTS FOR PROJECT PREPARATION FUNDING.**

1. The PPU may, also in accordance with the policies and procedures mentioned in Section (II), above, approve applications for Project Preparation Funding (PPF) for projects in the MIIU "core areas" as that term is defined in the Interim Business Plan, up to and including the amount of R1 000 000.

2. All applications for PPF grants in excess of R1 000 000 shall be referred to the board of directors for approval.

#### IV. REPORTS TO THE BOARD OF DIRECTORS

The executive director shall provide reports to the board of directors listing the funding activity approved since the last board meeting, for each category: feasibility studies and PPF.

**Approved:**

Dr C Olver

**Date:**

R White

**Date:**

## INTERIM MIIU PROCUREMENT POLICIES AND PROCEDURES

### INTRODUCTION

MIIU's mandate requires that grant funds be provided subject to various conditions being met by the municipality receiving assistance. Among these conditions are internationally accepted procurement and contracting policies and procedures, described below. These policies and procedures are designed to be used in connection with the full range of consulting contracts that may be supported with MIIU funds. MIIU's Project Preparation Unit (PPU) will assist MIIU's local government clients in the application of these policies and procedures, and will attach or reference this description, or an updated version of it, in initial letters of agreement between the PPU and client municipalities.

### I. MIIU PROCUREMENT POLICIES

1. Client-led procurement.  
 MIIU's approach to the provision of assistance is designed to encourage municipalities to deal as directly as possible with the market of private service providers. Accordingly, these procurement procedures call on municipalities to take the lead in most procurement activities supported by MIIU grant funding. In most cases, municipalities will be expected to prepare Terms of Reference, budgets, implementation schedules, etc., with assistance from MIIU's PPU. The process of interacting with the PPU begins with the application process (see **MIIU Client Application Procedures**).
2. Full competition.  
 The procurement of services paid for with MIIU grant funding must be fully competitive, except in specific situations, outlined below. Each distinct service must be procured and contracted for separately, using transparent and competitive procedures.
3. Solicited proposals.  
 Solicited proposals are those that have been invited through a Request for Proposals (RFP) by the municipality. The solicited approach is considered to be the normal procedure for procuring services paid for with MIIU grant funding. The procedures required by MIIU are described in **Table 1**.
4. Unsolicited proposals.  
**[Note: the consideration by the PPU of unsolicited proposals is suspended pending review of these procedures by the full MIIU Board of Directors.]**  
 Unsolicited proposals may result in contract awards only under the following conditions: (a) the service to be procured involves a new concept or technology or is not on the list of priority projects already developed by the municipality; (b) the municipality introduces competition by inviting comparative technical and price proposals, and no other offer is deemed more cost-effective than the original, unsolicited proposal. These procedures are described in **Table 2**.
5. Direct negotiation.  
 Negotiation with a single offeror, without reviewing proposals from alternative offerors, is allowable only under any one of the following conditions:
  - 5.1 If the procurement is urgently needed in response to an emergency situation. (To be clarified in negotiations between the municipality and PPU.)

- 5.2 If only one qualifying offeror submits a complying proposal.
- 5.3 If more than one offeror submits proposals, but only one is found to be complying.
- 5.4 Where an unsolicited proposal is received and the municipality has invited (pursuant to procedures described in **Table 2**) comparative proposals, and none have been received within the prescribed time period.
6. Pre-qualification for Large Contracts.  
The preparation of proposals for large public-private partnerships is a time-consuming and expensive process for both municipalities and potential private partners. To the extent permitted by national and provincial laws and regulations, MIIU recommends that municipalities allow prospective partners to pre-qualify for procurements by submitting details of their organisational size and structure, previous experience, technical abilities, and human and financial resource capabilities for evaluation prior to actual proposal submission. Approved offerors will then be placed on a "short-list" for firms qualified to submit proposals for the relevant project. Note that prequalification is appropriate only for very large projects, which MIIU defines as projects over R5 million in value. Municipalities may have lower thresholds for the use of pre-qualification and short lists; actual thresholds used for MIIU-related procurements may be negotiated with the PPU. For a description of the pre-qualification procedures, see **Table 3**. (Note: MIIU is soliciting a legal opinion regarding the legality of pre-qualification in municipal procurement.)
7. Simplified Procedure for Small Contracts.  
For procurements under R50.000 the PPU may suggest a short list of three consultants from the PPU data base; the municipality will then select and contract with a consultant on the list, using a TOR and contract prepared with assistance from PPU. This procedure is described in **Table 4**.
8. Other Procedures/Prior Commitments.  
Before approaching MIIU some municipalities may have started procurement processes or made commitments to service providers using principles or procedures different from those outlined in this document. If the PPU determines that assistance in such cases is called for, despite conflicts with its guidelines, the PPU will document in the initial agreement letter the process used to date.
9. Local Market Development, Affirmative Action.  
An important aspect of MIIU's mission is to support the development of local markets for the kinds of services that will be contracted for with MIIU funds. Similarly, MIIU has an obligation to support affirmative action principles whenever possible. MIIU's procurement and contracting activities will be guided by these development needs. The involvement of local firms identified by municipalities receiving MIIU funds, as well as the promotion of affirmative action principles, will be negotiated by the PPU with municipalities on a case-by-case basis, using local government principles and procedures whenever appropriate.
10. Conditions for the Withdrawal of MIIU Funding. MIIU's approach to procurement is designed to be "client-led," and the PPU's role in local government procurement involving MIIU funds is primarily advisory in nature. However, MIIU does have a fiduciary responsibility to insure that its funds are used in ways that promote the highest standards of competition, accountability, and transparency. Accordingly, MIIU reserves the right to withdraw its funding from any local government procurement, at any stage, if the PPU determines that those standards have been or likely will be compromised.

**Table 1**  
**SOLICITED PROPOSAL PROCEDURES**  
 (For procurements over R50.000)

PHASE	RESPONSIBILITY	TIME PERIOD/COMMENTS
1. Prepare TOR and publish RFP	Project Committee with advice from PPU	RFP Contents (for a BOT): Instructions to bidders; minimum design & performance standards; economic parameters; draft contract; bid form; performance securities, others.
2. Preparation and submission of proposals	Private Sector (pre-qualifiers only, for projects over R5 million; see Table 3)	Recommended time: 90 days from last advertisement until bid closing
3. Release of supplementary materials and/or pre-bid conference	Project Committee with advice from PPU	Pre-bid conferences only for projects above R5 million; to be held at least 45 days before bid deadline
4. Evaluation of technical and financial proposals	Project Committee, with advice from PPU, conducts evaluation, submits report to municipal executive	Two-stage evaluation: 1. Technical proposal -- engineering design; operational feasibility; environmental standards; positive financing; enhancements; 2. Financial proposal (opened only after technical ranking) bids analysed on basis of best returns, lowest cost to municipality.
5. Contract award	Project Committee with municipal executive	Notice to award or not award within 30 days of completed evaluation by Project Committee; notification of award by executive within 7 days of decision by Project Committee.

**Table 2**  
**UNSOLICITED PROPOSAL PROCEDURES**  
 (For procurements over R50,000)

[Note: This procedure has been suspended pending review by the full  
 MIIU Board of Directors]

PHASE	RESPONSIBILITY	TIME PERIOD/COMMENTS
1. Receive expression of interest or unsolicited proposal	municipality	An unsolicited PPP proposal may also include a feasibility study
2. Carry out MIIU application process (see MIIU Application Procedures)	municipality with advice from PPU	Identify project; designate official Project Manager/Project Committee; complete MIIU "Application Questionnaire"; submit official letter of transmittal
3. Preliminary review of basic qualifications	municipality with advice from PPU	To establish basic competence and allow the process to proceed
4. Satisfaction of "unsolicited proposal" requirements	Project Committee with advice from PPU	Must be new concept or technology, not on the list of priority projects already developed & approved, or a qualifying emergency procurement
5. Evaluation of project technical terms & financial proposal	Project Committee with advice from PPU	Two-stage evaluation as per "solicited" proposal process, see Table 1
6. "Direct" negotiation	Project Committee with advice from PPU	Technical terms and costs clarified through negotiation
7. Advertisement for "Price Test" competition after negotiations completed	Project Committee with advice from PPU	Notices for 3 consecutive weeks announcing project opportunity; no competing offers allowed after 60 days of last notice
8. Receive/review competing offers	Project Committee with advice from PPU	If cost proposal is at or below original offer, review technical proposal  If technical is as good as original, allow 30 days for original offeror to match cost  If technical is <u>better</u> than original, competing proposal becomes the new "original" unsolicited offer & price test begins again with Step 6
9. Contract award	Project Committee, with PPU assistance, reports to municipal executive	Notice to award or not award within 30 days of evaluation completion by Project Committee; notification of award by executive within 7 days of Project Committee decision; executive officially endorses that project is consistent with development programs of the municipality

**Table 3**  
**PRE-QUALIFICATION PROCEDURES FOR LARGE PROJECTS**  
 (Recommended for procurements over R5 million)

PHASE	RESPONSIBILITY	TIME PERIOD/COMMENTS
1. Prepare TOR and RFP, prepare and issue request for qualifications	Project Committee with advice from PPU	Advertise in newspaper once a week for three weeks; duration from 1st to 3rd week is 15 days; qualifications should cover organizational size & structure, experience, tech abilities, human and financial resource capabilities
2. Submission of prequalification documents	Private sector	At least 45 days
3. Evaluation of prequalification documents	Project Committee with advice from PPU	No time limit required; 15 days is recommended
4. Appeals by disqualified proponents	Project Committee considers appeal of disqualification	If objections are filed, the prequalification process is extended by approx. 30 working days to allow resolution

**Table 4**  
**SIMPLIFIED PROCUREMENT PROCEDURES**  
**FOR SMALL CONTRACTS**

(For procurements under R50,000)

PHASE	RESPONSIBILITY	COMMENTS
1. Prepare TOR	Project Committee with advice from MIIU	Statement & scope of work; budget; work schedule; reporting requirements
2. Review short list of three firms/consultants	Project Committee with advice from MIIU	MIIU will suggest a short list of 3 pre-qualified firms/consultants; final short list to be negotiated with municipality
3. Select firm/consultant	Project Committee with advice from MIIU	Selection on the basis of technical skills first, with cost negotiated
4. Contract	Project Committee with advice from MIIU	Including standard MIIU contract clauses

**MPPP PROJECT STATUS**

	City	Project Sector	Population Served	Capital Investment	Type of Contract	Feasibility Study by	Advisors	MPPP Grant	Amount Disbursed	Amt. to MIIU		Status
1	Bloemfontein	Transport	800 000 riders per yr	TBD	TBD	Buscon Consortium	Buscon Consortium	300,000	-	300,000	30,000	Buscon Consort. Started with investigations
2	Cape Town	Water/sanit	965 046 households	TBD	TBD	Gibb Africa	Gibb Africa	672,155	217,155	455,000	-	FS scope to be expanded
3	Dolphin Coast	Water/sanit	34 000 households	TBD	Concession	DBSA	DBSA, EN& F C&L	1,000,000	-	1,000,000	950,000	Negotiations underway with SAUR
4	Durban	Waste-to-energy	200 000 households	R450m	Concession	IFC	TBD	1,000,000	-	1,000,000	600,000	FS underway; to be evaluated in July
5	JNB Metro	1) Informal trading	inner city precincts	TBD	TBD	Urban Solutions	Urban Solutions	500,000	-	500,000	-	Feasibility study underway
		2) Solid waste	inner city precincts	TBD	TBD	Bohlweki Env. Consort	TBD N/A	500,000	-	500,000	62,000	Feasibility study underway
6	Khayalami	Wastewater	industries in Jukskei Basin	TBD	Concession	Booz-Allen (1st phase)		400,000	-	400,000	-	Next step: 2nd phase feasibility
7	Kimberley	Resort mgmt	N/A	TBD	TBD	Not yet done	Lood Spies & Assoc.	250,000	-	250,000	-	MIIU & city to assess next steps
8	Lekoa/Vaal	Water/sanit	1,000,000 plu	R2 34b F.A. R1.36b recur	Sect 21	Booz-Allen	Booz-Allen	600,000	-	600,000	600,000	Sect. 21 formed,
9	Nelspruit	1) Water/sanit (PPP)	240 000	R300m	Concession	DBSA	Consortium of advisors	2,947,000	2,047,816	899,184	701,357	Negotiations underway with Bi-Water, et al.
		2) Water/sanit (Capex)	240 000	R8 8m	Capex only	N/A	GFJ Consult Engineers	5,674,851	3,594,852	2,079,999	971,761	Tekwane development activities underway
10	Nkadameng	Water supply	50 000	R15m (1st phase)	TBD	ENRO Water Co 1	Consortium of advisors	250,000	-	250,000	-	Consortium advising re negotiations
11	Plettenberg Bay	Water/sanit, solid waste	43 066	TBD	TBD	Stewart Scott, Inc	Stewart Scott, Inc.	280,000	-	280,000	250,000	Feasibility study to be evaluated
12	Port Elizabeth	Water/sanit	1 007 620	TBD	TBD	BKS Consortium	BKS Consortium	1,000,000	55,566	944,434	300,000	Feasibility study proceeding
13	Richards Bay	Solid waste	350 000	R20m	TBD	Not yet done	TBD	451,000	-	451,000	-	Next steps under discussion w/MIIU
14	Stanger	Solid waste	TBD	TBD	TBD	Lombard & Ass/DBSA	Lombard & Ass/DBSA	505,000	-	505,000	174,000	Study of regional solid waste mgmt underway
15	Tzaneen	Solid waste	300 000	TBD	TBD	V3 Engineers	V3 Engineers	275,000	-	275,000	97,000	FS underway; report to be evaluated

TBD = To be determined

**TOTAL**

**16,605,006    5,915,389    10,689,617    4,736,118**

*YA*

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**MUNICIPAL PUBLIC PRIVATE PARTNERSHIPS PROGRAMME (MPPP)**

**MONTHLY REPORT**

**JUNE 1998**

**MUNICIPAL INFRASTRUCTURE INVESTMENT UNIT (MIUU)**

**PREPARED FOR:**

DEPARTMENT OF CONSTITUTIONAL DEVELOPMENT  
WHEAT BOARD BUILDING  
87 HAMILTON STREET  
PRETORIA

**CONTACT PERSON:**

Mr R A Kruger : (012) 334-0745  
Mr Zama Nofomela : (012) 334-0753

**PREPARED BY:**

MIUU  
2<sup>nd</sup> FLOOR DBSA BUILDING  
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**CONTACT PERSON:**

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**MIIU**

## **MUNICIPAL PUBLIC PRIVATE PARTNERSHIPS PROGRAMME (MPPP)**

**MONTHLY REPORT: JULY 15 1998**

### **MUNICIPAL INFRASTRUCTURE INVESTMENT UNIT (MIIU)**

#### **Background and Executive Summary**

On 31 March 1998 the Department of Constitutional Development transferred the MPPP programme to the MIIU, which had by then become a company legally able to be accountable for the programme. This transfer went with the responsibility for further management of the programme, including disbursements. In terms of the transfer the MIIU is required to report to the DCD on a monthly basis on the progress of the programme. An executive summary matrix of the projects is attached, as well as some graphics on the allocations and disbursements. This is followed by a report on each project giving the background as well as current status.

Progress on disbursement has been slow, in part due to the need for some of the projects to gain momentum, but also due to the logistics around payment. The programme requires that the MIIU disburse through the Provincial channels unless the local government client obtains delegation for direct reimbursement.

At the time the programme was handed over R5 915 389 of the programme allocation of R16 605 006 had been disbursed by DCD. There have been no further disbursements but the MIIU is dealing with claims amounting to close to R3 500 000 so this situation will change shortly. These claims emanate from Bloemfontein, Dolphin Coast, Durban, Johannesburg Metro, Lekoa Vaal Metro, Nelspruit, Stanger, and Tzaneen. Claims from Port Elizabeth and Plettenberg Bay are imminent. Except for Tzaneen, where work has been referred back to the consultants, any delays centre on the need to provide the MIIU with documentation that will satisfy audit scrutiny.

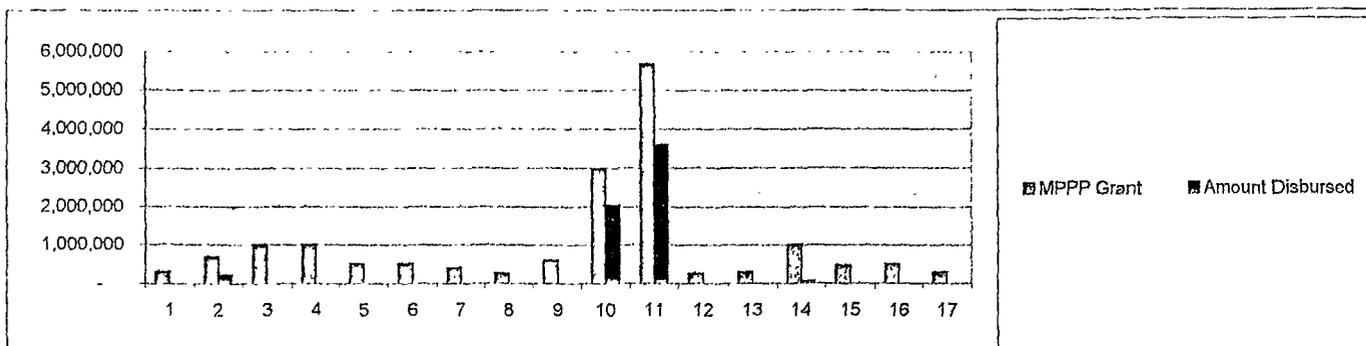
MPPP PROJECT STATUS

	City	Project Sector	Population Served	Capital Investment	Type of Contract	Feasibility Study by	Advisors	MPPP Grant	Amount Disbursed	Amt to MIIU	Status
1	Bloemfontein	Transport	800 000 riders per yr	TBD	TBD	Buscon Consortium	Buscon Consortium	R300 000	R0	R300 000	Buscon Consort Started with investigations
2	Cape Town	Water/sanit	965 046 households	TBD	TBD	Gibb Africa	Gibb Africa	R672 155	R217 155	R455 000	FS scope to be expanded
3	Dolphin Coast	Water/sanit	34 000 households	TBD	Concession	DBSA	DBSA,EN& F C&L	R1 000 000	R0	R1 000 000	Negotiations underway with SAUR
4	Durban	Waste-to-energy	200 000 households	R450m	Concession	IFC	TBD	R1 000 000	R0	R1 000 000	FS underway, to be evaluated in July
5	JNB Metro	1) Informal trading	inner city precincts	TBD	TBD	Urban Solutions	Urban Solutions	R500 000	R0	R500 000	Feasibility study underway
		2) Solid waste	inner city precincts	TBD	TBD	Bohlweki Env Consort	TBD N/A	R500 000	R0	R500 000	Feasibility study underway
6	Khayalami	Wastewater	industries in Jukskei Basin	TBD	Concession	Booz-Allen (1st phase)		R400 000	R0	R400 000	Next step 2nd phase feasibility
7	Kimberley	Resort mgmt	N/A	TBD	TBD	Not yet done	Lood Spies & Assoc	R250 000	R0	R250 000	MIIU & city to assess next steps
8	Lekoa/Vaal	Water/sanit	1,000,000 pl	R2 34b F A R1 36b recur	Sect 21	Booz-Allen	Booz-Allen	R600 000	R0	R600 000	Sect 21 formed,
9	Nelspruit	1) Water/sanit (PPP)	240 000	R300m	Concession	DBSA	Consortium of advisors	R2 947 000	R2 047 81	R899 453	Negotiations underway with Bi-Water, et al
		2) Water/sanit (Capex)	240 000	R8 8m	Capex only	N/A	GFJ Consult Engineers	R5 674 851	R3 594 85	R2 079 999	Tekwane development activities underway
10	Nkadimeng	Water supply	50 000	R15m (1st phase)	TBD	ENRO Water Co 1	Consortium of advisors	R250 000	R0	R250 000	Consortium advising re negotiations
11	Plettenberg Bay	Water/sanit, solid waste	43 066	TBD	TBD	Stewart Scott, Inc	Stewart Scott, Inc	R280 000	R0	R280 000	Feasibility study to be evaluated
12	Port Elizabeth	Water/sanit	1 007 620	TBD	TBD	BKS Consortium	BKS Consortium	R1 000 000	R55 566	R944 434	Feasibility study proceeding
13	Richards Bay	Solid waste	350 000	R20m	TBD	Not yet done	TBD	R451 000	R0	R451 000	Next steps under discussion w/MIIU
14	Stanger	Solid waste	TBD	TBD	TBD	Lombard & Ass/DBSA	Lombard & Ass/DBSA	R505 000	R0	R505 000	Study of regional solid waste mgmt underway
15	Tzaneen	Solid waste	300 000	TBD	TBD	V3 Engineers	V3 Engineers	R275 000	R0	R275 000	FS underway, report to be evaluated

TBD = To be determined

MPPP GRANT DISBURSEMENT AS AT 30 JUNE 1998

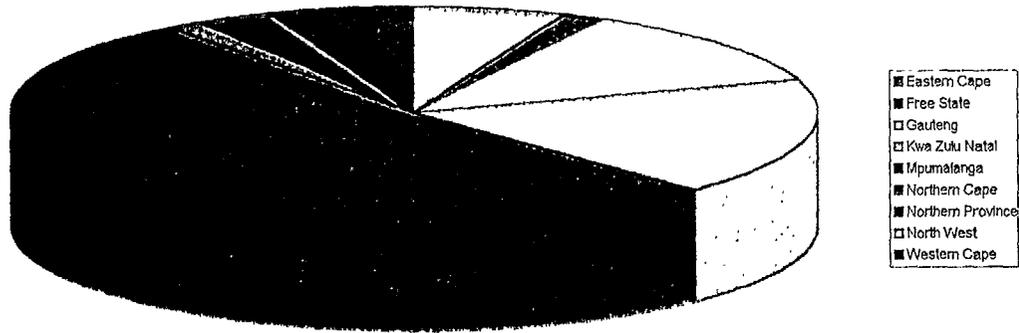
	City	Project Sector	MPPP Grant	Amount Disbursed	Amt. to MIU
1	Bloemfontein	Transport	300,000	-	300,000
2	Cape Town	Water/sanit	672,155	217,155	455,000
3	Dolphin Coast	Water/sanit	1,000,000	-	1,000,000
4	Durban	Waste-to-energy	1,000,000	-	1,000,000
5	JNB Metro	1) Informal trading	500,000	-	500,000
	JNB Metro	2) Solid waste	500,000	-	500,000
6	Khayalami	Wastewater	400,000	-	400,000
7	Kimberly	Resort mgmt.	250,000	-	250,000
8	Lekoa/Vaal	Water/sanit	600,000	-	600,000
9	Nelspruit	1) Water/sanit(PPP)	2,947,000	2,047,816	899,184
	Nelspruit	2) Water/sanit (Capex)	5,674,851	3,594,852	2,079,999
10	Nkadameng	Water supply	250,000	-	250,000
11	Plettenberg Bay	Water/sanit/solid waste	280,000	-	280,000
12	Port Elizabeth	Water/sanit	1,000,000	55,566	944,434
13	Richards Bay	Solid waste	451,000	-	451,000
14	Stanger	Solid waste	505,000	-	505,000
15	Tzaneen	Solid waste	275,000	-	275,000
			16,605,006	5,915,389	10,689,617



**MPPP Grant Allocation by Province**

Province	MPPP Grant	%
Eastern Cape	1,000,000	6
Free State	300,000	2
Gauteng	2,000,000	12
Kwa Zulu Natal	2,956,000	18
Mpumalanga	8,621,851	52
Northern Cape	250,000	2
Northern Province	525,000	3
North West	-	0
Western Cape	952,155	6
	16605006	100

**MPPP Grant By Province**



## BLOEMFONTEIN TRANSPORT PROJECT

**Description and Rationale:** Bloemfontein's municipal bus service involves approximately sixty buses, in addition to maintenance and repair facilities. The service currently operates at a deficit, projected to be as large as R6.4 million in 1997/98. In addition, various areas that were amalgamated into the Bloemfontein service area in 1994 are under-served by the city's transport system.

The city's revenue base has diminished over the last several years because of regional declines in certain businesses. The city's budget does not allow for appropriate, cost-effective maintenance of the existing system, much less needed expansion.

City officials concluded that a private firm might be able to operate the bus system profitably because of more flexible management as well as the ability to make investments necessary to upgrade equipment and repair facilities. The city engaged VKE Engineers to prepare a preliminary study of Bloemfontein's strategic transport options.

**Population Served :** 800 000 people per year use the bus service.

**Capital Investment :** To be determined.

**Type of Contract :** To be determined

**Private Sector Company:** To be determined

**Period of Contract:** To be determined.

**Project Feasibility Study by:** Messrs Buscon Consortium

**Advisors:** Messrs Buscon Consortium

**Status of Project:** Public notices calling for submission from parties interested in conducting the investigation appeared in the press during January 1998. Proposal call documents were prepared in collaboration with Mr De Saint-Laurent of the DBSA. After consideration of the submissions, Messrs Buscon Consortium was appointed to conduct the investigation which commenced during March 1998.

**MPPP/DCD Grant:** R300 000 for the project preparation study.

**Amount Disbursed:** R0

**Amount Transferred to MIU:** R300 000.

**Comments:**

The study by Messrs Buscon Consortium has been very slow due to delays caused mainly by the Provincial Department of Education which had to provide permission for a survey questionnaire to be distributed throughout the affected schools. Permission was only granted in June 1998.

## CAPE TOWN WATER AND SANITATION PROJECT

**Description and Rationale :** During the restructuring of local government, large disadvantaged areas were incorporated into the City of Cape Town. Government policy, and the expectations of community residents, required the city to respond rapidly with options for improving service delivery.

The city commissioned a pre-feasibility study to examine service delivery problems and potential solutions in disadvantaged areas with approximately 70 000 households. Only 23 000 of those households are billed for water, only half of those households have water meters. Water loss in the older areas is approximately 50%. As much as 80% of the population in these areas earns less than R1500 per month. The capital expenditures required to extend and upgrade the system to these areas was conservatively estimated at R38 million over the next three years.

The entire Cape Town water supply system is incapable of meeting the needs of these disadvantage areas, while maintaining adequate service provision to other areas in its jurisdiction. The capital investment needs for these poorer areas mean that simple management efficiencies will not be enough to generate needed funds. Consequently, the city is examining the possibility of exploring a public private partnership that will upgrade, extend, and manage water supply in poorer areas.

**Population Served :** 965 046 households

**Capital Investments (est.) :** To be determined

**Type of Contract :** To be determined

**Private Sector Company :** To be determined

**Period of Contract :** To be determined

**Project Feasibility Study by:** Gibb Africa

**Advisors:** Gibb Africa

**Status of project:** "Pre-feasibility study" completed Further investigation necessary.

**MPPP/DCD Grant :** R672 155

**Amount Disbursed :** R217 155

**Amount** R455 000

Transferred to

MIIU :

Comments :

Gibb Africa completed a pre-feasibility investigation which has been workshopped with various stakeholders. The consultants brief was restricted to poor areas only, which for the MIIU raises questions of project sustainability. The MIIU held a discussion with the City with the hope of expanding the scope of the investigation towards a more integrated approach to provision of water and sanitation. Further progress has been halted while Cape Town consider their strategic options.

## DOLPHIN COAST WATER AND SANITATION PROJECT

**Description and Rationale :** Over a period of years, water and sanitation services in what is now the Dolphin Coast area were supplied by a corporation, a joint services board, and finally by the Durban Metropolitan Council. However Durban took over only those functions in the Metro Council area. Services outside that area were left to the Borough of Dolphin Coast.

The service facilities inherited by Dolphin Coast catered only to the needs of the established towns; virtually no services have been provided to informal settlements such as Nkobongo (pop. 4 000), Shakas Head (pop. 3 000), and Etete (10 000). Major parts of Salt Rock and Chakas Rock, as well as the entire area of Tinley Manor Beach have no sewer facilities, despite evidence of groundwater pollution. The main water supply lines to Shakaskraal and Tinley Manor Beach are in near crisis condition. Even the basic water and sanitation facilities in Ballito have not been upgraded in nearly 25 years, despite rapid population growth over that period

Dolphin Coast concluded that resources were not available from normal sources to cover the tremendous costs of necessary expansion and improvements to the system. These costs include huge capital financing needs, sophisticated technical and institutional resources need to manage the expansion program, as well as maintenance and operational costs, some of which will be difficult to recover from informal settlement areas. After a series of studies and meetings with other TLCs, DCD, DBSA, as well as the borough's technical consultants and other service providers, the Dolphin Coast Council concluded that the only viable solution to the borough's problems was to involve the private sector in service provision.

**Population served :** 34 000

**Capital Investments (est.) :** To be determined

**Type of Contract :** BOT Concession

**Private Sector Company :** SAUR was selected preferred bidder in April 1998

**Period of contract :** 25-30yrs

**Project Feasibility study by :** DBSA

**Advisors:** DBSA Edward Nathan & Friedland (legal), Coopers (Financial)

**Status of project:** In negotiation

**MPPP/DCD Grant :** R1 000 000

**Amount  
Disbursed :** R0

**Amount  
transferred to  
MIU :** R1 000 000

**Comments :** Both regional and national offices of the South African Municipal Workers Union have threatened to bring the process to a halt.

## DURBAN ENERGY FROM WASTE PROJECT

**Description Rationale :** & The existing Durban landfill site at Bisasar emits landfill gas sufficient to generate 5MW of electricity over the next 40 years. This gas is currently flared, with the attendant environmental consequences, and no energy recovered. The quantity of municipal solid waste received at the site is in the order of 285 000 tonnes per year, sufficient to generate up to 40 MW of electricity in a waste-to-energy plant. None of this waste is currently used as a fuel for generating electricity. Instead, dumping the waste in the landfill has created leachate, a liquid waste product caused by putrefaction, which must be collected and treated in a wastewater treatment facility.

The impact of the foregoing is that useful resources – landfill gas and municipal solid waste – are not being utilised. Further, the leachate created by the existing landfill requires constant collection and treatment in order to avoid contamination of Durban's drinking water aquifer.

The project envisages the construction of possibly two facilities (1) an electricity generating plant which burns the municipal solid waste as its fuel and/or (2) a smaller electricity generating facility which burns the landfill gas as its fuel. By so doing, the life of the existing landfill could be extended by more than twenty years by reducing the volume of waste deposited therein.

Durban Metro sought MPPP funding for a feasibility study because: (1) the approximate capital cost of the project, R450 million, is in excess of its capital expenditure capability; (2) if the project is shown to be economically viable, it is likely that the capital may be raised by the private sector through the award of a concession after public tenders; (3) the project can demonstrate how a public/private partnership can be utilised for the provision of two essential municipal services, disposal of solid waste, and additional provision of electricity to the greater Durban community; and (4) there exists sufficient institutional capacity in Durban to immediately proceed with the project.

**Population Served :** 200 000 homes.

**Capital Investment :** R450 million

**Type of Contract :** of A concession is envisaged

**Private Sector Company :** To be determined

**Period of Contract :** of To be determined

**Project FS by :** International Finance Corporation, Corporate Finance Services Department.

**Advisors :** To be determined

**Status of Project :** of Feasibility study is underway

**MPPP/DCD Grant :** R1 000 000

**Amount** R0  
**Disbursed :**  
**Amount** R 1 000 000  
**Transferred to**  
**MIIU :**

**Comments :** The feasibility study currently being conducted by the IFC was delivered in July 1998, and will now be considered.

## JOHANNESBURG METRO INNER CITY PROJECTS

**Background and Rationale :** The Johannesburg Metro applied to DCD under the initial MPPP programme to conduct an investigation into the problems in the inner city relating to informal trade and related waste collection. Prior to the formation of the MIIU staff members had some contact with the Johannesburg Inner city programme manager, under whom this project falls. This resulted in the projects as envisaged being oriented towards producing PPP proposals and frameworks, as opposed to pure research.

The Project has now been broken into two sub components, the first which will focus on inner city informal trading and the second on waste management within the inner city. Informal trade in the city is not regulated and is over-traded. There is no enforcement or area demarcation and hence it is difficult for the city fathers to stamp any vision for the function on the city. Consequences at present include serious dissatisfaction with the status quo amongst many stakeholders – including retailers, investors, and residents. The informal trading study therefore has to: describe the status quo, including trading patterns, pedestrian and commuter movement patterns, margins on trade, profile of traders, etc.; arrive at a vision for future trading in the city, including opportunities for street theatre, theme areas, events, and so on; suggest demarcations by street for trading rights and variations thereof which will be carried through for enforcement by the city; divide the area into discrete opportunities for the private sector to enter into trading; and suggest the conditions, rights and obligations that will go with these opportunities. This will include the regulation of numbers of traders. The next stage of the assignment will involve the packaging of these opportunities for potential operators, plus the bid and award processes.

Partly as a result of the trading problem described above, and difficulties in obtaining access, the inner city suffers from severe waste disposal problems. A separate study is focusing on these problems, understanding them, dimensioning them, and suggesting possible ways in which the cleansing function in the inner city could be outsourced. A clear allocation of responsibility will need to be drawn between the duties to be performed by the market traders and those to be performed by the collection and disposal concessionaire. This project will also result in the packaging of (a) PPP opportunity(ies), and the bid and award processes

**Population Served :** Inner city precincts

**Capital Investment :** To be determined

**Type of Contract :** To be determined.

**Private Sector Company :** To be determined.

**Period of Contract :** To be determined

**Project Feasibility Study by :** For informal trading, a consortium led by Urban Solutions, Bohlweki, Environmental Consortium for solid waste.

**Advisors :** As above.

**Status of :** Consortiums have been appointed on both projects, with the requirement that

**Project :** they liaise closely. The objective is to be in a position to call for proposals for trading opportunities and waste disposal before the end of 1998.

**MPPP/DCD Grant :** R 1 000 000 (R500 000 each)

**Amount Disbursed :** R0

**Amount Transferred to MIU :** R 1 000 000

**Comments :** MIU has been involved in scoping both of these projects and assisting in the solicitation of proposals, terms of reference, etc.

## KHAYALAMI REGIONAL INDUSTRIAL WASTEWATER TREATMENT

**Description and Rationale :** Presently, 100 of the more than 3700 industries established within the area of the Jukskei River basin are classified as "wet" (i.e., they release effluent from a premises). Khayalami has identified an urgent need for the development of a regional industrial wastewater treatment plant capable of handling the effluents of the surrounding industries and creating opportunities for the development of an industrial complex "for wet industries." But to be a cost-effective approach that comprehensively deals with the regions problems, development of the plant must involve the following characteristics:

- economies of scale;
- combined effluent streams to facilitate the removal of pollutants, creating cost effective processes;
- the possibility of chemical recovery for reuse purpose;
- segregation of industrial wastewater effluents to relieve problems experienced at existing "combined operation" municipal wastewater treatment plants;
- creation of a combined effort to solve pollution problems within the Jukskei River drainage basin;
- the establishment of a facility (for the first time) capable of meeting the needs of industry, creating an economic development incentive.

To accomplish in a cost-effective fashion, Khayalami has concluded that the private sector must be involved to handle a facility requiring such sophisticated technology and huge capital investment. The city has also concluded that private sector involvement is highly appropriate; private firms are most at risk from being constrained by municipal treatment systems incapable of handling the industrial process flows, and incapable of meeting future demands resulting from industrial growth.

**Population Served :** The population(s) to be serviced by the proposed improved system(s) are primarily the (i.e., 100) "wet" industries within the Jukskei River Basin.

**Capital Investment :** To be determined

**Type of Contract :** BOT, possibly a Concession.

**Private Sector Company :** To be determined  
**Period of Contract :** To be determined

**Project Feasibility Study by :** Booz-Allen Hamilton South Africa (first phase, paid for by ERWAT).

**Advisors :**

**Status of Project :** City officials and advisors are now evaluating the first phase of the Booz-Allen feasibility study

**MPPP/DCD Grant :** R 400 000

**Amount Disbursed :** R0

**Amount Transferred to MIU :** R 400 000

**Comments :** Metro Council and MIU need to agree on next steps. Project needs revitalisation.

## KIMBERLEY RESORT MANAGEMENT PROJECT

**Description and Rationale :** The municipality of Kimberly currently manages four pleasure resorts, two of which it owns (Riverton and Langley), and two that are managed on behalf of the Northern Cape Provincial Legislature (Rekaofella and Transka). Each of these resorts operates at a deficit, with the combined deficit for the four amounting to R 1 564 490 for the 1996/97 fiscal year.

The municipality cannot continue to fund such a deficit. Nor can the city afford the sort of capital investment in basic infrastructure and accommodations, which its internal analysis suggests is needed to make the resorts profitable. The city's capacity to borrow is limited, and the upgrading of essential municipal services must take precedence over investment in the resorts.

The city has proposed to examine ways of transferring responsibilities for resort management and capital investment to the private sector. A preliminary analysis, done by a local consultant, recommends the establishment of a Section 21 company as an alternative way of managing the resorts. The study's argument is that "corporatisation" will provide the dedicated and capable managers of the resorts with the flexibility needed to generate profits on operations, while insuring that the resorts continue to be managed in the public interest.

**Population Served :** Resorts operate near maximum capacity during holiday season; no customer totals provided

**Capital Investment :** To be determined

**Type of Contract :** To be determined

**Private Sector Company :** To be determined.

**Period of Contract :** To be determined

**Project Feasibility Study by :** None prepared.

**Advisors :** Lood Spies & Associates

**Status of Project :** City officials are evaluating the conclusions of the preliminary analysis, and are also considering other public-private partnership options such as direct sale. It is unlikely that the resorts will have significant profit generating potential in their current use.

**MPPP/DCD Grant :** R250 000 to investigate alternatives.

**Amount Disbursed :** R0

**Amount Transferred to MIIU :** R 250 000

## LEKOA/VAAL WATER AND SANITATION PROJECT

**Description and Rationale :** In June 1996, the Lekoa/Vaal Metropolitan Council launched a three-year "Sanitation Services Enabling Project," to cope with what the city characterised as a "near collapse" of its provision of sanitation services. The city faced a situation in which its sanitation facilities were not performing in compliance with the requirements of the Water Act, nearby river systems were being polluted. 25% of the wastewater generated in the area was not even reaching existing plants. If the service area networks were effectively managed, the city estimated that existing treatment system would be operating at 12% over current capacity. All of these challenges were confronting an area with a weakly diversified economy, where average income was low, and unemployment high (21%).

The Enabling Project is helping to strengthen the city's management of sanitation services somewhat, but the project has also focused attention on the need for huge capital investments in all areas of urban infrastructure service provision in the Lekoa/Vaal area. The city estimates that R2.7 billion will be required to develop and maintain a full level of urban services over the next two decades.

The Lekoa/Vaal budget is simply too small to operate and maintain current service levels, much less provide the kind of investment necessary to adequately address backlogs and extend appropriate levels of service to current and future residents.

The size of these service provision problems has forced the city to consider public-private partnerships as one option for solution. The city has been encouraged by progress made under the sanitation enabling project, as well as strong community support.

**Population Served :** Approximately 500 000

**Capital Investment :** To be determined

**Type of Contract :** Under the MPPP the DCD agreed to the formation of a Section 21 water company

**Private Sector Company :** N/A

**Period of Contract :** N/A

**Project Feasibility Study by :** Booz-Allen & Hamilton (SA) Ltd

**Advisors :** Same

**Status of Project :** The city has transformed its water and sanitation utility into a non-profit, Section 21 enterprise known as the Lekoa Water Company.

**MPPP/DCD Grant :** R 600 000

**Amount  
Disbursed :** R0

**Amount  
Transferred to  
MIIU :** R600 000

**Comments :** The Section 21 company has not addressed the capital requirements of the proposed improvements.

## NELSPRUIT WATER & SANITATION CONCESSION

**Description & Rationale :** The jurisdiction of the Nelspruit Transitional Local Council changed dramatically in 1994, when its boundaries were expanded to include areas previously managed by the "self governing state" of Kangwane. Virtually overnight, the population of Nelspruit increased ten times (24 000 to 240 000), the area of the jurisdiction increased by eight times, but the total income of the jurisdiction increased by only 37 percent.

The impact of the expansion in terms of urban service coverage was striking: the number of residents per length of water pipe increased from 110 to 601, per length of sewer pipe, from 96 to 830. In other words, the additional population was grossly under-served by basic urban services, and largely unable to finance needed capital investment through tariff payments.

Nelspruit TLC reviewed a number of options for meeting its infrastructure needs, including a variety of schemes for using the existing municipal workforce more efficiently and better managing existing assets. However, the city's capital budget was only a fraction of the amount needed to pay for essential system expansion, even under the most optimistic forecasting scenarios. After a number of feasibility studies, as well as a socio-economic survey of beneficiaries in the city's expanded jurisdiction, Nelspruit concluded that a public-private partnership represented the only alternative with a reasonable chance of securing for the city the kind of massive investment needed.

Nelspruit's PPP design calls for a private concession company to take over, manage maintain, build, rehabilitate, and transfer back to the city after 30 years all the infrastructure assets related to the city's provision of water and sanitation services. The company will be responsible for metering, billing, revenue collection, as well as capital investments to progressively extend water and sanitation services to under-served areas. Existing assets will not be sold to the company; existing municipal staff working in the Council's water and sanitation sectors will be taken over by the company on same or better conditions of service; local consultants, contractors, etc., must be used in the execution of the contract, as part of a local employment-generation strategy approved by the Council. The Council will regulate the contractor's activities, including all tariff setting, asset maintenance, and new asset construction and/or acquisition. The company must provide the Council with regular financial reports, penalties will be imposed for failure to adhere to pre-determined service performance criteria.

<b>Population Served :</b>	240 000
<b>Capital Investments (est.) :</b>	R280 million, inclusive of Government Grants
<b>Type of Contract :</b>	BOT Concession
<b>Private Sector Company :</b>	Bi-Water/Metsi-a-Sechaba was selected preferred bidder on 10 October 1997
<b>Period of Contract</b>	30 years

**Project Feasibility Study by :** DBSA

**Advisors:** DBSA, Value Ad, Edward Nathan and Friedland (legal), Coopers and Lybrand (financial), BKS (engineering)

**Status of project :** In Negotiation; the Council hopes to sign the agreement by the end of August. There is strong commitment from both the Council and the preferred bidder to reach consensus on the agreement as soon as possible.

**MPPP/DCD Grant :** R2 947 269

**Amount Disbursed :** R2 047 816

**Amount Transferred to MIIU :** R899 453

**Comments :** The negotiation process between the Nelspruit TLC and Bi-Water/Metsi-a-Sechaba resumed at the end of April 1998 following a five month suspension due to opposition from the South African Municipal Workers Union and other parties against private sector provision of infrastructure.

## NKADIMENG RURAL WATER SUPPLY SCHEME

**Description and rationale :** The Nkadimeng area under consideration is made up of eight villages situated in the Southern District of the Northern Province. The villages of Manganeng, Marulaneng, Phaahla Manoge, Mathibeng, Malegale, Tshatane, Madibaneng and Maila Mapitsane. have an estimated population of 52 000. The current supply of water consists of boreholes in each village, some with diesel engines and others with handpumps. The individual schemes are managed by the department of Water Affairs and Forestry, and the yield of the boreholes is still to be determined. The levels of service provided from the schemes are mostly below the basic RDP standards.

The project under investigation was born out of discussions between the department of Water Affairs, the Northern District Council, the Lepelle Northern Water Board, two Transitional Local Councils and a private sector company (ENRO) which had proposed to operate a rural water scheme using the Nkadimeng dam as the primary water source. The project involves the enhanced delivery of bulk and reticulated water to the supply area on a partial concession basis – i.e. the supplier will not take over the functions of collection and billing. The proposal by the private firm has stimulated consideration by the Northern District Council of its basic contract negotiating position with regard to such a public private partnership, including its position on things such as pricing arrangements, performance penalties, tariff setting mechanisms, required standards of delivery, guarantees required, and so on.

**Population Served:** The population to be serviced by the proposed improved system is approximately 50 000

**Capital Investment:** R15 million (Phase 1)

**Type of Contract:** To be determined.

**Private Sector Company:** To be determined

**Period of Contract :** To be determined

**Project Feasibility Study by :** ENRO Water Company 1 (Bidder's FS)

**Advisors :** A consortium comprising Africon, Dlamini Incorporated and Matlala Incorporated has been appointed by the NDC to prepare for negotiations with ENRO. NDC should be in a position to give to ENRO a revised term sheet on which to base their offer by the end of July 1998.

**Status of Project :** Consortium will advise Northern District Council (NDC); prepare feasibility study and negotiating principles for NDC; will enter negotiations with bidder on behalf of NDC

**MPPP/DCD Grant :** R250 000 for the feasibility study

**Amount Disbursed :** R0

**Amount Transferred to** R 250 000

**MIU :**

**Comments :**

This project was approved into the MPPP pipeline as a result of an unsolicited proposal by ENRO Water Company 1. The legality of proceeding is being confirmed. Given this background the MIU will assist the NDC in concluding an agreement that is transparent, defensible, and in the public interest. If such an agreement cannot be reached, NDC will have the opportunity to re-bid the process.

**PLETTENBERG BAY WATER, SANITATION, AND SOLID WASTE DISPOSAL PROJECT**

**Description and Rationale :** Plettenberg Bay requires a comprehensive approach to address a number of urgent urban service delivery problems. The municipal area has expanded from a population of 25 856 to a new demarcation of 43 066. The wastewater treatment facility operates as a regional scheme, but based on present rates of growth and the inclusion of outlying villages and hamlets in the municipal service area, the capacity of the facility will be exhausted in one or two years. The capacity of the existing water purification facility is already being exhausted during peak holiday periods, when the population more than doubles to over 100 000 people. The demand for water is expected to increase by 6% per year over the next decade. Expansion of this system must begin immediately. The need to expand the existing solid waste disposal site has already been recognised by the city, and consultants have been hired to consider various options.

The city recognises that current operations and maintenance of its urban service delivery system is beyond its financial capacity, given income levels and service requirements and borrowing capacity of the council. The size of the existing service backlog, plus rapid population growth, mean that responsible capital investment needed to provide even minimal service levels over the next few years is impossible. Faced with all of these service delivery problems at once has helped convince the city to investigate private participation in the provision of urban services. An initial assessment was conducted by Stewart Scott into service delivery in the area. This was funded by the MPPP grant and has led to the further work being conducted now.

**Population Served:** The population to be serviced by the proposed improved system is 43 066 (permanent pop.), this figures increases to as much as 90 000 over the December/January holiday period.

**Capital Investment:** To be determined

**Type of Contract :** To be determined.

**Private Sector Company :** To be determined.

**Period of Contract :** To be determined

**Project Feasibility Study by :** Consortium led by Stewart Scott, Inc

**Advisors :** Stewart Scott, Inc.

**Status of Project :** A feasibility study, under a consortium led by Stewart Scott has commenced. The study should be ready for consideration by Plettenberg Bay in August 1998.

**MPPP/DCD Grant :** R 280 000 for the feasibility study.

**Amount Disbursed :** R0

**Amount** R 280 000  
**Transferred to**

**MIIU :**

**Comments :** MIIU spent some time persuading Plettenberg Bay to continue as they had become stalled through Union fears.

## PORT ELIZABETH WATER AND SANITATION PROJECT

### **Description And Rationale**

Port Elizabeth was the first integrated local authority in 1994. As with many cities in South Africa, integration brought with it the need to expand urban services to nearby communities with little or no service infrastructure, and little capacity to pay for capital investment via tariffs. Rapid population growth, at 2.75% per year, has also contributed to the need for expansion of basic service provision. In 1996, Council appointed an internal task team to identify mechanisms to ensure increased efficiency in service delivery and to allow for the increased demands placed thereon by the larger City. Among the mechanisms identified were the possible private-sector provision of major services, the size of which, in terms of number of employees and financial requirements are so great that they are probably beyond the capacity of the present employees, and the reasonably expected financial capacity of the City. The task team identified that branch of the City Engineer's Department that undertakes the functions of Water Supply and Distribution, Sewerage and Wastewater Treatment as a likely candidate.

The task force noted that approximately 40 000 water consumers are not formally metered. The current Department work force undertaking the functions of Water Supply and Distribution, Sewerage and Wastewater Treatment, numbers 927, by international standards, a comparatively high staff complement. Additionally, they found a need for extensive basic maintenance, which had been previously deferred. The result has been high levels of unaccounted for water, and considerable deficits in operating budgets. In 1996/97, those deficits reached R5.6 million for water and R15.3 million for sanitation.

The City considered a variety of options for solving its problems in this sector. With the assistance of World Bank consultants, the City Treasurer undertook a modelling exercise to test the feasibility of a concession agreement for the supply of water and sanitation services by a private sector firm. The study found that such a concession could reduce unaccounted-for-water by 8%, improve collection efficiency by 10%, reduce the cost of long-term borrowing by at least 120 basis points, and improve capital expenditure efficiency by 10%. The MIU considers that these estimates are conservative.

The City concluded that the findings of this and other investigative studies appeared to support further research into possible private sector participation in the City's provision of water supply, distribution, sewerage, and waste water treatment service. The largest spectrum of possible private sector participation options should be examined.

In October 1997, the City issued tenders to select an experienced consultancy firm to carry out a detailed feasibility study, to examine potential public-private partnerships, as well as other options, consistent with South African law.

<b>Population served</b>	1 007 620 (includes, Port Elizabeth Metropole, Uitehage and Despatch)
<b>Capital Investments (est.)</b>	To be determined
<b>Type of Contract</b>	To be determined
<b>Private Sector Company</b>	To be determined
<b>Period of</b>	To be determined

**contract  
Project  
Feasibility  
Study by:**

Consortium led by BKS. Commenced in June 1998

**Advisors:**

**Status of**

**project:**

**MPPP/DCD** r1 000 000

**Grant**

**Amount** R55 566

**Disbursed:**

**Amount** R944 434

**transferred/MIU**

## RICHARDS BAY SOLID WASTE DISPOSAL PROJECT

**Description and Rationale** The Mhlathuze sub-region is facing an increasingly urgent situation with regard to solid waste disposal. This sub-region includes the following towns and areas: Richards Bay (including Nseleni, Esikhawini, Vulindlela and Unizul), Empangeni (including Ngwelezana), Felixton, as well as interspersed peri-urban and rural areas.

The generation of solid waste in the area continues to grow precipitously, but sites available for disposal are decreasing in number and capacity. Most of the currently operating public sites are inappropriate for expansion because of proximity to residential areas and/or risk of polluting ground or surface water. The Department of Water Affairs and Forestry has withdrawn the operating permit of the Richards Bay waste disposal site because of groundwater pollution risks. Of the remaining public sites, only the Empangeni/Ngwelezana Waste Disposal site has a valid operating permit, and that also may be withdrawn by DWAF because of pollution risks.

<b>Population served</b>		350 000
<b>Capital Investment (est)</b>		R20 000 000
<b>Type Contract</b>	of	To be determined
<b>Private Sector Company</b>		To be determined
<b>Period Contract</b>	of	25 years
<b>Status project</b>	of	See comments
<b>Project Feasibility Study by:</b>		Not yet done
<b>Advisor/s</b>		DBSA
<b>MPPP/DCD Grant</b>		R451 000
<b>Amount Disbursed</b>		R0
<b>Amount Transferred to MIU :</b>		R451 000

**Comments** The Mhlathuze Waste Disposal Steering Committee is still attempting to get a site permitted by DWAF for general household waste. The cost of the investigation to date has been around R550 000 funded by the Uthungulu Regional Council with only a small prospect of a site permit being issued by DWAF due to adverse geological conditions. Richards Bay may be forced to look further inland for a prospective site. This raises the prospect of opening a

dual use site that would accept household waste from Empangeni but also hazardous and toxic waste from industries. Due to the heavy costs related to further investigations into the waste site, the initial DCD grant allocated for project preparation will not be adequate. The investigation may also have to be restructured into a regional investigation. The consultant contracted to create a waste data base should have findings in place by the end of July. These findings will give a good indication as to whether a dual use site for both hazardous and regular waste is feasible, and will also help with the siting of such a facility.

## STANGER SOLID WASTE PROJECT

**Description and Rationale** The search for an appropriate solid waste disposal site at Stanger was initiated thirteen years ago. Currently, the TLC is using a site just outside Stanger, which has been denied an operating permit by the Department of Water Affairs and Forestry because of its failure to meet DWAF standards.

As the need for safe and efficient solid waste disposal has grown over the last four years, twenty different sites have been investigated along with a variety of management options. After the dissolution of the Port Natal Ebhodwe Joint Services Board, the responsibility for solid waste disposal in the area was transferred to Durban Solid Waste. That organisation was prepared to provide Stanger with waste removal and disposal services, but excessive transport costs resulted in fees that were intolerably high for the Stanger TLC.

For a cost-effective, long-term solution to its problems, the TLC concluded that it had no alternative but to pursue the option of establishing its own certificated disposal site, together with ancillary operations. To this end, the TLC has invited other Local Councils to become part of a sub-regional scheme. The TLC has identified a proposed disposal site at Gledhow, situated on land owned by Illovo sugar. Preliminary consulting studies suggest that the site will meet DWAF requirements for an operating permit.

In order to meet the expected needs for investment capital, as well as the institutional management capacity necessary for cost effective, revenue-generating operations, the TLC has concluded that a public private partnership is the mostly viable alternative for the delivery of these services.

<b>Population served</b>	To be determined
<b>Capital Investments (est.)</b>	To be determined
<b>Type of Contract</b>	To be determined
<b>Private Sector Company</b>	To be determined
<b>Period of contract</b>	To be determined
<b>Project Feasibility Study by:</b>	Lombard and Associates (Landfill Site investigation),
<b>Advisors:</b>	DBSA is lead advisor
<b>Status of project:</b>	Feasibility study with landfill site investigation
<b>MPPP/DCD Grant</b>	R505 000
<b>Amount Disbursed:</b>	R0

**Amount Transferred to MIU** R505 000

**Comments** An investigation by Lombard & Associates was funded by the DBSA to investigate a regional options for the whole of Coastal North East Kwazulu-Natal's waste problems. All the TLCs from Dolphin Coast up to Richards Bay are either dumping illegally, or have limited or no air space available in their sites. The result of the study suggests that Empangeni and Richards Bay get together and use rail to transport waste; Isithebe, Mandini and Sappi get together and that Stanger and Dolphin Coast team up. There is a possibility that that Stanger and Dolphin Coast may not have to develop their own site, and that their waste could be railed to a site centred around Sappi which would also cater for Mandini and Isithebe. This option will be the first to be investigated as soon as Dolphin Coast and Stanger TLCs agree on participating together. A steering committee has been established between Dolphin Coast, Stanger, Mandini, Sappi Kraft and Isithebe to look into the feasibility of a regional solid waste development. Lombard and Associates have been retained to undertake the study. The MIU will monitor progress and may have to open discussions with DWAF on alternative ways to assist the region

## TZANEEN REGIONAL SOLID WASTE COLLECTION AND DISPOSAL

**Description & Rationale** The Transitional Local Council of Tzaneen must assume responsibility for solid waste generated in the Duiwelskloof service area, as well as its own. The Duiwelskloof solid waste disposal site has been in operation since 1921, and its capacity for further effective use has been exhausted. However, Tzaneen's disposal site is incapable of fully supporting its own, recently extended service areas, much less a combination of the two areas.

The small satellite (transfer) stations for waste collection, reduction and compaction that operate around the TLC's region were never intended to operate as waste disposal site facilities. These smaller stations are overloaded with point source materials and retainage due to the insufficient capacity of the main facilities. The dramatic increase in population served exacerbates the situation.

The Tzaneen-Duiwelskloof TLCs elected to look at their waste disposal options have appointed a consultant (V3 Consulting Engineers) to conduct a feasibility study regarding possible site selections and conditions for design and development. Thus far, the consultant has surveyed the region for suitable sites, investigated ramifications of choosing one versus another, and performed geotechnical and geohydrological evaluations.

**Population Served :** 300 000

**Capital Investment :** To be determined

**Type of Contract :** To be determined

**Private Sector Company :** To be determined

**Period of Contract :** To be determined.

**Project Feasibility Study by :** V3 Consulting Engineers.

**Advisors :** V3 Consulting Engineers

**Status of Project :** A public hearing was held recently to consider the consultant's preliminary report. Both public officials, as well as community groups, expressed support for the kind of facility proposed in the report. As a result, the consultant has been asked to move forward with in-depth geological and geohydrological studies and more elaborate facilities' design proposals.

A workshop was conducted to present different options available to the TLCs for private sector participation. A decision by the TLCs to retain control and direction of the inter-regional functions was made. The TLCs are currently considering the extent of private participation in the construction and management of the facility.

**MPPP/DCD Grant :** R 275 000

Amount Disbursed : R0

Amount Transferred to MIIU : R 275 000

MIIU Project Pipeline : Status Overview - Active Projects

MIIU Project ID No.	MIIU Authority	Sector	MIIU Core ? y/n	Type of Action Proposed	Application Letter: Date/to whom	Application pack Questionnaire sent out Date	Grant Info		Date of Business Plan	Date of Pre-feasibility Study	Date of Unsolicited Proposal	Involved Private Firms	Amt of Funding Request	Recent Actions		Next MIIU Action
							Date/amt Offered by...	Date/amt Disbursed						Type	Date	
98-4-1	BLO 01 01	Bloemfontein	water/sanit	y	Concession	none		none	none	none	25-Jul-96	Colechurch		City officials visit	08-Feb-98	Review tnp report, send MIIU
98-4-2	BRI 01 02	Brls	water/sanit													
98-4-3	GRA 12 03	Grahamstown	multiple	y	"PPPs"	21-May-97 to DBSA		04-Jun-97 R20k/MPPP	none	Nov-97	none	Stewart Scott, Inc	2.5m	Request for payment from DBSA	09-Mar-98	Letter to council to reconfirm official interest
98-4-4	HAR 01 04	Harmsmith	water/sanit	y	Lease/concession	17-Apr-98				Jun-98	none	Palmer Dev	164k	Negotiate with city regarding FS prep		
98-4-5	JSM 02 01	JNB SMLC	solid waste	n	Outsource	12-Mar-98				20-Feb-98 in RFP	20-Feb-98 in RFP	Danie Joubert	50k	Review appl for funding to support RFP review		
98-4-6	JNB 03 02	JNB	urban transport		inquiry											
98-4-7	JSN 08 03	JNB SMLC	fleet mgnt		inquiry											
98-4-8	JWM 02 04	JNB WMLC	solid waste	y												
98-4-9	JME 04 01	JNB Metro	gas works		inquiry											
98-4-10	JME 09	JNB Metro	produce market	n	Sect 21									monitor procure process		
98-4-11	JSM 01	JNB SMLC	water/sanit	y	JV/concession											
98-4-12	KLE 01	Klerksdorp	sanitation	y	concession	06-Mar-97 to DBSA		10-Mar-97 R20k/DBSA	??	Sep-97	none	Ernst & Partners	1.23m	Negotiate with city on FS preparation	02-Apr-97	Letter to council to reconfirm official interest
98-4-13	KNY 12	Krnsna	multiple		"PPPs"	??		??	??	Jul-97	none	none	1.6m	Negotiate with city on FS preparation	10-Mar-98	Letter to council to reconfirm official interest
98-4-14	MAR 11	Margate	water/sanit	y	PPP			27-Feb-97 to DBSA		Mar-97	none	none	485k	Negotiate with city on FS preparation		Letter to council to reconfirm official interest
98-4-15	HOE 01	Hoedspruit	rural water													
98-4-16	MAR 11	Margate	airport	n	Concession	27-Feb-97		26-Mar-97			none	none	67k	Negotiate with city on FS preparation		

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98-4-	17	STE	01	Stellenbosch	water/sanit	y	"PPP"	No info in file		26-Jun-97	??	Jul-97	none	none	Gibb-Afnca	1 56m		16-Jan-98	Letter to council to reconfirm official interest
98-4-	18	UMT	02	Umtata	solid waste	y	PPP	30-Apr-97				Jul-97	none	none	Hawkins Hawkins & Osb	300k			Letter to council to reconfirm official interest
98-4-	19	WEL	01	Welkom	water/sanit	y	Mgmt contract	02-Mar-98		none	none	none	none	Mar-98	Colechurch -proposal		Telephone contact	14-Apr-98	Letter to council on use of TOR & evaluation proposal by Colech
98-4-	20	UMT	01	Umtata	water/sanit		JV/concession												
98-4-	21	QUE	02	Queenstown	solid waste	y	FS for local landfill later regional	7-Apr-98 ex consultant		none	none	Apr-98	none	none	Jeffares & Green		No response to MH letter 16-Apr-98		Contact DBSA person involved
98-4-	22	JME	07	JNB Metro	IT	n	Corporatization of consolidates IT functions	30-Mar-98 from A Fihla to AT		none	none	12-May-98 IT proposal	NA	NA	several - no obligations		Meeting AS fax to Weeks	12-May-98 19-May-98	Letter to Dr Weeks with appllc pack
98-4-	23	PIE	05	Pietermantsburg	fire & emergency		outsource												
98-4-	24	CDC	12	CDC - Northwest	vanous														
98-4-	25	KRU	01	Krugersdorp	water & sanitatio	y													
98-4-	26	LAM	10	Lamberts Bay	Tounsm	n	Suitable PPP	No application presentation to JAA & MH		none - offer from others	none	28-Apr-98	NA	NA	not disclosed		Meeting	14-May-98	Awaiting council official request
98-4-	27	POR	03	Port Alfred	Transport	y	PPP for airport with Sun International	None - only report		none	none	none	NA		Sun Intern		Presentation by M Manjezi on PPP	May-98	None - monitor who is granted licence in Eastern Cape
98-5-	28	RIC	03	Richards Bay	Transport	y	manage contract or PPP	Applic letter will be forthcoming		NA	NA	Nov-97	NA	NA	None		Meeting with J Cronje Telcon - van Blerk	15-May-98 18-May-98	Awaiting council official request
98-4-	29	STA	02	Stanger	Solid waste	y	FS grant to explore PPP alternatives functions	Applic 20-Mar-98 by T/clrk to MH		NA	NA	None proposal	NA	NA	Willibald		More info from T/Cirk	20-Apr-98	prepare letter and appl pack
98-5-	30	LEK	06	Lekoa Vaal	landfill														
98-4-	31	POR	12	Port Alfred	environ mngmt	n				none	none	none	none						
98-4-	32	CAP	03	Cape Town Metro	urban transport	y													
98-6-	33	VRE		Vredendal	Comm develop		JV with private Co	Fax from Mr Ganz to Town Clk -08/06				B/plan forthcoming			shop complex developer				receive appl letter, allocate staff prepare letter & questionnaire

**DRAFT**

**CODE OF CONDUCT**

**DIRECTORS' DISCLOSURE OF INTEREST  
(STATUTORY AND POLICY FRAMEWORK)**

**PREAMBLE**

- 1 NOTING THAT the Municipal Infrastructure Investment Unit (MIIU) is a financial and technical assistance unit established to assist municipalities in preparing projects concerning public/private partnerships for infrastructure development and delivery and engaging private sector investments in these projects;
- 2 WHEREAS, although the MIIU is a private company, its ultimate beneficiaries are organs of state;
- 3 WHEREAS, in its Articles of Association, the MIIU makes provision to appoint directors to its board who may have a stake in providing advisory services to municipalities on project preparation, or in the projects which may result from the provision of such advice;
- 4 AND WHEREAS, the MIIU needs to develop a framework to regulate potential conflicts of interests amongst its directors and in doing so must have regard to considerations and organisational values that apply to both private and public entities;
- 5 NOW THEREFORE the MIIU adopts the framework set out below:

**THE FRAMEWORK**

- 6 **DUTY TO DISCLOSE AN INTEREST**
- 6.1 The Companies Act, 1973 ("the Act") requires a director to declare his or her interest in a contract if he or she is in any way materially interested in a contract or proposed contract or who becomes materially interested after the contract is concluded.<sup>1</sup>
- 6.2 The duty to disclose is a statutory duty and a failure to discharge this duty constitutes a criminal offence.<sup>2</sup>
- 6.3 A director has a disclosable interest where his/her company may provide advisory services to a municipality where payment for said advisory services will be, in whole or in part, by an MIIU financial grant.
- 6.4 A director has a disclosable interest where such director is an elected or appointed official of a municipality which has applied for MIIU financial assistance
- 6.5 A director has no disclosable interest with regard to an application by a municipality for advisory services where his/her company will not provide advisory services to the municipality, but whose company may compete to provide services for any infrastructure project approved by the municipality as the result of the advisory services provided by others. Said director may have a disclosable interest in any subsequent application by the municipality for a project preparation grant.

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<sup>1</sup> §234(1)

<sup>2</sup> §234(4) and §237(5). In terms of §441(1)(e), this offence is punishable by a fine not exceeding R4000 or imprisonment for a period not exceeding one year, or both the fine and the imprisonment.

7 WHEN MUST THE DISCLOSURE BE MADE

The Act requires the disclosure be made at or before the first directors meeting after the interest arises at which the contract is being considered. The Act further provides that if this is not possible, the disclosure<sup>3</sup> must be made at the first directors meeting thereafter and the director, in that event, must state the reasons for not being able to make the disclosure in the previous meeting.<sup>4</sup>

8 HOW MUST THE DISCLOSURE BE MADE – CONTRACT SPECIFIC INTERESTS

8.1 Although the Act contemplates various forms of disclosure, the following procedure for disclosure applies:

- (a) notification of the disclosure must be in writing;
- (b) the notice must specify the contract in respect of which the interest arises;
- (c) the notice must specify the full particulars of the interest;
- (d) a fresh disclosure must be made at the commencement of each financial year after the initial disclosure; and
- (e) the particulars of the interest may be amended at any time and the amendment must be made in writing.

8.2 This procedure does not apply to directors who have made disclosure in terms of paragraph 9.

9 HOW MUST THE DISCLOSURE BE MADE – GENERAL INTERESTS

9.1 The Board of Directors of the MIU will in all likelihood be composed of directors who may have an on-going interest in the projects and activities of the MIU by virtue of being able to provide municipalities with either:

- (a) services, inter alia, in the form of expertise in developing project proposals; or
- (b) facilities, inter alia, in the form of funding for, or undertaking of, projects which may be procured by a municipality as the result of advisory services such as those mentioned in (a).

9.2 In respect of directors having these interests, the following procedure for disclosure applies:

- (a) notification of the disclosure must be in writing;
- (b) the notice must state that interest pertains to potentially all such contracts;
- (c) the notice must specify the full particulars of the interest;
- (d) a fresh disclosure must be made at the commencement of each financial year after the initial disclosure; and

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<sup>3</sup> §235(1)

<sup>4</sup> §235(2)

- (e) the particulars of the interest may be amended at any time and the amendment must be made in writing.

10 INVALIDATION OF DISCLOSURE NOTICE

If at any time it appears to the Board of Directors that a director's actual interest exceeds what has in fact been disclosed, the original disclosure will be deemed not to have been made for purposes of Article 12(e) of MIIU's Articles of Association.

11 VOTING RIGHTS OF DIRECTORS WHO HAVE DISCLOSED AN INTEREST – RECUSAL

Although the Act and MIIU's Articles of Association do not prohibit a director from voting and deciding on contracts or issues in respect of which they have an interest, the following procedure regarding voting rights will apply:

11.1 directors must recuse themselves from all discussion concerning:

- (a) determining the specifications of any of these contracts;
- (b) the processing of tender applicants for these contracts;
- (c) the awarding of these contracts; and
- (d) the monitoring and evaluation of these contracts;

11.2 however, the provisions of paragraph 11.1 do not preclude a director from:

- (a) deliberating on the specifications of a contract if these specifications are the subject matter of a prior appropriate public consultation process;
- (b) deliberating on reports concerning the monitoring and evaluation of these contracts, if these reports pertain to contracts that are part of a cluster of similar or related contracts; and
- (c) deliberating and deciding on general procedural issues that are applicable to all contracts and these procedural issues have been the subject matter of a prior appropriate public consultation process.

ADMINISTRATIVE OBLIGATIONS OF THE MIIU

12 PARTICULARS OF DISCLOSURE IN MEETING NOTICES

12.1 A notice convening a directors meeting to confirm or authorise a contract or proposed contract in which a director has an interest must state the full particulars of the director's interest in such contract.

12.2 Failure to comply with this provision by the MIIU and any director who is party to such failure, constitutes a criminal offence.<sup>5</sup>

13 MINUTING DISCLOSURES OF INTEREST

13.1 Every disclosure of interest by a director must be recorded in the minutes of the meeting of the board of directors at which the declaration was made.

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<sup>5</sup> In terms of §441(1)(e), this offence is punishable by a fine not exceeding R4000 or imprisonment for a period not exceeding one year, or both the fine and the imprisonment.

13.2 Failure to comply with this provision by the MIIU constitutes a criminal offence. However, a failure to record a disclosure that has, in fact, been made, does not preclude proof that the disclosure was made and that the disclosing director complied with the statutory provisions.

14 REGISTER OF INTEREST IN CONTRACTS

14.1 The MIIU will keep a register of interests in contracts.

14.2 The register of interest in contracts must be kept at the MIIU's registered office or at the office where the register is compiled.<sup>6</sup>

14.3 The register of interests in contracts must be kept open for inspection by any member of the public at the office referred to in paragraph 14.2.<sup>7</sup>

15 DUTIES OF AUDITORS IN RELATION TO THE REGISTER OF INTEREST

The MIIU auditors must satisfy themselves that the register of interest in contracts has been kept as required and that every declaration of interest recorded in it has been minuted as required.

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<sup>6</sup> §240

<sup>7</sup> §113. Note the Act specifies a maximum inspection fee of twenty-five cents per page for members of the public, although this fee need not be charged.

## DISCLOSURE OF INTEREST BY A DIRECTOR

### 1 DIRECTOR'S DETAILS

1.1 Name \_\_\_\_\_

1.2 I hold the interest:

- In a personal capacity
- As a representative for a body, organisation, or corporate being, to-wit: \_\_\_\_\_

### 2. DISCLOSURE DETAILS:

2.1 I have an interest:

- In a specific contract; or
- which is of a general nature and therefore potentially applies to all contracts or a particular category of contracts.

2.2 The details of the interest in respect of a specific contract are as follows:

(a) reference number of the contract: \_\_\_\_\_

(b) title of the contract: \_\_\_\_\_

(c) the extent of my interest is: \_\_\_\_\_

(d) the nature of the conflict I foresee is: \_\_\_\_\_

2.3 The details of the general interest are as follows:

(a) my interest relates to:

- potentially all contracts
- potentially a particular category of contracts being or relating to: \_\_\_\_\_

(b) the extent of my interest is: \_\_\_\_\_

(c) the nature of the conflict I foresee is: \_\_\_\_\_

### 3. DECLARATION

I understand that:

- (1) the duty to disclose is a statutory duty and a failure to do so constitutes a criminal offence;
- (2) I must disclose the interest at or before the first directors meeting after the interest arises;
- (3) in respect of my disclosed interest, I must make a fresh disclosure at the start of each financial year,

- (4) I may amend my disclosure of interest at any time and that this amendment must be made in writing;
- (5) if my interest exceeds that which I have disclosed, this disclosure will be deemed not to have been made;
- (6) in certain circumstances, I will have to recuse myself from certain processes of the MIU.

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

Witness: \_\_\_\_\_

## **MIIU Model Terms of Reference for Project Feasibility Studies and Additional Project Preparation**

[Note: These Terms of Reference contemplate an iterative process whereby increasingly more detailed examination of possible private participation in the delivery of municipal services such as water supply, water distribution, and wastewater treatment services, are conducted based upon the work previously done, at the direction of Council. They also assume the local authority has completed the in-house assessment of the potential for private sector participation, utilizing the "notional ring-fencing" described in Annexure "A" to this document, and Council has determined to proceed to the next step of applying for a grant from the MIIU for the purpose of procuring the services of consultants for the more detailed investigation and for possible project preparation assistance.]

### **Introduction**

On \_\_\_\_\_ [date], the \_\_\_\_\_ Council resolved that Water, Sewerage, and Wastewater Treatment Services be investigated further for possible private sector participation in accordance with the precepts announced in the Government's Growth, Employment and Redistribution (GEAR) policy, the White Paper on Water and Sanitation Policy, November, 1994, the Water Research Commission's "Preliminary Guidelines for Private Sector Participation in Water Supply and Sanitation Services," and in fulfillment of Council's Constitutional duties to ensure provision of such services to its constituents in a sustainable manner.

This resolution of Council was based upon an initial investigation, utilizing [jurisdiction] resources, which concluded that such further investigation into the possibility of private sector participation in water supply and sanitation services was warranted.

On the aforementioned date Council also authorized an application to the Municipal Infrastructure Investment Unit (MIIU) established by Government to provide financial assistance to local authorities, for this further investigation, which application was approved by MIIU on \_\_\_\_\_ [date].

This procurement is being conducted in accordance with the terms and conditions contained in the Agreement between the MIIU and Council, dated \_\_\_\_\_, the ordinances, regulations and policy of [jurisdiction] and the laws of the Government of South Africa.

## Terms of Reference

The work to be performed under these Terms of Reference will be divided into three phases, Phase I, Phase II, and Phase III. At the conclusion of Phase I, Council will determine whether to proceed with Phase II. At the conclusion of Phase II, Council will determine whether to proceed with Phase III. Therefore, each Respondent to these Terms of Reference will provide separate technical and financial proposals for Phase I, Phase II, and Phase III.

## Phase I

The purpose of Phase I is to perform an assessment of the current condition of the water supply and sanitation assets, the current status of service delivery, and to perform an analysis of the possible alternatives in the delivery of these services, with a recommendation as to whether one alternative should be explored in greater detail (Phase II), the results of which would be sufficient for Council to make a decision to proceed with a Request for Tenders for the procurement of that service delivery alternative. The process of bid document preparation for that procurement would take place in Phase III.

### *Technical Assessment*

#### 1. Current Condition of Assets

A list of assets will be provided. Assess the following:

- a) Present day value.
- b) Estimated remaining life.
- c) Condition and need for rehabilitation.
- d) Current cost of rehabilitation so identified.

#### 1.1 Water Balance

For the water supply system, perform a water balance.

#### 1.2. Compliance with Standards

Assess compliance of the water supply and sanitation systems with existing and proposed standards, including:

- a) Quality of supply
- b) Chemical and Bacteriological standards
- c) Laboratory services.
- d) System maintenance.
- e) Safety standards
- f) Environmental compliance
- g) System future planning.

## 2. Organizational Structure

- 2.1. Review the organizational structure of the [jurisdiction's] water supply, sewerage, and wastewater treatment service delivery organization(s), including identification of non-organizational support staff provided by [jurisdiction].
- 2.2. Assess the number of employees, including managers, administrators, and part time employees for each service.
- 2.3. Determine all outstanding personal service contracts directly related to the delivery of water supply and sanitation services.
- 2.4. Identify all union organizations having bargaining agreements with [jurisdiction], and determine the expiration date of the current bargaining agreement.
- 2.5. Identify all known stakeholder groups, including community-based organizations, non-government organizations, environmental, and civic groups which routinely provide input on policy and practice of the delivery of water and sanitary services.

## 3. Service Coverage and Demographic Assessment

- 3.1 Perform a service coverage assessment for both water supply and sanitation services, including:
  - a) The current number of households, by [geographic or municipal] district currently receiving water supply services, noting the percentage receiving metered services.
  - b) An estimation of current households not currently receiving water supply.
  - c) The current number of commercial, industrial, and publicly-owned water service recipients, noting the percentage receiving metered services.
  - d) An estimation of the commercial, industrial, and publicly-owned establishments, if any, not currently receiving water supply.
  - e) The current number of households by [geographic or municipal] district currently receiving sewerage services.
  - f) An estimation of the current number of households by [geographic or municipal district] not currently receiving sewerage services.
  - g) The current number of commercial, industrial, and publicly-owned sewerage service recipients.

- h) An estimation of the current number of commercial, industrial, and publicly owned establishments not receiving sewerage services.
- 3.2. Perform a demographic assessment of the household recipients of water supply and sanitation services, including:
- a) Geographic distribution within [jurisdiction] of the households.
  - b) Income distribution, to the extent readily known.
- 3.3. Perform a similar demographic assessment of households:
- a) not receiving water supply services;
  - b) not receiving sewerage services.
4. Full Cost of Services Assessment
- 4.1 Review and update as necessary the Full Cost of Services assessment prepared by [jurisdiction], for both water service and sanitation, including:
- a) Direct labour costs.
  - b) Indirect labour costs
  - c) Direct and indirect administrative staff costs.
  - d) All shared staff costs.
  - e) Overhead expenses related to the enterprise.
  - f) Vehicles
  - g) Plant, facility, and system maintenance and operating costs, excluding labour and indirects.
  - h) Chemicals, supplies, fuels, and other consumable items.
  - l) Existing supplier and service contracts.
- 4.2 Review and update as necessary, the debt service assessment prepared by [jurisdiction] relating to previous capital expenditures for these services, including:
- a) Current debt service requirements.
  - b) Estimated debt retirement date(s) for each capital expenditure loan
- 4.3 Review and update as necessary, the total costs computation from the above, prepared by [jurisdiction], including:
- a) The cost per unit of service (litres of water delivered or treated) per service recipient.
  - b) Tariffs in place for each service, per unit.
  - c) The total amount billed in the last fiscal year for each service.

- d) The total amount actually collected in the last fiscal year for each service.
- e) The source(s), if any, to cover any differences between amounts billed and amounts collected.

5. Future Investment Needs

- 5.1. Review and update, as necessary the estimated future capital investment needs to redress current backlogs.
- 5.2. Review and comment upon the approved priorities for such capital investments over the next five (5) years.
- 5.3. Review and comment upon all sources of capital identified by [jurisdiction] as sources by which the capital requirements will be met, including grants, loans from all sources, transfer payments from any source, and subsidies received from other [jurisdiction.] activities.
- 5.4. Assess the borrowing capacity of [jurisdiction], in light of the foregoing, to obtain needed capital investment loans for the prioritized investments within the five (5) year time frame.

*Alternatives Assessment*

1. Pro Forma Financial Model

- 1.1 Prepare a *pro forma* financial model, using the cost and revenue information, as well as the five (5) year capital investment requirements, obtained during the Technical Assessment which will reflect the results of the Alternatives Assessment.

2. Service Delivery Alternatives to be Assessed

- 2.1. The following service delivery alternatives will be assessed:
  - a) Preserving the status quo.
  - b) "Worker turnaround."
  - c) Public-public partnership
  - d) Corporatisation.
  - e) Managed competition
  - f) Contracts Operations
  - g) Concessions, including BOT, BOOT, and DBO.
  - h) Full privatization
  - i) Private sector financing of municipal debt.

- 2.2. The purpose of the assessment will be to determine those service delivery alternatives which will enable the [jurisdiction] to meet its capital expenditure priorities, reduce or eliminate its service backlogs, and ensure sustainable delivery of water and sanitation services to all constituents. Among the factors to be determined with each assessment are:
- a) The ability of the [jurisdiction] to obtain the capital required for investment given its current obligations and anticipated sources of revenues.
  - b) The ability of potential private sector participants to economically provide the required capital, effect service delivery within standards to all eligible recipients and receive a reasonable return on its investment, within the range of potential tariff(s) which may be levied.
  - c) The effect on the technical quality of the service delivery.
  - d) The likely response from all stakeholders, including unions.
  - e) The potential effectiveness of cost-recovery initiatives to an expanded universe of service recipients.
  - f) The service delivery efficiency of each alternative.
3. “Short List” of Possible Private Sector Participation Alternatives
- 3.1 At the conclusion of the alternatives assessment, the Contractor shall prepare a report to Council indicating which three of the alternatives set forth in Section 2.1 above, may provide the most cost-efficient, sustainable means of delivering water supply and sanitation services, and shall further recommend one of the three for a more detailed examination in Phase II.
- 3.2. The report shall consist of the following:
- a) Executive summary.
  - b) Technical Assessment.
  - c) Individual assessments of each service delivery option.
  - d) Identification of the three most likely to ensure cost-effective, sustainable provision of services.
  - e) Recommendation as to the alternative to be pursued in Phase II.
  - f) Conclusion.
- 3.3. As part of the Technical Assessment, and in addition to the information disclosed therein, the Consultant shall provide its best professional comment on the following, regarding the current situation:
- a) The technical quality of service delivery.

- b) Adequacy of maintenance programmes.
  - c) Capacity of staff.
  - d) Adequacy of facilities and equipment.
  - e) Constraints on the foregoing.
  - f) Sustainability of service delivery under existing tariffs.
  - g) Appropriateness of service delivery levels.
  - h) Other suggestions regarding technical matters.
- 3.4. The foregoing shall be accomplished within sixty (60) days of receipt of a Notice to Proceed from Council. \_\_\_\_\_ copies of the Phase I Report shall be filed with the Council, which shall review the report and set a public hearing for a determination on whether to proceed with Phase II no later than fifteen (15) working days from the date of receipt thereof.
- 3.5. Council may (1) approve the recommendation to proceed to Phase II with the preferred option; (2) direct the Consultant to proceed to Phase II with one or more of the short-listed alternatives; (3) determine not to proceed to Phase II.

## Phase II

### 1. Detailed Financial Modeling.

- 1.1 Council's decision to proceed with Phase II will be evidenced by a written Notice to Proceed With Phase II, issued within the time-frame specified in Section 3.4, above.
- 1.2 Upon receipt of a Notice to Proceed With Phase II, Contractor shall develop a financial model with economic, legal, and technical inputs to assess the financial viability of the preferred, and any alternative service delivery options set forth in the Notice to Proceed With Phase II.
- 1.3 The model will include:
  - a) Growth in water demand of + \_\_\_% per annum
  - b) Existing and proposed tariff structure(s).
  - c) Capital structure; debt and equity; sources of funds.
  - d) Potential support Government may provide.
  - e) Potential donor or other funding which may be provided.
  - f) Tax consequences and tax avoidance options
  - g) Financial basis of contract award, future cost of each service, and rate of return to the service provider.
  - h) Sensitivity analyses: change of demand, drought, interest rate fluctuations.
  - i) Existing facility debt.

### 2. Tariff Structure Review

- 2.1 Review the current tariff structure and government policies as they relate to rate setting.
- 2.2 Recommend contractual provisions relating to tariff-setting, including tariff escalation formulae, as appropriate.

### 3. Capital Expenditure update.

- 3.1 Review the future investments needs analysis in Section 5 of Phase I to reflect current information.
- 3.2 Reassess the funding ability of the [jurisdiction] including its ability to provide guarantees or other forms of credit enhancement.

#### 4. Revenue Collection

- 4.1 Assess the revenue collection performance for each service, including any policy of discontinuation of service, and suggest any new or modified processes which may be adopted by a private service provider.
- 4.1 Suggest cost recovery mechanisms and innovative programs for revenue collection in expanded or newly-included disadvantaged communities within [jurisdiction].

#### 5. Stakeholder Participation and Information

- 5.1 Within one week of Notice to Proceed with Phase II, the [jurisdiction's] representative will facilitate a meeting with the Contractor and representatives of all unions identified as stakeholders in the project, in order that the Consultant may explain in detail the nature of the detailed investigation, and further, so the unions may express their concerns and attitudes. A written meeting report will be made of this and subsequent Contractor-[jurisdiction]-unions meetings.
- 5.2 Within two weeks of the Notice, the [jurisdiction's] representative will facilitate a meeting with the Contractor and affected non-union employee representatives for the same purposes as above. Written meeting reports shall also issue.
- 5.3 Within three weeks of the Notice, Consultant and the [jurisdiction's] representative shall develop a meeting schedule with community based organizations, non-government organizations, environmental and civic groups, identified during Phase I of the project. Written notes shall issue regarding these meetings.
- 5.4 Within two weeks of the occurrence of these meetings, the [jurisdiction's] representative will facilitate a meeting between the Consultant and Councilors where the Consultant will report on the meetings held, the concerns raised, and the recommended courses of action relative thereto.
- 5.5 Within two weeks from the conclusion of the meeting with the Councilors, a public hearing will be held, after regular notice as provided under [jurisdiction's] procedures, where the Consultant will review the processes to date and comment on the private sector participation(s) being investigated. Proceedings of the hearing will be recorded in accordance with [jurisdiction's] policy.

5.6 Consultant or [jurisdiction] may call further public hearings prior to the completion of Phase II.

6. Legal

6.1 Consultant will review existing National, Provincial, and Local laws and policies affecting implementation of the preferred option and any alternative being investigated, including affect on existing [jurisdiction] staff, and will recommend any necessary actions consistent with the best interests of project implementation and existing staff rights and benefits.

6.2 Consultant will identify the affect of implementation on existing liabilities, and suggest appropriate actions.

7. Regulatory and Institutional

7.1 Contractor will review existing agreements with other local authorities and governmental entities which may be impacted by project implementation, and will suggest appropriate actions in regard thereto.

7.2 Contractor will recommend the appropriate [jurisdiction] staffing structure to implement the preferred option or alternative, including establishing any regulatory processes deemed necessary. Contractor will estimate the cost thereof.

7.3 Contractor will approximate the future financial effect on the [jurisdiction] if the preferred option or alternative is implemented.

8. Recommended Provisions

8.1 Contractor shall recommend the apportionment of risk between the [jurisdiction] and the private-sector service provider, reflecting international best practices for similar activities.

8.2 Contractor shall also recommend provisions governing:

- a) Dispute resolution
- b) Force majeure
- c) Private-sector service provider performance standards.

9. Phase II Report

9.1 \_\_\_\_\_ copies of the Phase II report shall be filed with Council, which shall review the report and set a public hearing of adopting the

recommendations thereof within fifteen (15) working days of receipt thereof.

- 9.2 The Phase II Report shall be filed no later than sixty (60) days from receiving the Notice to Proceed with Phase II.
- 9.3 Council shall review the report and if the report recommends proceeding to Phase III, procurement of the preferred service delivery option, set a public hearing for a determination on whether to so proceed no later than fifteen (15) working days from the date of receipt thereof.
- 9.4 Council may (1) approve the recommendation to proceed to Phase III with the preferred option; (2) determine not to proceed to Phase III.

### Phase III

#### 1. Project Preparation

- 1.1 Council's decision to proceed with Phase III will be evidenced by a written Notice to Proceed with Phase III, issued within the time-frame specified in Section 9.3, above.
- 1.2 Upon receipt of a Notice to Proceed with Phase III, Contractor shall proceed with Project Preparation, which shall include development of a comprehensive approach, with supporting documents, to facilitate the solicitation of proposals from potential private sector partners in municipal service provision, using the preferred service delivery option set forth in the Notice to Proceed With Phase III.

#### 2. Bid Document Preparation

- 2.1 The Contractor shall prepare a comprehensive bid document which, among other objectives, establishes the rules of bidding and shall include, among others, the following:
  - 2.1.1 A covering letter from the Council.
  - 2.1.2 Instructions to bidders that include:
    - 2.1.2.1 A general description and objectives of the project; including a clear statement of the objectives, scope, and expected outputs, minimum design and output performance standards, including performance or output specifications rather than technical specifications, population to be served and environmental standards.
    - 2.1.2.2 The bid submission procedures; including among others the date, time, and location of bid submission, bid security and bid validity period, and permissible mode of bid transmission.
    - 2.1.2.3 The principles for setting and adjustment of tariffs, tolls, fees, charges, and/or rentals, as they may pertain to the project in question.
    - 2.1.2.4 Any concession or grant; in the form of license, permit, agreement or otherwise to be provided by the Council.

- 2.1.2.5 A table that clearly indicates the risks that will be allocated between the Council, the selected bidder, other government bodies, and to the extent appropriate, users and the general public.
- 2.1.3 The bid form, which clearly specifies the information the Council requires bidders to submit to be considered responsive.
- 2.1.4 General and specific conditions that will apply to the Contract Agreement.
- 2.1.5 A copy of the Feasibility Study.
- 2.1.6 A copy of the draft Agreement.
- 2.1.7 Surety requirements.
- 2.1.8 Standards of performance and penalties.
- 2.1.9 Appendices, including relevant additional information, such as economic, social, demographic, and environmental data that may assist in improving the quality of the bid; and
- 2.1.10 Other documents the Council may decide to include in the bid document.
3. Special Calculations Needed to Prepare Bid Documents
- 3.1 Bid Surety Calculation: The Council may require each bidder to submit evidence of surety to establish the validity of a bid. The amount of the bid surety should reflect the amount of expected actual loss that the Council may incur should the bid be withdrawn or should the bidder fail to execute a binding contractual agreement. Bid surety amount requirements typically are calculated in an amount of two percent (2%) to three percent (3%) of the estimated value of the Contract Agreement. Contractor should prepare a recommendation regarding the size of the bid surety for the Council's consideration.
- 3.2 Performance Surety Calculation: The Council may require each bidder to provide a performance surety in the form of a guaranteeship equivalent to a fixed percent of the estimated value of the Contract Agreement for the due performance by the selected

bidder of its obligations over the term of the Contract Agreement. The guarantee shall be from a South African registered insurance company or bank. Contractor should prepare a recommendation regarding the size of the performance surety for the Council's consideration, as well as the time period and conditions under which the Council should hold the performance surety to be valid.

4. The Draft Contract Agreement: Contractor shall prepare a draft Contract Agreement, which shall include, among others, the following provisions:
  - 4.1 The scope of activities covered by the Contract Agreement, including, as applicable:
    - 4.1.1 A general description and objectives of the project, including a clear statement of the objectives, scope, expected outputs, and the population to be served by the Project.
    - 4.1.2 The express and implied authority of any independent architect and/or engineer that may be engaged by either the Council or the Private Party.
    - 4.1.3 Project implementation schedule.
    - 4.1.4 Any unusual or special conditions relating to the nature or scope of the project.
  - 4.2 Duration of the Contract Agreement.
  - 4.3 Arrangements for tariffs, tolls, fees, charges, and rentals, as relevant, including principles governing their adjustment.
  - 4.4 Quality and/or performance standards, including any incentive arrangements.
  - 4.5 Allocation of risks.
  - 4.6 Public support, if any, given to the project including but not limited to, subsidies, guarantees, take-or-pay contracts with the Council and concessional finance.
  - 4.7 Premature termination of the Agreement.
  - 4.8 Mediation and resolution of disputes.
  - 4.9 The following, as applicable:

4.9.1 The compensation available to the selected bidder should be the Council default on any or all of its assurances and guarantees.

4.9.2 Provision for sureties, guarantees, price adjustment, insurance, and liquidated damages.

5. Prohibited Bid Document Provisions

5.1 Provisions in the bid documents that create obstacles to participation, including obstacles based on nationality, by suppliers or contractors in the procurement proceedings shall not be included or used in the solicitation documents. Such provisions include any specifications, plans, drawings and designs setting forth the technical or quality characteristics of the goods, construction or services to be procured, and requirements concerning testing and test methods, packaging, marking, labeling or conformity certification, and symbols and terminology, or description of services.

5.2 There shall be no requirement of or reference to a particular trade mark, name, patent, design, type, specific origin or producer unless there is not other sufficiently precise or intelligible way of describing the characteristics of the goods, construction or services to be procured and provided that words such as "or equivalent" are included.

6. Management of the Procurement Process: The Contractor shall assist the Council in managing all aspects of the procurement process in a manner that is consistent with the basic tenets of local government policies and procedures, as well as MIU's Procurement Policies and Procedures.

6.1 Contractor shall assist with procurement activities required prior to the submission of proposals, including:

6.1.1 Pre-qualification of bidders.

6.1.2 Pre-bid conference.

6.1.3 Other activities required by the Council.

6.2 Contractor shall assist the Council in the administrative processing of bids, including:

- 6.2.1 Reception and secure possession of all bids.
- 6.2.2 Public bid opening.
- 6.2.3 Other administrative actions deemed necessary by the Council.
- 6.3 Contractor shall assist and advise the Council during the process of bid evaluation, including:
  - 6.3.1 Creation and management of a Contractor Selection Panel.
  - 6.3.2 Evaluation of bidder responsiveness and responsibility.
  - 6.3.3 Evaluation with regard to bid evaluation criteria, as indicated in the bid documents.
  - 6.3.4 Evaluation with regard to technical project objectives and performance requirements, including basic design, organizational arrangements, and the financing plan.
  - 6.3.5 Evaluation with regard to financial evaluation and comparison.
  - 6.3.6 Clarification of bids where ambiguities exist (no change in matters of substance in the bid, including changes in price and changes aimed at making an unresponsive tender responsive, shall be sought, offered, or permitted).
  - 6.3.7 Ranking of responsive, responsible bids; the Contractor will assist the Council in evaluating proposals using the following kinds of calculations:
    - 6.3.7.1 The discounted present value of the proposed tolls/fees/rentals/charges/tariffs in the case of arrangements such as build-operate-transfer (BOT).
    - 6.3.7.2 The discounted present value of the proposed schedule of amortization payments in the case of arrangements such as build and transfer (BT), or build-transfer-operate (BTO).
    - 6.3.7.3 The discounted present value of proposed schedules of payments to the Council in the case of leases and similar schemes.

6.4.7 Selection of a proposed contractor.

7. Contract Negotiation: Contractor will assist the Council in negotiating the final details of the contractual arrangement with the selected contractor.

## MIIU MODEL AGREEMENT

### for the provision of grant funding in support of Technical Assistance

#### By the Municipal Infrastructure Investment Unit (MIIU) of the Government of South Africa

This is an agreement between the Municipal Infrastructure Investment Unit (MIIU) of the Government of South Africa, and \_\_\_\_\_, a "local government" under South African law, in furtherance of the role of the MIIU to encourage and optimise private sector investment in core local government services by providing grant funding to local authorities to hire technical assistance expertise from the private sector for project preparation assistance, and in furtherance of the role and responsibility of \_\_\_\_\_ to provide such core services to its constituents.

It is hereby agreed as follows:

#### 1. DEFINITIONS AND HEADINGS

1.1 In this agreement, unless the contrary appears from the context, the following words have the meanings as stated:

- |                              |   |
|------------------------------|---|
| 1.1.1 "Recipient"            | _____   |
| 1.1.2 "MIIU"                 | The Municipal Infrastructure investment Unit of the Government of South Africa, as established by _____ (cite appropriate law)  |
| 1.1.3 "Parties"              | The Recipient and the MIIU  |
| 1.1.4 "Project"              | _____ as described in more detail in Annexure A attached hereto.  |
| 1.1.5 "Funds"                | The financing granted in Clause 3   |
| 1.1.6 "Project Manager"      | A person nominated in writing by the Recipient to act on its behalf in respect of the Project.  |
| 1.1.7 "Technical Assistance" | Assistance in designing, structuring, or otherwise preparing the Project for contractual closure; this assistance may be in the form of feasibility studies, preparation of bid documents, or other activities in support of the Project. |

1.2 Headings to the clauses of this agreement are for reference purposes only and do not form a part of this Agreement.

## 2. ROLES AND RESPONSIBILITIES OF THE PARTIES

2.1 To ensure that the purposes of the grant of Funds are accomplished, the parties shall:

2.1.1 periodically and at the request of either Party:

2.1.1.1 exchange views with regard to the progress of the Project, and the performance of their respective obligations under this Agreement as well as other matters relating to the purposes of the grant of Funds; and

2.1.1.2 furnish each other with all such information as may be reasonably requested with regard to the progress of the Project and the general status of the Funds;

2.1.2 promptly inform each other of any fact which interferes with, or threatens to interfere with, the progress of the Project, the accomplishment of the purposes of the Funds, any related matter, and in particular the performance of by either Party of its obligations under this Agreement;

2.1.3 jointly determine the criteria to be taken into consideration, including development of the Terms of Reference (TOR), for awarding the consultant contract to be financed by the grant Funds;

2.1.4 jointly determine the technical, financial, and organisational requirements in respect of managing the implementation of the consulting contract, in order to ensure that the Technical Assistance be undertaken in an efficient and timely manner.

2.2 The Recipient shall:

2.2.1 grant representatives of the MIU the opportunities reasonably necessary to monitor the progress of the contract's implementation, for purposes relevant to the proper use of the Funds;

2.2.2 in addition to the amount made available by this Agreement, be responsible for the provision of the co-financing necessary for the successful execution of the Project, as set out in Annexure B, including Funds to be supplied by third parties as reflected in that Annexure.

2.2.3 be responsible for the management and maintenance of work carried out within the context of the Project, provided that the MIU shall be consulted in this regard when reasonably necessary;

2.2.4 with regard to the procurement of the consultant services contemplated by this grant of Funds, invite participation on equal terms from natural persons and bodies corporate respectively resident and registered in South Africa, possessing relevant expertise, and, unless otherwise agreed to by the Parties, conduct such procurement in accordance with the following procedures:

2.2.4.1 tender documents shall be drawn up in consultation with the MIIU, using the model TOR provided by the MIIU, which tender documents shall be ratified by MIIU prior to publication;

2.2.4.2 strict tender procedures shall be adhered to; where deemed necessary, advice and support will be forthcoming from MIIU;

2.2.4.3 the tender shall be open to all interested parties falling within the description contained in clause 2.2.4, and it shall not necessarily be a pre-requisite that the tenderer be a member of any particular association;

2.2.4.4 the Recipient's Tender Board or other responsible body shall adjudicate the tenders received, with the consultation and formal ratification by the MIIU.

2.2.5 ensure that the consultant to whom the contract is awarded carries insurance appropriate to the activities to be conducted, and remains so insured throughout the duration of the contract;

2.2.6 maintains records adequate to identify the activities carried out by means of the Funds granted, and furnish MIIU with all such information, such as progress reports, concerning implementation of the Project;

2.2.7 submit a statement reasonably acceptable to MIIU, certified on behalf of the Recipient, reflecting the expenditure incurred under the consultant contract within 6 (six) months after the end of each financial year of the Recipient during which a drawing is made on the grant Funds;

2.2.8 apply the grant Funds in accordance with Annexure B;

2.2.9 preserve all documents and accounting records pertaining to the Project up to the expiry of a period of 3 (three) years after completion of the Project, and allow the MIIU, at MIIU's cost, to have such documents and records audited by a person or persons nominated by MIIU;

2.2.10 Make available for review by MIIU all reports produced as a result of regular required government auditing requirements.

2.3 MIIU shall use its best endeavours to make technical assistance available to the Recipient within the limits of its resources and upon such terms and conditions as

agreed to by the Parties when and if the need for such assistance is identified by the Parties in terms of the provisions of clauses 2.1.3 and 2.1.4, supra.

### 3. MIIU GRANT FUNDS

3.1 MIIU shall make available to the Recipient on the terms and conditions set forth in this Agreement, an amount not exceeding, in the aggregate, R\_\_\_\_\_ (\_\_\_\_\_ Rand.)

3.2 The grant Funds shall be utilised exclusively for the purpose of the Technical Assistance as set out in Annexure A, and the Recipient shall ensure that any provisions contained in Annexure A are complied with.

3.3 MIIU shall pay the proceeds of the grant Funds to and on the order of the Recipient in such disbursements, at such times, and on such terms and conditions as set forth in Annexure B attached hereto.

3.4 The Recipient shall furnish MIIU with particulars regarding officials authorised to apply for withdrawals on its behalf.

3.5 The Recipient may by notice to MIIU cancel any undrawn portion(s) of the grant Funds provided that such cancellation shall not jeopardise the proper completion of the Technical Assistance.

3.6 If MIIU reasonably concludes, after consultation with the Recipient, that any portion(s) of the grant Funds will not be required to finance the feasibility study, MIIU may by notice to the Recipient, terminate the right of the Recipient to make drawings in respect of such undrawn portion(s).

### 4. PAYMENTS

4.1 All payments to or by the Parties under this Agreement shall be effected in South African Rands.

4.2 All payments under this Agreement to Recipient shall be effected to the credit of such banking account(s) of the Recipient as the Recipient may from time to time direct, in writing.

4.3 Payments in terms of the Agreement shall be effected without deduction for and free from any taxes, charges, fees, or other costs whatsoever.

### 5. SUSPENSION AND TERMINATION

MIIU shall be entitled to suspend withdrawals from the grants Funds or to terminate this Agreement, in the event, and for so long as, the Recipient fails to comply with any provision of this Agreement after having given the Recipient 30 (thirty) days written notice to comply, and the Recipient thereafter continuing to remain in default, in which latter event the full amount previously withdrawn by Recipient shall be due, owing, and payable to MIIU.

6. GENERAL

6.1 Any notice or request to be given or made in terms of this Agreement shall be in writing, and shall be deemed to have been duly given or made when in the case of MIIU, addressed to the Executive Director, and received at:

Physical address:                    2<sup>nd</sup> Floor, DBSA Building  
   1258 Lever Road  
   Headway Hill  
   Midrand 1685

Postal Address                        P.O. Box 1234  
   Halfway House  
   1685; or

Telefax Number                      (011) 313 3358

And in the case of the Recipient, when addressed to the Recipient and received at the offices of the Recipient at the following address:

Physical address:

Postal address:

Telefax Number.

Either of the Parties may change the above-mentioned addresses by giving written notice to such effect.

6.2 No amendment of, or addition to this Agreement shall be valid unless the same has been reduced to writing and signed by or on behalf of the Parties.

6.3 The non-enforcement of any provision of this Agreement or any indulgence which either Party may grant to the other shall be without prejudice to the rights of such first-mentioned Party to insist upon strict compliance by such other Party with all the provisions of this Agreement or to enforce its right in respect of which such indulgence was granted.

6.4 This contains the entire agreement between the Parties, and no representations, warranties, undertakings, or promises of whatever nature which may have been made by any of the Parties, their agents or employees, other than those herein contained, shall be binding or enforceable against them.

6.5 The operation of this Agreement is subject to the Recipient submitting to MIIU confirmation, in writing, that the \_\_\_\_\_ Provincial Government is fully informed of this Project.

THUS DONE AND SIGNED AT \_\_\_\_\_ ON THE \_\_\_\_\_  
DAY OF \_\_\_\_\_, 199\_

AS WITNESSES

1. \_\_\_\_\_

2. \_\_\_\_\_

\_\_\_\_\_  
FOR AND ON BEHALF OF THE  
RECIPIENT, DULY  
AUTHORISED THERETO IN  
TERMS OF ANNEXURE C  
ATTACHED HERETO.

THUS DONE AND SIGNED AT \_\_\_\_\_ ON THE \_\_\_\_\_  
DAY OF \_\_\_\_\_, 199\_

AS WITNESSES

1. \_\_\_\_\_

2. \_\_\_\_\_

\_\_\_\_\_  
FOR AND ON BEHALF OF  
THE MIIU, DULY AUTHORISED  
THERETO IN  
TERMS OF ANNEXURE D,  
ATTACHED HERETO

Project Description

[Ultimate PPP project to be defined in terms of:

1. Present recurrent costs (for last FY)
2. Present capital costs
3. Total costs and total income
4. Demography and coverage
5. Future investment needs (over next five years)
6. Service performance (current)]

APPLICATION AND SOURCE OF FUNDS STATEMENT

Terms and Conditions of Disbursement

Disbursement of the grant Funds is to be effected as a ratio of the actual cost of each item (for each phase) in accordance with the Application and Source of Funds Statement, read together with the Project Description (Annexure A), including all co-funding by Recipient and any other donor agencies, to the maximum amount of R\_\_\_\_\_. Wherever possible and practical, disbursement shall be made on a reimbursement basis.

Disbursement is subject to submission to the MIU of a written statement approved by the Recipient or its authorised representative. The written statement shall be submitted using a voucher format supplied MIU. The format shall included the following information:

- Synopsis of the completed study, including TOR;
- Cost of study and breakdown of total costs;
- Start/finish dates of the study;
- Identification of consultants.

AUTHORISATION – RECIPIENT

“By resolution of the Council of \_\_\_\_\_ taken  
on \_\_\_\_\_, 199\_, Mr/Ms \_\_\_\_\_  
has been duly authorised to perform all acts and sign all documents that may be  
necessary in connection with the Application by \_\_\_\_\_  
for grant funding for technical assistance to the Municipal Infrastructure Investment  
Unit (MIU).

SIGNED ON BEHALF OF THE \_\_\_\_\_

IN HIS/HER CAPACITY AS \_\_\_\_\_

DATE:

SIGNATURE OF

SIGNATORY \_\_\_\_\_

AUTHORISATION – MIIU

By resolution of the interim board of directors taken on 15 May, 1998, Ms Monhla Hlahla Chief Executive Officer, has been duly authorised to sign grant funding agreements for the purpose of technical assistance, as follows:

Feasibility Studies up to R200 000;

Project Preparations up to R1 000 000;

And to perform all acts and sign all documents that may be necessary for the purpose, for and on behalf of the Municipal Infrastructure Investment Unit (MIIU).

SIGNED ON BEHALF OF THE MUNICIPAL INFRASTRUCTURE INVESTMENT UNIT IN HER CAPACITY AS CHIEF EXECUTIVE OFFICER.

DATE:

SIGNATURE OF SIGNATORY: \_\_\_\_\_

2<sup>nd</sup> Floor DBSA Building  
1258 Lever Road  
Headway Hill  
Midrand  
1685

P O Box 8151  
Midrand  
1685  
Tel: (011) 313 3413 Fax: (011) 313 3358  
Home page: <http://www.miu.org.za>

# MIU

Municipal Infrastructure  
Investment Unit

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT

USAID/SOUTH AFRICA



Tel: (012) 323-8869

P.O. Box 55380  
Arcadia, Pretoria 0007

Fax: (012) 323-6443

June 8, 1998

Ms. Monhla Hlahla  
General Manager  
Municipal Infrastructure Investment Unit  
c/o Development Bank of Southern Africa  
P.O. Box 1234  
Halfway House  
Midrand 1685

Subject: Bilateral Agreement No. SO6AG-674-0312C  
Project Implementation Letter 8

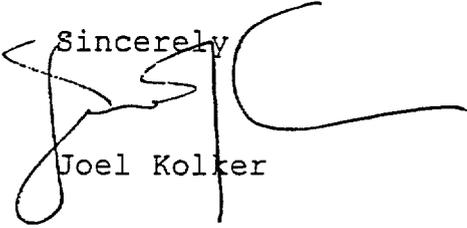
Dear Ms. Hlahla,

I am writing in regard to the implementation and oversight of our technical support to the Municipal Infrastructure Investment Unit (MIIU). As you are aware, the support will be provided by Planning and Development Collaborative International, Inc., or PADCO, under a USAID contract. The advisors will be working in the MIIU for up to a three year period. As previously discussed and agreed to, USAID/South Africa will be responsible for administration of the contract, i.e., payment of salaries, housing, travel, office equipment and other allowances associated with the bulk of the expenditures under this contract. Incremental office related costs, including rent and supplies, will be covered by the MIIU.

I am writing to confirm our understanding that you, in your capacity as the Chief Executive Officer of the MIIU, will serve as the principal liaison for the Government of South Africa regarding policy and technical directions for the activities of the technical advisors from PADCO. I will be the USAID technical officer responsible for working with you and providing support regarding the technical directions for the PADCO advisors. We understand that you will consult with the MIIU's Board of Directors with respect to overall policy guidance to be provided to the PADCO advisors. Of course, technical directions and policy guidance to be provided to the PADCO advisors are subject to the Scope of Work (or Terms of Reference) for the PADCO contract, and subject to the amount of funds obligated in the contract.

We look forward to our continued close collaboration in regard to this important program. I would appreciate if you could indicate your concurrence on these matters by signing below. Thank you for your assistance.

Sincerely



Joel Kolker

Concurrence:

Monhla Hlahla  
General Manager  
Municipal Infrastructure Investment Unit

# UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT

USAID/SOUTH AFRICA



Tel: (012) 323-8869

P.O. Box 55380  
Arcadia, Pretoria 0007

Fax: (012) 323-6443

Ms. Monhla Hlahla  
Chief Executive Officer  
Municipal Infrastructure Investment Unit  
P.O. Box 8151  
Halfway House, Midrand 1685

Subject: Shelter and Urban Development Support (SUDS) Project, Project No. 674-0312, Bilateral Agreement No. SO6AG-674-0312C, Project Implementation Letter No. 7

Dear Ms. Hlahla:

The purpose of this PIL is: (a) to earmark and commit South African Rand 4,000,000 (US\$ 800,000) to fund a Fixed Amount Reimbursement Agreement (FARA) with the MIIU, and (b) concur with the request of Dr. Crispian Olver, in a letter dated May 6, 1998, that you and your staff be provided with signatory authority over matters pertaining to USAID support to the Municipal Infrastructure Investment Unit.

The FARA will provide for direct reimbursable payments by USAID for the development of: (i) diagnostic/marketing assessments, (ii) feasibility studies, and (iii) project preparation packages (hereinafter referred to as "deliverables") to assist various municipalities in providing for the provision of infrastructure. In no event shall USAID's aggregate liability hereunder exceed the South African Rand equivalent of \$800,000.

Reimbursable payments for deliverables will be made in accordance with procedures set forth in the attached FARA No. 1. For ease of reference, major sections of the FARA are summarized as follows:

- Section 1. Funding for Reimbursement
- Section 2. Implementation and Initial Financing Procedures
- Section 3. Proposals for Deliverables, Fixed Reimbursable Amounts and Numbers of Deliverables
- Section 4. Reimbursement Procedures
- Section 5. USAID Monitoring
- Section 6. Activity Completion Date and Terminal Disbursement Date
- Section 7. Refunds
- Section 8. Amendments

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Each of the deliverables will be presented to USAID for review and approval in accordance with Section 4 of the FARA. The amounts to be reimbursed and the specific deliverables to be supported under this Agreement will be determined and agreed upon by the Municipal Infrastructure Investment Unit and USAID using procedures detailed in Attachment A to the attached FARA. I suggest that we discuss the terms and conditions of the FARA in person to facilitate a common understanding on how the program is envisaged to be implemented.

In accordance with the aforementioned request letter, the Municipal Infrastructure Investment Unit has been designated by Dr. Crispian Olver as the authorized implementing agent of the Department of Constitutional Development. I am pleased to note that USAID concurs with this request and has noted that Mr. Barry Jackson, Mr. Anthony Still, Mr. Chris Strydom, and yourself will serve as authorized signatories for all purposes relevant to this Agreement.

As noted above, we will be more than happy to discuss any of the terms and conditions of the attached FARA and provide any clarification you feel necessary. If you agree to the terms and conditions of this PIL, please sign: (i) both originals of the PIL acknowledging your acceptance, and (ii) both originals of the attached FARA. Retain one original of both the PIL and the FARA for your files, and return the other originals to our offices.

Sincerely,

Carleene Dei  
Housing and Urban Development  
Team Leader

ACKNOWLEDGED AND ACCEPTED

\_\_\_\_\_  
By: Ms. Monhla Hlahla

Title: Chief Executive Officer

Date: \_\_\_\_\_

Subject: Shelter and Urban Development Support (SUDS) Project, Project  
No. 674-0312, Bilateral Agreement No. SO6AG-674-0312C,  
Action Memo for Approval of Project Implementation Letter No. 7

Drafted: JHarmon, PDO, 5/29/98 *JA 6/1/98*

Clearances:

PWeisenfeld, RLA	<u>PW</u>	Date: <u>6/8/98</u>
JKolker, SO6	<u>draft</u>	Date: <u>6/1/98</u>
RJacobs, CONT	<u>RA</u>	Date: <u>6/10/98</u>

*② C970207*  
*Funds Available*

c:\docs\so6\miiufar2.mem

## **Fixed Amount Reimbursement Agreement No. 1**

Fixed Amount Reimbursement Agreement ("Agreement") between the Republic of South Africa, acting through the Municipal Infrastructure Unit ("MIU") and the United States of America, acting through the Agency for International Development ('USAID'), hereinafter 'the Parties', for a set of deliverables (defined below) which will provide for infrastructure in selected municipalities.

### **SECTION 1. FUNDING FOR REIMBURSEMENT**

(a) USAID commits that it will reimburse the MIU, in accordance with the terms and conditions set forth below, a fixed amount of South African Rand, for a number of: (i) diagnostic/marketing assessments, (ii) feasibility studies, and (iii) project preparation packages (hereinafter also referred to as "deliverables"). To be eligible for reimbursement, deliverables must conform to procedures, technical directions and agreed upon costs and numbers of deliverables, as set forth in Attachments A through D to this Agreement (summarized below):

(1) Attachment A: Memorandum of Application/Funding Concurrence/Request for Reimbursement (form MIU1)

Attachment A applies to: (i) diagnostic/marketing assessments, (ii) feasibility studies, and (iii) project preparation packages. Prior to any actions by the MIU to incur costs for deliverables to be considered for reimbursement under this Agreement, the MIU will complete Section 1, Details of Deliverable, of the Form MIU1 (Attachment A) and submit the completed document to the USAID, SO6 Team Leader, or his/her representative for concurrence. The SO6 Team Leader will review details of the proposed activity and indicate either "Concur" or "Do not Concur" in Section 2 of the Form MIU1, sign and date the document, and return the form to the MIU. If USAID concurrence is received for an activity to produce a deliverable eligible for reimbursement under this Agreement, the MIU will provide the deliverable to USAID in accordance with this Agreement, complete Section 3, Request for Reimbursement of the MIU1, and submit the completed MIU1 to USAID along with other documentation as specified below in Section 4, Reimbursement Procedures.

(2) Attachment B: MIU Model Agreement

Attachment B applies to: (i) diagnostic/marketing assessments, (ii) feasibility studies, and (iii) project preparation packages. Prior to any actions by the MIU to incur costs for deliverables to be considered for reimbursement under this Agreement, an agreement between the MIU and the participating municipality, similar in form and substance to Attachment B, must be executed. The agreement between the MIU and participating municipality shall incorporate interim MIU Interim Procurement Policies and Procedures, which will bind the participating municipality to conformance with acceptable procurement

procedures in contracting for services to develop deliverables. An original of this Agreement should be retained by the MIIU.

(3) Attachment C: MIIU Model Terms of Reference

This provision applies to: (i) feasibility studies, and (ii) project preparation packages. To be eligible for reimbursement, the services to develop these deliverables must be procured in accordance with the Supplement to Attachment B, Interim MIIU Procurement Policies and Procedures, or similar guidelines, as adapted to the particular situation by the MIIU.

(4) Attachment D: Fixed Amounts for Deliverables

Attachment D applies to: (i) diagnostic/marketing assessments, (ii) feasibility studies, and (iii) project preparation packages. USAID will reimburse the MIIU fixed amounts for deliverables, in accordance with the agreed upon quantities and amounts set forth in Attachment D, Fixed Amounts for Deliverables. These reimbursements will be made in accordance with procedures shown in Section 4 of this agreement. The total amount for reimbursement of all deliverables shall not exceed the Rand equivalent of US\$800,000.

However, additional funds in an amount not to exceed \$1,500,000 may be committed via a separate Project Implementation Letter (PIL). An increase in funding would be based on the availability of funds and progress of the MIIU program.

(b) In accordance with standard USAID procedures for Fixed Amount Reimbursement Agreements, USAID can only make payments for deliverables that are complete and comply with agreed technical directions and other conditions in this Agreement specified in Subsection 1(a) above. Amounts for each deliverable, reimbursed in accordance with procedures set forth in Section 4, are fixed and are not subject to negotiation as a result of increases or decreases in estimated or actual cost of completing each deliverable. Thus, USAID will reimburse the agreed upon fixed amount upon satisfaction of the following two conditions. First, USAID shall determine that a deliverable is completed in accordance with agreed upon technical directions. Second, the MIIU shall submit to USAID appropriate documentation set forth in Section 4. To the extent that the MIIU incurs costs for any deliverable in excess of the fixed amount, these costs shall be the responsibility of the MIIU. To the extent that deliverables are completed in accordance with technical directions at a cost equal to less than the fixed amount, USAID shall, nonetheless, disburse the entire fixed amount to the MIIU, and all cost savings shall accrue to the benefit of the MIIU. It should be noted that USAID's interest in this activity is limited to reimbursing the MIIU for deliverables that are developed and submitted to USAID in accordance with the terms and conditions of this Agreement; management of the flows and reflows of funds between MIIU, municipalities, consultants and other role players are the responsibility of the MIIU.

(c) Funds for this activity are made available under the SUDS Project (Bilateral Agreement No.S06AG 674-0312C) and are subject to the terms and conditions of that project grant agreement, except as the Parties may otherwise agree in writing.

## SECTION 2. IMPLEMENTATION AND INITIAL FINANCING PROCEDURES

(a) The MIIU will initially finance all costs of completing the deliverables from its own budgetary resources, subject to the reimbursement procedure described in Section 4 below. Feasibility studies for the delivery of infrastructure (defined as deliverables under this Agreement) will be contracted for by municipalities under the supervision of the MIIU. If feasibility studies are completed in accordance with procedures agreed upon by the participating municipalities and the MIIU, the MIIU will finance the costs of these studies, and subsequently seek reimbursement of these costs under procedures detailed in this Agreement. The MIIU will ensure that all required goods and technical services, for which costs are reimbursed By USAID under this Agreement, are procured by participating municipalities in accordance with its standard Republic of South Africa tendering procedures, and agrees to ensure that municipalities supervise, manage and otherwise administer their contracts in accordance with sound business practice and standard Republic of South Africa procedures.

(b) The MIIU will undertake completion of deliverables described in Attachment D over a ten (10) month period commencing on or about June 1, 1998, and concluding on or about March 31, 1999.

(c) The DCD has arranged for technical services to be performed by the Development Bank of South Africa (DBSA) to assist the MIIU in implementing this program to provide deliverables under this Agreement for selected municipalities. DBSA will perform the implementation and program monitoring services as described in the management Agreement between the MIIU and DBSA, dated April 3, 1998.

(d) To assist the MIIU in carrying out its responsibilities hereunder, USAID will support the MIIU further by providing the services of long-term advisors under the PADCO Contract No. 674-0312-C-00-8023-00 to assist local authorities and their consultants in packaging infrastructure projects for private investment. USAID will finance such other MIIU support as the Parties may agree to in writing.

## SECTION 3. PROPOSALS FOR DELIVERABLES, FIXED REIMBURSABLE AMOUNTS AND NUMBERS OF DELIVERABLES

(a) The Parties have agreed to support the development of deliverables (developed by consultants) which comprise:

- (i) Diagnostic/Marketing Assessments
- (ii) Feasibility Studies
- (iii) Project Preparation Packages

To initiate the process of developing deliverables, the MIIU will receive proposals from municipalities which seek financing for infrastructure. The deliverables will comprise an analytical package which will assist the participating municipalities by encouraging private financing for municipal infrastructure projects. Funds will be limited to the development of deliverables pertaining to infrastructure projects that provide services in the areas of

water, waste water, solid waste, electrical distribution, and other similar infrastructure, as agreed upon in writing by the Parties.

(b) USAID will reimburse fixed amounts for an agreed upon number of deliverables, as set forth in Attachment D.

#### **SECTION 4. REIMBURSEMENT PROCEDURES**

(a) Subject to the provisions of Section 5 of this Agreement, USAID will reimburse the MIU for the agreed upon costs of deliverables upon: (1) completion of the packages of deliverables such that the total reimbursable amount of the package is not less than Rand 100,000, and (2) receipt of the documentation described in subsection (b) below.

(b) To obtain reimbursement of the applicable fixed amount, the MIU shall submit to USAID the following documentation:

- (1) copy of completed form MIU1 (Attachment A )
- (2) a completed voucher (Form SF 1034 - Attachment E),

(c) Upon receipt of a request for reimbursement with respect to the deliverable(s), USAID shall retain the right to review the submission to ensure that the deliverable(s) has been completed in accordance with the technical directions agreed upon by the parties.

(d) USAID shall make reimbursement to the MIU in South African Rand, provided however, that in no event shall USAID's aggregate liability hereunder exceed the amount of US\$800,000.

#### **SECTION 5. USAID MONITORING**

The parties agree that USAID may monitor and review work performed to produce the deliverables. The MIU will afford USAID project staff access at all reasonable times to sites and documentation for these purposes. Notwithstanding the provisions of Section 4 above, the parties agree that USAID may withhold payment of applicable reimbursable amounts in connection with any deliverable that it determines has not been completed in accordance with agreed technical directions.

#### **SECTION 6. ACTIVITY COMPLETION DATE AND TERMINAL DISBURSEMENT DATE**

(a) The Parties anticipate that all deliverables produced pursuant to this Agreement will be completed by March 31, 1999. Except as the Parties may otherwise agree in writing, USAID will not make any reimbursement for deliverables completed after this date.

(b) Requests for payment, accompanied by supporting documentation specified in Section 4 of this Agreement, must be received by USAID no later than May 31, 1999, or such later date as USAID may agree to in writing. USAID reserves the right to decline to make payment on requests that are received after this date.

**SECTION 7. REFUNDS**

Disbursement of funds provided hereinafter are subject to Article E, Section E.2 of Annex 2 of Bilateral Agreement No. SO6AG-674-0312C.

**SECTION 8. AMENDMENTS**

This Agreement may be amended or modified only by written agreement of the Parties.

IN WITNESS WHEREOF, the MIU and USAID, each acting through its duly authorized representatives, have caused this Agreement to be signed in their names and delivered as of the day and year last written.

MUNICIPAL INFRASTRUCTURE  
INVESTMENT UNIT

AGENCY FOR INTERNATIONAL  
DEVELOPMENT

BY: \_\_\_\_\_

BY: \_\_\_\_\_

NAME: \_\_\_\_\_

NAME: \_\_\_\_\_

TITLE: \_\_\_\_\_

TITLE: SO6 Team Leader

DATE: \_\_\_\_\_

DATE: \_\_\_\_\_

MEMORANDUM OF APPLICATION/FUNDING CONCURRENCE/  
REQUEST FOR REIMBURSEMENT  
(form MIU1)

TO: USAID/South Africa, SO6 Team Leader

SUBJECT: Approval of Deliverable and Fixed Amount for Reimbursement

FROM: Municipal Infrastructure Investment Unit

Name of authorized representative: \_\_\_\_\_

Signature of representative: \_\_\_\_\_

DATE:

1. DETAILS OF DELIVERABLE:

A. Name of Project:

B. Synopsis of the proposed deliverable, including:

- (1) TOR for proposed deliverable
- (2) proposed category (diagnostic/marketing, feasibility, project preparation)
- (3) start/finish date of study

C. Fixed Amount for Reimbursement by USAID: Rand \_\_\_\_\_

. CONCURRENCE BY USAID:

Concur: \_\_\_\_\_ Do not concur: \_\_\_\_\_

Name of Authorized USAID Representative: \_\_\_\_\_

Signature of Authorized USAID Representative: \_\_\_\_\_

Date: \_\_\_\_\_

3. REQUEST FOR REIMBURSEMENT:

certify that the deliverable referenced on this document (copy attached) has been completed in accordance with Technical Directions and Procedures in Subsection 1(a) of the Fixed Amount Reimbursement Agreement No 1 between MIU and USAID.

Name of Authorized MIU Representative: \_\_\_\_\_

Name of Authorized MIU Representative: \_\_\_\_\_

ate: \_\_\_\_\_

ATTACHED (when request for reimbursement is submitted): Copy of Deliverable

## MIIU MODEL AGREEMENT

### for the provision of grant funding in support of Technical Assistance

#### By the Municipal Infrastructure Investment Unit (MIIU) of the Government of South Africa

This is an agreement between the Municipal Infrastructure Investment Unit (MIIU) of the Government of South Africa, and \_\_\_\_\_, a "local government" under South African law, in furtherance of the role of the MIIU to encourage and optimise private sector investment in core local government services by providing grant funding to local authorities to hire technical assistance expertise from the private sector for project preparation assistance, and in furtherance of the role and responsibility of \_\_\_\_\_ to provide such core services to its constituents.

It is hereby agreed as follows:

#### 1. DEFINITIONS AND HEADINGS

1.1 In this agreement, unless the contrary appears from the context, the following words have the meanings as stated:

- |                              |   |
|------------------------------|---|
| 1.1.1 "Recipient"            | _____   |
| 1.1.2 "MIIU"                 | The Municipal Infrastructure investment Unit of the Government of South Africa, as established by _____ (cite appropriate law)  |
| 1.1.3 "Parties"              | The Recipient and the MIIU  |
| 1.1.4 "Project"              | _____ as described in more detail in Annexure A attached hereto.  |
| 1.1.5 "Funds"                | The financing granted in Clause 3   |
| 1.1.6 "Project Manager"      | A person nominated in writing by the Recipient to act on its behalf in respect of the Project.  |
| 1.1.7 "Technical Assistance" | Assistance in designing, structuring, or otherwise preparing the Project for contractual closure; this assistance may be in the form of feasibility studies, preparation of bid documents, or other activities in support of the Project. |

1.2 Headings to the clauses of this agreement are for reference purposes only and do not form a part of this Agreement.

## 2. ROLES AND RESPONSIBILITIES OF THE PARTIES

2.1 To ensure that the purposes of the grant of Funds are accomplished, the parties shall:

2.1.1 periodically and at the request of either Party:

2.1.1.1 exchange views with regard to the progress of the Project, and the performance of their respective obligations under this Agreement as well as other matters relating to the purposes of the grant of Funds; and

2.1.1.2 furnish each other with all such information as may be reasonably requested with regard to the progress of the Project and the general status of the Funds;

2.1.2 promptly inform each other of any fact which interferes with, or threatens to interfere with, the progress of the Project, the accomplishment of the purposes of the Funds, any related matter, and in particular the performance of by either Party of its obligations under this Agreement;

2.1.3 jointly determine the criteria to be taken into consideration, including development of the Terms of Reference (TOR), for awarding the consultant contract to be financed by the grant Funds;

2.1.4 jointly determine the technical, financial, and organisational requirements in respect of managing the implementation of the consulting contract, in order to ensure that the Technical Assistance be undertaken in an efficient and timely manner.

2.2 The Recipient shall:

2.2.1 grant representatives of the MIU the opportunities reasonably necessary to monitor the progress of the contract's implementation, for purposes relevant to the proper use of the Funds;

2.2.2 in addition to the amount made available by this Agreement, be responsible for the provision of the co-financing necessary for the successful execution of the Project, as set out in Annexure B, including Funds to be supplied by third parties as reflected in that Annexure.

2.2.3 be responsible for the management and maintenance of work carried out within the context of the Project, provided that the MIU shall be consulted in this regard when reasonably necessary;

2.2.4 with regard to the procurement of the consultant services

contemplated by this grant of Funds, invite participation on equal terms from natural persons and bodies corporate respectively resident and registered in South Africa, possessing relevant expertise, and, unless otherwise agreed to by the Parties, conduct such procurement in accordance with the following procedures:

2.2.4.1 tender documents shall be drawn up in consultation with the MIIU, using the model TOR provided by the MIIU, which tender documents shall be ratified by MIIU prior to publication;

2.2.4.2 strict tender procedures shall be adhered to; where deemed necessary, advice and support will be forthcoming from MIIU;

2.2.4.3 the tender shall be open to all interested parties falling within the description contained in clause 2.2.4, and it shall not necessarily be a pre-requisite that the tenderer be a member of any particular association;

2.2.4.4 the Recipient's Tender Board or other responsible body shall adjudicate the tenders received, with the consultation and formal ratification by the MIIU.

2.2.5 ensure that the consultant to whom the contract is awarded carries insurance appropriate to the activities to be conducted, and remains so insured throughout the duration of the contract;

2.2.6 maintains records adequate to identify the activities carried out by means of the Funds granted, and furnish MIIU with all such information, such as progress reports, concerning implementation of the Project;.

2.2.7 submit a statement reasonably acceptable to MIIU, certified on behalf of the Recipient, reflecting the expenditure incurred under the consultant contract within 6 (six) months after the end of each financial year of the Recipient during which a drawing is made on the grant Funds;

2.2.8 apply the grant Funds in accordance with Annexure B;

2.2.9 preserve all documents and accounting records pertaining to the Project up to the expiry of a period of 3 (three) years after completion of the Project, and allow the MIIU, at MIIU's cost, to have such documents and records audited by a person or persons nominated by MIIU;

2.2.10 Make available for review by MIIU all reports produced as a result of regular required government auditing requirements.

2.3 MIIU shall use its best endeavours to make technical assistance available to the Recipient within the limits of its resources and upon such terms and conditions as

agreed to by the Parties when and if the need for such assistance is identified by the Parties in terms of the provisions of clauses 2.1.3 and 2.1.4, supra.

### 3. MIIU GRANT FUNDS

3.1 MIIU shall make available to the Recipient on the terms and conditions set forth in this Agreement, an amount not exceeding, in the aggregate, R\_\_\_\_\_ (\_\_\_\_\_ Rand.)

3.2 The grant Funds shall be utilised exclusively for the purpose of the Technical Assistance as set out in Annexure A, and the Recipient shall ensure that any provisions contained in Annexure A are complied with.

3.3 MIIU shall pay the proceeds of the grant Funds to and on the order of the Recipient in such disbursements, at such times, and on such terms and conditions as set forth in Annexure B attached hereto.

3.4 The Recipient shall furnish MIIU with particulars regarding officials authorised to apply for withdrawals on its behalf.

3.5 The Recipient may by notice to MIIU cancel any undrawn portion(s) of the grant Funds provided that such cancellation shall not jeopardise the proper completion of the Technical Assistance.

3.6 If MIIU reasonably concludes, after consultation with the Recipient, that any portion(s) of the grant Funds will not be required to finance the feasibility study, MIIU may by notice to the Recipient, terminate the right of the Recipient to make drawings in respect of such undrawn portion(s).

### 4. PAYMENTS

4.1 All payments to or by the Parties under this Agreement shall be effected in South African Rands.

4.2 All payments under this Agreement to Recipient shall be effected to the credit of such banking account(s) of the Recipient as the Recipient may from time to time direct, in writing.

4.3 Payments in terms of the Agreement shall be effected without deduction for and free from any taxes, charges, fees, or other costs whatsoever.

### 5. SUSPENSION AND TERMINATION

MIIU shall be entitled to suspend withdrawals from the grants Funds or to terminate this Agreement, in the event, and for so long as, the Recipient fails to comply with any provision of this Agreement after having given the Recipient 30 (thirty) days written notice to comply, and the Recipient thereafter continuing to remain in default, in which latter event the full amount previously withdrawn by Recipient shall be due, owing, and payable to MIIU.

6. GENERAL

6.1 Any notice or request to be given or made in terms of this Agreement shall be in writing, and shall be deemed to have been duly given or made when in the case of MIIU, addressed to the Executive Director, and received at:

Physical address:                    2<sup>nd</sup> Floor, DBSA Building  
   1258 Lever Road  
   Headway Hill  
   Midrand 1685

Postal Address                    P.O. Box 1234  
   Halfway House  
   1685; or

Telefax Number                    (011) 313 3358

And in the case of the Recipient, when addressed to the Recipient and received at the offices of the Recipient at the following address:

Physical address:

Postal address:

Telefax Number.

Either of the Parties may change the above-mentioned addresses by giving written notice to such effect.

6.2 No amendment of, or addition to this Agreement shall be valid unless the same has been reduced to writing and signed by or on behalf of the Parties.

6.3 The non-enforcement of any provision of this Agreement or any indulgence which either Party may grant to the other shall be without prejudice to the rights of such first-mentioned Party to insist upon strict compliance by such other Party with all the provisions of this Agreement or to enforce its right in respect of which such indulgence was granted.

6.4 This contains the entire agreement between the Parties, and no representations, warranties, undertakings, or promises of whatever nature which may have been made by any of the Parties, their agents or employees, other than those herein contained, shall be binding or enforceable against them.

6.5 The operation of this Agreement is subject to the Recipient submitting to MIIU confirmation, in writing, that the \_\_\_\_\_ Provincial Government is fully informed of this Project.

THUS DONE AND SIGNED AT \_\_\_\_\_ ON THE \_\_\_\_\_  
DAY OF \_\_\_\_\_ 199\_\_

AS WITNESSES

1. \_\_\_\_\_

2. \_\_\_\_\_

\_\_\_\_\_  
FOR AND ON BEHALF OF THE  
RECIPIENT, DULY  
AUTHORISED THERETO IN  
TERMS OF ANNEXURE C  
ATTACHED HERETO.

THUS DONE AND SIGNED AT \_\_\_\_\_ ON THE \_\_\_\_\_  
DAY OF \_\_\_\_\_, 199\_\_

AS WITNESSES

1. \_\_\_\_\_

2. \_\_\_\_\_

\_\_\_\_\_  
FOR AND ON BEHALF OF  
THE MIIU, DULY AUTHORISED  
THERETO IN  
TERMS OF ANNEXURE D,  
ATTACHED HERETO

Project Description

[Ultimate PPP project to be defined in terms of:

- 1. Present recurrent costs (for last FY)
- 2. Present capital costs
- 3. Total costs and total income
- 4. Demography and coverage
- 5. Future investment needs (over next five years)
- 6. Service performance (current)]

APPLICATION AND SOURCE OF FUNDS STATEMENT

Terms and Conditions of Disbursement

Disbursement of the grant Funds is to be effected as a ratio of the actual cost of each item (for each phase) in accordance with the Application and Source of Funds Statement, read together with the Project Description (Annexure A), including all co-funding by Recipient and any other donor agencies, to the maximum amount of R\_\_\_\_\_. Wherever possible and practical, disbursement shall be made on a reimbursement basis.

Disbursement is subject to submission to the MIIU of a written statement approved by the Recipient or its authorised representative. The written statement shall be submitted using a voucher format supplied MIIU. The format shall included the following information:

- Synopsis of the completed study, including TOR;
- Cost of study and breakdown of total costs;
- Start/finish dates of the study;
- Identification of consultants.

AUTHORISATION – RECIPIENT

“By resolution of the Council of \_\_\_\_\_ taken  
on \_\_\_\_\_, 199\_,  
Mr/Ms \_\_\_\_\_ has been duly authorised to perform  
all acts and sign all documents that may be necessary in connection with the  
Application by \_\_\_\_\_ for grant funding for technical  
assistance to the Municipal Infrastructure Investment Unit (MIIU).

SIGNED ON BEHALF OF THE \_\_\_\_\_

IN HIS/HER CAPACITY AS \_\_\_\_\_

DATE:

SIGNATURE OF  
SIGNATORY \_\_\_\_\_

AUTHORISATION – MIIU

By resolution of the interim board of directors taken on 15 May, 1998, Ms Monhla Hlahla Chief Executive Officer, has been duly authorised to sign grant funding agreements for the purpose of technical assistance, as follows:

Feasibility Studies up to R200 000;

Project Preparations up to R1 000 000;

And to perform all acts and sign all documents that may be necessary for the purpose, for and on behalf of the Municipal Infrastructure Investment Unit (MIIU).

SIGNED ON BEHALF OF THE MUNICIPAL INFRASTRUCTURE INVESTMENT UNIT IN HER CAPACITY AS CHIEF EXECUTIVE OFFICER.

DATE:

SIGNATURE OF SIGNATORY: \_\_\_\_\_

## INTERIM MIIU PROCUREMENT POLICIES AND PROCEDURES

### INTRODUCTION .

MIIU's mandate requires that grant funds be provided subject to various conditions being met by the municipality receiving assistance. Among these conditions are internationally accepted procurement and contracting policies and procedures, described below. These policies and procedures are designed to be used in connection with the full range of consulting contracts that may be supported with MIIU funds. MIIU's Project Preparation Unit (PPU) will assist MIIU's local government clients in the application of these policies and procedures, and will attach or reference this description, or an updated version of it, in initial letters of agreement between the PPU and client municipalities.

### 1. MIIU PROCUREMENT POLICIES

#### 1. Client-led procurement.

MIIU's approach to the provision of assistance is designed to encourage municipalities to deal as directly as possible with the market of private service providers. Accordingly, these procurement procedures call on municipalities to take the lead in most procurement activities supported by MIIU grant funding. In most cases, municipalities will be expected to prepare Terms of Reference, budgets, implementation schedules, etc., with assistance from MIIU's PPU. The process of interacting with the PPU begins with the application process (see **MIIU Client Application Procedures**).

#### 2. Full competition.

The procurement of services paid for with MIIU grant funding must be fully competitive, except in specific situations, outlined below. Each distinct service must be procured and contracted for separately, using transparent and competitive procedures.

#### 3. Solicited proposals.

Solicited proposals are those that have been invited through a Request for Proposals (RFP) by the municipality. The solicited approach is considered to be the normal procedure for procuring services paid for with MIIU grant funding. The procedures required by MIIU are described in **Table 1**.

#### 4. Unsolicited proposals.

**[Note: the consideration by the PPU of unsolicited proposals is suspended pending review of these procedures by the full MIIU Board of Directors.]**

Unsolicited proposals may result in contract awards only under the following conditions: (a) the service to be procured involves a new concept or technology or is not on the list of priority projects already developed by the municipality; (b) the municipality introduces competition by inviting comparative technical and price proposals, and no other offer is deemed more cost-effective than the original, unsolicited proposal. These procedures are described in **Table 2**.

#### 5. Direct negotiation.

Negotiation with a single offeror, without reviewing proposals from alternative offerors, is allowable only under any one of the following conditions:

- 5.1 If the procurement is urgently needed in response to an emergency situation. (To be clarified in negotiations between the municipality and PPU.)

- 5.2 If only one qualifying offeror submits a complying proposal.
  - 5.3 If more than one offeror submits proposals, but only one is found to be complying.
  - 5.4 Where an unsolicited proposal is received and the municipality has invited (pursuant to procedures described in **Table 2**) comparative proposals, and none have been received within the prescribed time period.
6. Pre-qualification for Large Contracts.  
The preparation of proposals for large public-private partnerships is a time-consuming and expensive process for both municipalities and potential private partners. To the extent permitted by national and provincial laws and regulations, MIIU recommends that municipalities allow prospective partners to pre-qualify for procurements by submitting details of their organisational size and structure, previous experience, technical abilities, and human and financial resource capabilities for evaluation prior to actual proposal submission. Approved offerors will then be placed on a "short-list" for firms qualified to submit proposals for the relevant project. Note that prequalification is appropriate only for very large projects, which MIIU defines as projects over R5 million in value. Municipalities may have lower thresholds for the use of pre-qualification and short lists; actual thresholds used for MIIU-related procurements may be negotiated with the PPU. For a description of the pre-qualification procedures, see **Table 3**. (Note: MIIU is soliciting a legal opinion regarding the legality of pre-qualification in municipal procurement.)
7. Simplified Procedure for Small Contracts.  
For procurements under R50,000 the PPU may suggest a short list of three consultants from the PPU data base; the municipality will then select and contract with a consultant on the list, using a TOR and contract prepared with assistance from PPU. This procedure is described in **Table 4**.
8. Other Procedures/Prior Commitments.  
Before approaching MIIU some municipalities may have started procurement processes or made commitments to service providers using principles or procedures different from those outlined in this document. If the PPU determines that assistance in such cases is called for, despite conflicts with its guidelines, the PPU will document in the initial agreement letter the process used to date.
9. Local Market Development, Affirmative Action.  
An important aspect of MIIU's mission is to support the development of local markets for the kinds of services that will be contracted for with MIIU funds. Similarly, MIIU has an obligation to support affirmative action principles whenever possible. MIIU's procurement and contracting activities will be guided by these development needs. The involvement of local firms identified by municipalities receiving MIIU funds, as well as the promotion of affirmative action principles, will be negotiated by the PPU with municipalities on a case-by-case basis, using local government principles and procedures whenever appropriate.
10. Conditions for the Withdrawal of MIIU Funding. MIIU's approach to procurement is designed to be "client-led," and the PPU's role in local government procurement involving MIIU funds is primarily advisory in nature. However, MIIU does have a fiduciary responsibility to insure that its funds are used in ways that promote the highest standards of competition, accountability, and transparency. Accordingly, MIIU reserves the right to withdraw its funding from any local government procurement, at any stage, if the PPU determines that those standards have been or likely will be compromised.

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**Table 1**  
**SOLICITED PROPOSAL PROCEDURES**  
 (For procurements over R50.000)

PHASE	RESPONSIBILITY	TIME PERIOD/COMMENTS
1. Prepare TOR and publish RFP	Project Committee with advice from MIIU	RFP Contents (for a BOT): Instructions to bidders; minimum design & performance standards; economic parameters; draft contract; bid form; performance securities, others.
2. Preparation and submission of proposals	Private Sector (pre-qualifiers only, for projects over R5 million; see Table 3)	Recommended time: 90 days from last advertisement until bid closing .
3. Release of supplementary materials and/or pre-bid conference	Project Committee with advice from MIIU	Pre-bid conferences only for projects above R5 million; to be held at least 45 days before bid deadline
4. Evaluation of technical and financial proposals	Project Committee, with advice from MIIU, conducts evaluation, submits report to municipal executive	Two-state evaluation: 1. Technical proposal – engineering design; operational feasibility; environmental standards; positive financing; enhancements; 2. Financial proposal (opened only after technical ranking) bids analysed on basis of best returns, lowest cost to municipality.
5. Contract award	Project Committee with municipal executive	Notice to award or not award within 30 days of completed evaluation by Project Committee; notification of award by executive within 7 days of decision by Project Committee.

**Table 2**  
**UNSOLICITED PROPOSAL PROCEDURES**  
 (For procurements over R50.000)

[Note: This procedure has been suspended pending review by the full  
 MIIU Board of Directors]

PHASE	RESPONSIBILITY	TIME PERIOD/COMMENTS
1. Receive expression of interest or unsolicited proposal	municipality	An unsolicited PPP proposal may also include a feasibility study
2. Carry out MIIU application process (see MIIU Application Procedures)	municipality with advice from PPU	Identify project; designate official Project Manager/Project Committee; complete MIIU "Application Questionnaire"; submit official letter of transmittal
3. Preliminary review of basic qualifications	municipality with advice from PPU	To establish basic competence and allow the process to proceed
4. Satisfaction of "unsolicited proposal" requirements	Project Committee with advice from PPU	Must be new concept or technology, not on the list of priority projects already developed & approved, or a qualifying emergency procurement
5. Evaluation of project technical terms & financial proposal	Project Committee with advice from PPU	Two-stage evaluation as per "solicited" proposal process, see Table 1
6. "Direct" negotiation	Project Committee with advice from PPU	Technical terms and costs clarified through negotiation
7. Advertisement for "Price Test" competition after negotiations completed	Project Committee with advice from PPU	Notices for 3 consecutive weeks announcing project opportunity; no competing offers allowed after 60 days of last notice
8. Receive/review competing offers	Project Committee with advice from PPU	If cost proposal is at or below original offer, review technical proposal  If technical is as good as original, allow 30 days for original offeror to match cost  If technical is <u>better</u> than original, competing proposal becomes the new "original" unsolicited offer & price test begins again with Step 6
9. Contract award	Project Committee, with PPU assistance, reports to municipal executive	Notice to award or not award within 30 days of evaluation completion by Project Committee; notification of award by executive within 7 days of Project Committee decision; executive officially endorses that project is consistent with development programs of the municipality

**Table 3**  
**PRE-QUALIFICATION PROCEDURES FOR LARGE PROJECTS**  
 (Recommended for procurements over R5 million)

PHASE	RESPONSIBILITY	TIME PERIOD/COMMENTS
1. Prepare TOR and RFP, prepare and issue request for qualifications	Project Committee with advice from PPU	Advertise in newspaper once a week for three weeks; duration from 1st to 3rd week is 15 days; qualifications should cover organizational size & structure, experience, tech abilities, human and financial resource capabilities
2. Submission of prequalification documents	Private sector	At least 45 days
3. Evaluation of prequalification documents	Project Committee with advice from PPU	No time limit required; 15 days is recommended
4. Appeals by disqualified proponents	Project Committee considers appeal of disqualification	If objections are filed, the prequalification process is extended by approx. 30 working days to allow resolution

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**Table 4**  
**SIMPLIFIED PROCUREMENT PROCEDURES**  
**FOR SMALL CONTRACTS**  
 (For procurements under R50,000)

PHASE	RESPONSIBILITY	COMMENTS
1. Prepare TOR	Project Committee with advice from MIU	Statement & scope of work; budget; work schedule; reporting requirements
2. Review short list of three firms/consultants	Project Committee with advice from MIU	MIU will suggest a short list of 3 pre-qualified firms/consultants; final short list to be negotiated with municipality
3. Select firm/consultant	Project Committee with advice from MIU	Selection on the basis of technical skills first, with cost negotiated
4. Contract	Project Committee with advice from MIU	Including standard MIU contract clauses

## MIIU Model Terms of Reference for Grant-funded Technical Assistance

[Note: These Terms of Reference contemplate an iterative process whereby increasingly more detailed examination of possible private participation in the delivery of municipal services such as water supply, water distribution, and wastewater treatment services, are conducted based upon the work previously done, at the direction of Council. They also assume the local authority has completed the in-house assessment of the potential for private sector participation, utilizing the "notional ring-fencing" described in Annexure "A" to this document, and Council has determined to proceed to the next step of applying for a grant from the MIIU for the purpose of procuring the services of consultants for the more detailed investigation and for possible project preparation assistance.]

### Introduction

On \_\_\_\_\_ [date], the \_\_\_\_\_ Council resolved that Water, Sewerage, and Wastewater Treatment Services be investigated further for possible private sector participation in accordance with the precepts announced in the Government's Growth, Employment and Redistribution (GEAR) policy, the White Paper on Water and Sanitation Policy, November, 1994, the Water Research Commission's "Preliminary Guidelines for Private Sector Participation in Water Supply and Sanitation Services," and in fulfillment of Council's Constitutional duties to ensure provision of such services to its constituents in a sustainable manner.

This resolution of Council was based upon an initial investigation, utilizing [jurisdiction] resources, which concluded that such further investigation into the possibility of private sector participation in water supply and sanitation services was warranted.

On the aforementioned date Council also authorized an application to the Municipal Infrastructure Investment Unit (MIIU) established by Government to provide financial assistance to local authorities, for this further investigation, which application was approved by MIIU on \_\_\_\_\_ [date].

This procurement is being conducted in accordance with the terms and conditions contained in the Agreement between the MIIU and Council, dated \_\_\_\_\_, the ordinances, regulations and policy of [jurisdiction] and the laws of the Government of South Africa.

## Terms of Reference

The work to be performed under these Terms of Reference will be divided into three phases, Phase I, Phase II, and Phase III. At the conclusion of Phase I, Council will determine whether to proceed with Phase II. At the conclusion of Phase II, Council will determine whether to proceed with Phase III. Therefore, each Respondent to these Terms of Reference will provide separate technical and financial proposals for Phase I, Phase II, and Phase III.

### Phase I

The purpose of Phase I is to perform an assessment of the current condition of the water supply and sanitation assets, the current status of service delivery, and to perform an analysis of the possible alternatives in the delivery of these services, with a recommendation as to whether one alternative should be explored in greater detail (Phase II), the results of which would be sufficient for Council to make a decision to proceed with a Request for Tenders for the procurement of that service delivery alternative. The process of bid document preparation for that procurement would take place in Phase III.

#### *Technical Assessment*

#### 1. Current Condition of Assets

A list of assets will be provided. Assess the following:

- a) Present day value.
- b) Estimated remaining life.
- c) Condition and need for rehabilitation.
- d) Current cost of rehabilitation so identified.

#### 1.1 Water Balance

For the water supply system, perform a water balance.

#### 1.2. Compliance with Standards

Assess compliance of the water supply and sanitation systems with existing and proposed standards, including:

- a) Quality of supply
- b) Chemical and Bacteriological standards
- c) Laboratory services.
- d) System maintenance.
- e) Safety standards
- f) Environmental compliance
- g) System future planning.

## 2. Organizational Structure

- 2.1. Review the organizational structure of the [jurisdiction's] water supply, sewerage, and wastewater treatment service delivery organization(s), including identification of non-organizational support staff provided by [jurisdiction].
- 2.2. Assess the number of employees, including managers, administrators, and part time employees for each service.
- 2.3. Determine all outstanding personal service contracts directly related to the delivery of water supply and sanitation services.
- 2.4. Identify all union organizations having bargaining agreements with [jurisdiction], and determine the expiration date of the current bargaining agreement.
- 2.5. Identify all known stakeholder groups, including community-based organizations, non-government organizations, environmental, and civic groups which routinely provide input on policy and practice of the delivery of water and sanitary services.

## 3. Service Coverage and Demographic Assessment

- 3.1 Perform a service coverage assessment for both water supply and sanitation services, including:
  - a) The current number of households, by [geographic or municipal] district currently receiving water supply services, noting the percentage receiving metered services.
  - b) An estimation of current households not currently receiving water supply.
  - c) The current number of commercial, industrial, and publicly-owned water service recipients, noting the percentage receiving metered services.
  - d) An estimation of the commercial, industrial, and publicly-owned establishments, if any, not currently receiving water supply.
  - e) The current number of households by [geographic or municipal] district currently receiving sewerage services.
  - f) An estimation of the current number of households by [geographic or municipal district] not currently receiving sewerage services.
  - g) The current number of commercial, industrial, and publicly-owned sewerage service recipients.

- h) An estimation of the current number of commercial, industrial, and publicly owned establishments not receiving sewerage services.
- 3.2. Perform a demographic assessment of the household recipients of water supply and sanitation services, including:
- a) Geographic distribution within [jurisdiction] of the households.
  - b) Income distribution, to the extent readily known.
- 3.3. Perform a similar demographic assessment of households:
- a) not receiving water supply services;
  - b) not receiving sewerage services.
4. Full Cost of Services Assessment
- 4.1 Review and update as necessary the Full Cost of Services assessment prepared by [jurisdiction], for both water service and sanitation, including:
- a) Direct labour costs.
  - b) Indirect labour costs
  - c) Direct and indirect administrative staff costs.
  - d) All shared staff costs.
  - e) Overhead expenses related to the enterprise.
  - f) Vehicles
  - g) Plant, facility, and system maintenance and operating costs, excluding labour and indirects.
  - h) Chemicals, supplies, fuels, and other consumable items.
  - i) Existing supplier and service contracts.
- 4.2 Review and update as necessary, the debt service assessment prepared by [jurisdiction] relating to previous capital expenditures for these services, including:
- a) Current debt service requirements.
  - b) Estimated debt retirement date(s) for each capital expenditure loan
- 4.3 Review and update as necessary, the total costs computation from the above, prepared by [jurisdiction], including:
- a) The cost per unit of service (litres of water delivered or treated) per service recipient.
  - b) Tariffs in place for each service, per unit.
  - c) The total amount billed in the last fiscal year for each service.

- d) The total amount actually collected in the last fiscal year for each service.
- e) The source(s), if any, to cover any differences between amounts billed and amounts collected.

5. Future Investment Needs

- 5.1. Review and update, as necessary the estimated future capital investment needs to redress current backlogs.
- 5.2. Review and comment upon the approved priorities for such capital investments over the next five (5) years.
- 5.3. Review and comment upon all sources of capital identified by [jurisdiction] as sources by which the capital requirements will be met, including grants, loans from all sources, transfer payments from any source, and subsidies received from other [jurisdiction.] activities.
- 5.4. Assess the borrowing capacity of [jurisdiction], in light of the foregoing, to obtain needed capital investment loans for the prioritized investments within the five (5) year time frame.

*Alternatives Assessment*

1. Pro Forma Financial Model

- 1.1 Prepare a *pro forma* financial model, using the cost and revenue information, as well as the five (5) year capital investment requirements, obtained during the Technical Assessment which will reflect the results of the Alternatives Assessment.

2. Service Delivery Alternatives to be Assessed

- 2.1. The following service delivery alternatives will be assessed:
  - a) Preserving the status quo.
  - b) "Worker turnaround."
  - c) Public-public partnership
  - d) Corporatisation.
  - e) Managed competition
  - f) Contracts Operations
  - g) Concessions, including BOT, BOOT, and DBO.
  - h) Full privatization
  - i) Private sector financing of municipal debt.

- 2.2. The purpose of the assessment will be to determine those service delivery alternatives which will enable the [jurisdiction] to meet its capital expenditure priorities, reduce or eliminate its service backlogs, and ensure sustainable delivery of water and sanitation services to all constituents. Among the factors to be determined with each assessment are:
- a) The ability of the [jurisdiction] to obtain the capital required for investment given its current obligations and anticipated sources of revenues.
  - b) The ability of potential private sector participants to economically provide the required capital, effect service delivery within standards to all eligible recipients and receive a reasonable return on its investment, within the range of potential tariff(s) which may be levied.
  - c) The effect on the technical quality of the service delivery.
  - d) The likely response from all stakeholders, including unions.
  - e) The potential effectiveness of cost-recovery initiatives to an expanded universe of service recipients.
  - f) The service delivery efficiency of each alternative.

3. "Short List" of Possible Private Sector Participation Alternatives

- 3.1 At the conclusion of the alternatives assessment, the Contractor shall prepare a report to Council indicating which three of the alternatives set forth in Section 2.1 above, may provide the most cost-efficient, sustainable means of delivering water supply and sanitation services, and shall further recommend one of the three for a more detailed examination in Phase II.
- 3.2. The report shall consist of the following:
- a) Executive summary.
  - b) Technical Assessment.
  - c) Individual assessments of each service delivery option.
  - d) Identification of the three most likely to ensure cost-effective, sustainable provision of services.
  - e) Recommendation as to the alternative to be pursued in Phase II.
  - f) Conclusion.
- 3.3. As part of the Technical Assessment, and in addition to the information disclosed therein, the Consultant shall provide its best professional comment on the following, regarding the current situation:
- a) The technical quality of service delivery.

- b) Adequacy of maintenance programmes.
- c) Capacity of staff.
- d) Adequacy of facilities and equipment.
- e) Constraints on the foregoing.
- f) Sustainability of service delivery under existing tariffs.
- g) Appropriateness of service delivery levels.
- h) Other suggestions regarding technical matters.

3.4. The foregoing shall be accomplished within sixty (60) days of receipt of a Notice to Proceed from Council. \_\_\_\_ copies of the Phase I Report shall be filed with the Council, which shall review the report and set a public hearing for a determination on whether to proceed with Phase II no later than fifteen (15) working days from the date of receipt thereof.

3.5. Council may (1) approve the recommendation to proceed to Phase II with the preferred option; (2) direct the Consultant to proceed to Phase II with one or more of the short-listed alternatives; (3) determine not to proceed to Phase II.

## Phase II

### 1. Detailed Financial Modeling.

- 1.1 Council's decision to proceed with Phase II will be evidenced by a written Notice to Proceed With Phase II, issued within the time-frame specified in Section 3.4, above.
- 1.2 Upon receipt of a Notice to Proceed With Phase II, Contractor shall develop a financial model with economic, legal, and technical inputs to assess the financial viability of the preferred, and any alternative service delivery options set forth in the Notice to Proceed With Phase II.
- 1.3 The model will include:
  - a) Growth in water demand of +\_\_\_% per annum
  - b) Existing and proposed tariff structure(s).
  - c) Capital structure; debt and equity; sources of funds.
  - d) Potential support Government may provide.
  - e) Potential donor or other funding which may be provided.
  - f) Tax consequences and tax avoidance options
  - g) Financial basis of contract award, future cost of each service, and rate of return to the service provider.
  - h) Sensitivity analyses: change of demand, drought, interest rate fluctuations.
  - i) Existing facility debt.

### 2. Tariff Structure Review

- 2.1 Review the current tariff structure and government policies as they relate to rate setting.
- 2.2 Recommend contractual provisions relating to tariff-setting, including tariff escalation formulae, as appropriate.

### 3. Capital Expenditure update.

- 3.1 Review the future investments needs analysis in Section 5 of Phase I to reflect current information.
- 3.2 Reassess the funding ability of the [jurisdiction] including its ability to provide guarantees or other forms of credit enhancement.

#### 4. Revenue Collection

- 4.1 Assess the revenue collection performance for each service, including any policy of discontinuation of service, and suggest any new or modified processes which may be adopted by a private service provider.
- 4.1 Suggest cost recovery mechanisms and innovative programs for revenue collection in expanded or newly-included disadvantaged communities within [jurisdiction].

#### 5. Stakeholder Participation and Information

- 5.1 Within one week of Notice to Proceed with Phase II, the [jurisdiction's] representative will facilitate a meeting with the Contractor and representatives of all unions identified as stakeholders in the project, in order that the Consultant may explain in detail the nature of the detailed investigation, and further, so the unions may express their concerns and attitudes. A written meeting report will be made of this and subsequent Contractor-[jurisdiction]-unions meetings.
- 5.2 Within two weeks of the Notice, the [jurisdiction's] representative will facilitate a meeting with the Contractor and affected non-union employee representatives for the same purposes as above. Written meeting reports shall also issue.
- 5.3 Within three weeks of the Notice, Consultant and the [jurisdiction's] representative shall develop a meeting schedule with community based organizations, non-government organizations, environmental and civic groups, identified during Phase I of the project. Written notes shall issue regarding these meetings.
- 5.4 Within two weeks of the occurrence of these meetings, the [jurisdiction's] representative will facilitate a meeting between the Consultant and Councilors where the Consultant will report on the meetings held, the concerns raised, and the recommended courses of action relative thereto.
- 5.5 Within two weeks from the conclusion of the meeting with the Councilors, a public hearing will be held, after regular notice as provided under [jurisdiction's] procedures, where the Consultant will review the processes to date and comment on the private sector participation(s) being investigated. Proceedings of the hearing will be recorded in accordance with [jurisdiction's] policy.

5.6 Consultant or [jurisdiction] may call further public hearings prior to the completion of Phase II.

6. Legal

6.1 Consultant will review existing National, Provincial, and Local laws and policies affecting implementation of the preferred option and any alternative being investigated, including affect on existing [jurisdiction] staff, and will recommend any necessary actions consistent with the best interests of project implementation and existing staff rights and benefits.

6.2 Consultant will identify the affect of implementation on existing liabilities, and suggest appropriate actions.

7. Regulatory and Institutional

7.1 Contractor will review existing agreements with other local authorities and governmental entities which may be impacted by project implementation, and will suggest appropriate actions in regard thereto.

7.2 Contractor will recommend the appropriate [jurisdiction] staffing structure to implement the preferred option or alternative, including establishing any regulatory processes deemed necessary. Contractor will estimate the cost thereof.

7.3 Contractor will approximate the future financial effect on the [jurisdiction] if the preferred option or alternative is implemented.

8. Recommended Provisions

8.1 Contractor shall recommend the apportionment of risk between the [jurisdiction] and the private-sector service provider, reflecting international best practices for similar activities.

8.2 Contractor shall also recommend provisions governing:  
a) Dispute resolution  
b) Force majeure  
c) Private-sector service provider performance standards.

9. Phase II Report

9.1 \_\_\_\_\_ copies of the Phase II report shall be filed with Council, which shall review the report and set a public hearing of adopting the

recommendations thereof within fifteen (15) working days of receipt thereof.

- 9.2 The Phase II Report shall be filed no later than sixty (60) days from receiving the Notice to Proceed with Phase II.
- 9.3 Council shall review the report and if the report recommends proceeding to Phase III, procurement of the preferred service delivery option, set a public hearing for a determination on whether to so proceed no later than fifteen (15) working days from the date of receipt thereof.
- 9.4 Council may (1) approve the recommendation to proceed to Phase III with the preferred option; (2) determine not to proceed to Phase III.

### Phase III

#### 1. Project Preparation

- 1.1 Council's decision to proceed with Phase III will be evidenced by a written Notice to Proceed with Phase III, issued within the time-frame specified in Section 9.3, above.
- 1.2 Upon receipt of a Notice to Proceed with Phase III, Contractor shall proceed with Project Preparation, which shall include development of a comprehensive approach, with supporting documents, to facilitate the solicitation of proposals from potential private sector partners in municipal service provision, using the preferred service delivery option set forth in the Notice to Proceed With Phase III.

#### 2. Bid Document Preparation

- 2.1 The Contractor shall prepare a comprehensive bid document which, among other objectives, establishes the rules of bidding and shall include, among others, the following:
  - 2.1.1 A covering letter from the Council.
  - 2.1.2 Instructions to bidders that include:
    - 2.1.2.1 A general description and objectives of the project; including a clear statement of the objectives, scope, and expected outputs, minimum design and output performance standards, including performance or output specifications rather than technical specifications, population to be served and environmental standards.
    - 2.1.2.2 The bid submission procedures; including among others the date, time, and location of bid submission, bid security and bid validity period, and permissible mode of bid transmission.
    - 2.1.2.3 The principles for setting and adjustment of tariffs, tolls, fees, charges, and/or rentals, as they may pertain to the project in question.
    - 2.1.2.4 Any concession or grant; in the form of license, permit, agreement or otherwise to be provided by the Council.

2.1.2.5 A table that clearly indicates the risks that will be allocated between the Council, the selected bidder, other government bodies, and to the extent appropriate, users and the general public.

2.1.3 The bid form, which clearly specifies the information the Council requires bidders to submit to be considered responsive.

2.1.4 General and specific conditions that will apply to the Contract Agreement.

2.1.5 A copy of the Feasibility Study.

2.1.6 A copy of the draft Agreement.

2.1.7 Surety requirements.

2.1.8 Standards of performance and penalties.

2.1.9 Appendices, including relevant additional information, such as economic, social, demographic, and environmental data that may assist in improving the quality of the bid; and

2.1.10 Other documents the Council may decide to include in the bid document.

### 3. Special Calculations Needed to Prepare Bid Documents

3.1 Bid Surety Calculation: The Council may require each bidder to submit evidence of surety to establish the validity of a bid. The amount of the bid surety should reflect the amount of expected actual loss that the Council may incur should the bid be withdrawn or should the bidder fail to execute a binding contractual agreement. Bid surety amount requirements typically are calculated in an amount of two percent (2%) to three percent (3%) of the estimated value of the Contract Agreement. Contractor should prepare a recommendation regarding the size of the bid surety for the Council's consideration.

3.2 Performance Surety Calculation: The Council may require each bidder to provide a performance surety in the form of a guarantee equivalent to a fixed percent of the estimated value of the Contract Agreement for the due performance by the selected

bidder of its obligations over the term of the Contract Agreement. The guarantee shall be from a South African registered insurance company or bank. Contractor should prepare a recommendation regarding the size of the performance surety for the Council's consideration, as well as the time period and conditions under which the Council should hold the performance surety to be valid.

4. The Draft Contract Agreement: Contractor shall prepare a draft Contract Agreement, which shall include, among others, the following provisions:
  - 4.1 The scope of activities covered by the Contract Agreement, including, as applicable:
    - 4.1.1 A general description and objectives of the project, including a clear statement of the objectives, scope, expected outputs, and the population to be served by the Project.
    - 4.1.2 The express and implied authority of any independent architect and/or engineer that may be engaged by either the Council or the Private Party.
    - 4.1.3 Project implementation schedule.
    - 4.1.4 Any unusual or special conditions relating to the nature or scope of the project.
  - 4.2 Duration of the Contract Agreement.
  - 4.3 Arrangements for tariffs, tolls, fees, charges, and rentals, as relevant, including principles governing their adjustment.
  - 4.4 Quality and/or performance standards, including any incentive arrangements.
  - 4.5 Allocation of risks.
  - 4.6 Public support, if any, given to the project including but not limited to, subsidies, guarantees, take-or-pay contracts with the Council and concessional finance.
  - 4.7 Premature termination of the Agreement.
  - 4.8 Mediation and resolution of disputes.
  - 4.9 The following, as applicable:

- 4.9.1 The compensation available to the selected bidder should the Council default on any or all of its assurances and guarantees.
- 4.9.2 Provision for sureties, guarantees, price adjustment, insurance, and liquidated damages.

## 5. Prohibited Bid Document Provisions

- 5.1 Provisions in the bid documents that create obstacles to participation, including obstacles based on nationality, by suppliers or contractors in the procurement proceedings shall not be included or used in the solicitation documents. Such provisions include any specifications, plans, drawings and designs setting forth the technical or quality characteristics of the goods, construction or services to be procured, and requirements concerning testing and test methods, packaging, marking, labeling or conformity certification, and symbols and terminology, or description of services.
- 5.2 There shall be no requirement of or reference to a particular trade mark, name, patent, design, type, specific origin or producer unless there is not other sufficiently precise or intelligible way of describing the characteristics of the goods, construction or services to be procured and provided that words such as "or equivalent" are included.

## 6. Management of the Procurement Process: The Contractor shall assist the Council in managing all aspects of the procurement process in a manner that is consistent with the basic tenets of local government policies and procedures, as well as MIU's Procurement Policies and Procedures.

- 6.1 Contractor shall assist with procurement activities required prior to the submission of proposals, including:
  - 6.1.1 Pre-qualification of bidders.
  - 6.1.2 Pre-bid conference.
  - 6.1.3 Other activities required by the Council.
- 6.2 Contractor shall assist the Council in the administrative processing of bids, including:

- 6.2.1 Reception and secure possession of all bids.
  - 6.2.2 Public bid opening.
  - 6.2.3 Other administrative actions deemed necessary by the Council.
- 6.3 Contractor shall assist and advise the Council during the process of bid evaluation, including:
- 6.3.1 Creation and management of a Contractor Selection Panel.
  - 6.3.2 Evaluation of bidder responsiveness and responsibility.
  - 6.3.3 Evaluation with regard to bid evaluation criteria, as indicated in the bid documents.
  - 6.3.4 Evaluation with regard to technical project objectives and performance requirements, including basic design, organizational arrangements, and the financing plan.
  - 6.3.5 Evaluation with regard to financial evaluation and comparison.
  - 6.3.6 Clarification of bids where ambiguities exist (no change in matters of substance in the bid, including changes in price and changes aimed at making an unresponsive tender responsive, shall be sought, offered, or permitted).
  - 6.3.7 Ranking of responsive, responsible bids; the Contractor will assist the Council in evaluating proposals using the following kinds of calculations:
    - 6.3.7.1 The discounted present value of the proposed tolls/fees/rentals/charges/tariffs in the case of arrangements such as build-operate-transfer (BOT).
    - 6.3.7.2 The discounted present value of the proposed schedule of amortization payments in the case of arrangements such as build and transfer (BT), or build-transfer-operate (BTO).
    - 6.3.7.3 The discounted present value of proposed schedules of payments to the Council in the case of leases and similar schemes.

6.4.7 Selection of a proposed contractor.

7. Contract Negotiation: Contractor will assist the Council in negotiating the final details of the contractual arrangement with the selected contractor.

**Fixed Amounts for Deliverables:**

MIIU Clients and Costs over first 7.5 months of MIIU operation  
(over a period extending from June 1 to March 31):

Type	Total Number in RSA*	Diagnostic/Marketing First 7.5 months			Feasibility Studies First 7.5 months			Project Preparation First 7.5 months			TOTALS (Rand)
		No. of likely MIIU clients	Avg cost	Totals (Rand)	No. of likely MIIU clients	Avg cost	Totals (Rand)	No. of likely MIIU clients	Avg cost	Totals (Rand)	
Larger cities (financially strong)	50	6	20,000	120,000	3	300,000	900,000	2	1,000,000	2,000,000	3,020,000
Medium (intermediate strength)	150	8	15,000	120,000	3	200,000	600,000	0	750,000	0	720,000
Very small (financially weak)	600	6	10,000	60,000	2	100,000	200,000	0	350,000	0	260,000
<b>TOTALS</b>	<b>800</b>	<b>20</b>		<b>300,000</b>	<b>8</b>		<b>1,700,000</b>	<b>2</b>		<b>2,000,000</b>	<b>4,000,000</b>

\*From G. Peterson and P. Phelps, Municipal Credit Enhancement in South Africa: Strategic Opportunities for USAID. Report prepared for USAID/SA by PADCO, Inc., May 1997.

**Assumptions regarding sectoral distribution:**

(Based on initial pipeline; discussions with local officials)

Water/waste & Solid Waste:	75%
Energy/transport/fire emergency:	5%
Other urban infrastructure:	20%
	<hr/> 100%

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Standard Form 1034 Revised January 1980 Department of the Treasury TFRM 4-2000 1034-118		PUBLIC VOUCHER FOR PURCHASES AND SERVICES OTHER THAN PERSONAL				VOUCHER NO.	
U.S. DEPARTMENT, BUREAU, OR ESTABLISHMENT AND LOCATION			DATE VOUCHER PREPARED		SCHEDULE NO.		
			CONTRACT NUMBER AND DATE		PAID BY		
			REQUISITION NUMBER AND DATE				
PAYEE'S NAME AND ADDRESS					DATE INVOICE RECEIVED		
					DISCOUNT TERMS		
					PAYEE'S ACCOUNT NUMBER		
					GOVERNMENT B/L NUMBER		
SHIPPED FROM			TO		WEIGHT		
NUMBER AND DATE OF ORDER	DATE OF DELIVERY OR SERVICE	ARTICLES OR SERVICES <small>(Enter description, item number of contract of Federal supply schedule, and other information deemed necessary)</small>	QUAN-TITY	UNIT PRICE		AMOUNT	
				COST	PER		
(Use continuation sheet(s) if necessary)						TOTAL	
PAYMENT: <input type="checkbox"/> PROVISIONAL <input type="checkbox"/> COMPLETE <input type="checkbox"/> PARTIAL <input type="checkbox"/> FINAL <input type="checkbox"/> PROGRESS <input type="checkbox"/> ADVANCE		APPROVED FOR = \$	EXCHANGE RATE = \$1.00	DIFFERENCES			
BY <sup>2</sup>		TITLE		(Signature or initials)			
Pursuant to authority vested in me, I certify that this voucher is correct and proper for payment.							
_____ (Date)		_____ (Authorized Certifying Officer) <sup>2</sup>			_____ (Title)		
ACCOUNTING CLASSIFICATION							
ID BY	CHECK NUMBER		ON ACCOUNT OF U.S. TREASURY		CHECK NUMBER		
	CASH		DATE		ON (Name of bank)		
\$		PAYEE <sup>3</sup>		PER			
<sup>1</sup> When stated in foreign currency, insert name of currency. <sup>2</sup> If the ability to certify and authority to approve are combined in one person, one signature only is necessary; otherwise the approving officer will sign in the space provided, over his official title. <sup>3</sup> When a voucher is receipted in the name of a company or corporation, the name of the person writing the company or corporate name, as well as the capacity in which he signs, must appear. For example: "John Doe Company, per John Smith, Secretary", or "Treasurer", as the case may be.					TITLE		

**PRIVACY ACT STATEMENT**

The information requested on this form is required under the provisions of 31 U.S.C. 82b and 82c, for the purpose of disbursing Federal money. The information requested is to identify the particular creditor and the amounts to be paid. Failure to furnish this information will hinder disbursement of the payment claimed.



Municipal Infrastructure  
Investment Unit

# Project Proposal Report

Date:

Project Title:

Project Number

Province:

MIIU Project Manager:

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- 1. PROJECT OBJECTIVE
- 2. PROJECT DESCRIPTION
- 3. PROPOSED MIIU TECHNICAL ASSISTANCE
- 4. PROJECT PERSPECTIVE
  - 4.1 Is it a core/non-core/pathfinder service?
  - 4.2 Technical Sustainability
  - 4.3 Financial Sustainability
  - 4.4 Institutional Sustainability
  - 4.5 Social Dimension
  - 4.6 Legal and Contractual Dimension
- 5. RECOMMENDATION

I recommend that:

- 5.1 The project be approved for project preparation funding.
- 5.2 That an amount of R (which is less than % of the total expected cost of the project) be made available to for technical assistance as outlined in Section 3, above.

**PREPARED BY:**

Project Manager: \_\_\_\_\_ Date: \_\_\_\_\_

Projects Co-ordinator: \_\_\_\_\_ Date: \_\_\_\_\_  
James Aiello

**APPROVAL:**

MIIU Chief Executive Officer: \_\_\_\_\_ Date: \_\_\_\_\_  
Monhla Hlahla